



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

PRESS RELEASE

Two announcements on advancing Broad-based Black Economic Empowerment in Public Private Partnerships

The *Code of Good Practice for BEE in PPPs*, issued in August 2004, concludes as follows:

Government's further commitments to taking BEE in PPPs forward

In recognition of the current challenges to BEE in PPPs, the positive BEE impact that PPPs can achieve, and complementary to the commitments of the Financial Sector Charter, government undertakes proactively to pursue the following initiatives:

- To establish a PPP BEE equity facility that lowers the cost of capital to black shareholders in PPPs;
- For such a facility to support independent financial and legal advice to black enterprises bidding for, negotiating and implementing PPP projects; and
- To establish an internship programme to grow the number of experienced black transaction advisors in South Africa's PPP market.

The implementation of these three steps will establish PPPs as leading contributors to South Africa's BEE over the coming years.

The *Code of Good Practice for BEE in PPPs*, issued in terms of the Public Finance Management Act as National Treasury PPP Practice Note Number 3 of 2004, is published in National Treasury's *PPP Manual*, and can be downloaded from www.treasury.gov.za (go to the PPP icon).

The Ministry of Finance is pleased to make the following two announcements in this regard.



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PROJECT FINANCE TRAIL-BLAZER FOR BROAD-BASED BEE

In a path-finder move, National Treasury's Public Private Partnership Unit (PPP Unit) and the Development Bank of Southern Africa (DBSA) - with determined innovation from the Department of Foreign Affairs' PPP project team - have structured a tailor-made PPP facility to significantly lower the cost of capital for black shareholders in PPP projects, and to support pre-qualified black parties with independent legal and financial advice.

This follows the commitment made by government in the *Code of Good Practice for BEE in PPPs* (issued in August 2004) to proactively pursue these two interventions, both of which are widely understood to be essential if PPPs in order to produce the optimal BEE results envisaged in the Code.

The DBSA managed PPP financial instrument is launched as part of the Department of Foreign Affairs' head office accommodation PPP, now in its pre-qualification stage of procurement. The facility will be made available for other project finance-type PPPs in which a government institution makes unitary payments on agreed quality service delivery by the private party. Interest will be charged according to the risk assessment of each loan at DBSA cost of capital rates of between 1% and 2%.

Comprising three loan elements (A, B & C) and a technical assistance grant element, the facility offers an integrated financing package to black partners in the bidding consortia who are seeking to raise funds for the purchase of equity in the private party.

The Category A loan is offered to black companies in the consortia that participate directly in the design and construction sub-contract to the private party. The term will match the construction period, with the balance rolled into the category C facility.

The Category B loan is offered over a 15-year term to black companies in the consortia that participate directly in the facilities management sub-contract to the private party.

The Category C loan is available over a 15-year term for black companies seeking to take a passive equity position in the private party. Being dependent on dividend flows only, it is therefore more risky of the loan instruments.

The principle is that the category A and B loans are partly secured by the relatively low-risk revenue streams due to the participants in the PPP sub-contracts, not just by dividend flows.

All the loans will, however, also be secured through cession and pledge arrangements, debt service reserve accounts, various direct agreements with sponsors and lenders in respect of step-in rights, and commitment fees. DBSA security is not subordinated to lender security. Arranging and underwriting fees of 1% apply to each loan.

DBSA will support the black enterprises' performance bonds during the construction phase, and not during operations. DBSA is also expected to provide a small percentage of the senior debt to the private party.

A critical element of the package is a technical assistance grant offer to all black partners in the pre-qualified consortia. DBSA will provide a suitably-capped sum per consortium to allow the black partners to hire quality, independent, financial and legal advisors of their choice. Their services may also be extended for the development phase of the agreement.

For more information, contact DBSA: TP Nchocho or Helge Switala at (011) 313 3911 or 082 462 0084 and 082 775 7356 respectively or the PPP Unit, National Treasury: Sue Lund at 082-898 5758

**Issued by: Ministry of Finance and Development Bank of Southern Africa
30 November 2004**



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INTERNSHIPS FOR BUDDING BLACK PPP ADVISORS

Two-year internship placements on Public Private Partnership (PPP) project transaction advisory teams are on offer to young black professionals with post-graduate degrees in commerce, law, accounting, engineering and related analytical disciplines.

The *Code of Good Practice for BEE in Public Private Partnerships*, issued in August 2004, commits government to establishing an internship program to “grow the number of experienced black transaction advisors in South Africa’s PPP market.”

The National Treasury PPP internship scheme plans to ‘graduate’ 200 interns over five years. In a two-year internship period, each young professional will gain direct, hands-on experience working on the financial, legal and technical aspects of PPP projects through their feasibility and procurement phases. Successful interns are expected to be in demand for positions in government treasuries, banks, and advisory companies.

The offer has been presented to students at campus briefings in the last few months, and applications have now closed for the 2005 intake.

Positive consultations have been held with current PPP transaction advisors (including law firms, financial advisors, engineering companies, facilities management advisors), all of whom have enthusiastically offered placements for the interns.

The first group of 25 interns is scheduled to be placed with these firms by March 2005.

For more information, contact National Treasury PPP Unit, Sue Lund 082-898 5758.

**Issued by: Ministry of Finance
30 November 2004**