Creating win/win solutions through PPPs

By Solomon Kganyago

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It is often said that "roads are arteries through which the economy pulses". They are part of the pivotal infrastructure that will determine the pace and direction of South Africa's economic recovery and reconstruction.

Source: sumanamul15 via Pixabay

It is, therefore, of primary importance that an informed debate about the future funding model of road construction take place, especially on the contribution of public-private partnerships to the expansion and maintenance of the primary road network.

Across the world there is broad recognition that road funding models are moving beyond the traditional solutions of direct budget allocations, fuel levies that will be impacted by green energy, and one-size-fits-all toll networks. Private sector companies such as the Bakwena Platinum Corridor Concessionaire (Pty) Ltd with a strong track record in road expansion and management are able and available to contribute to the discourse on other models and to promote the value of partnership between the private and public sectors.

We should, however, recognise that whatever funding model is decided upon, the citizens will continue to pay, whether through taxes, tolling, or rising prices for goods and services resulting from higher fuel levies, or additional transport costs associated with a poorly maintained road network.

It is, thus, of the utmost importance that existing road networks – especially primary roads such as the Bakwena Platinum N1N4 highway – be maintained according to the highest standards. Well-planned and well-maintained roads are catalysts for balanced and accelerated growth, and this contributes to the fundamental transformation of society.

More than 85% of the national road network is funded directly from the national fiscus. A further 7% is managed by Sanral as toll roads through toll levies and the borrowing of funds for construction on commercial markets, while the remaining 6% is run as public-private partnerships with concessionaires.

Hard choices on priorities

Government has to take hard choices on its spending priorities. Immediate socio-economic needs in the fields of education, healthcare, social welfare and security make legitimate demands on the annual budgets. Road projects have to compete with other strategic infrastructure projects such as water, power and sanitation.

However, a sustained lack of investment in roads have clear negative impacts on long-term development and sustainability. If the required resources cannot be found within a constrained national budget, alternative funding options should be considered.

Public-private partnerships present a proven model which has been implemented with great success across the world – and in South Africa.

A concession contract to finance, construct, manage, upgrade and maintain a reliable road infrastructure along the N1 and N4 arteries was signed between Sanral and Bakwena in 2000. For more than two decades now Bakwena manages a world-class road network on the N1 between Pretoria and Bela-Bela (95 km) and 290 km of the N4 connecting Gauteng through Rustenburg and Zeerust to the Botswana Border – 385km in total.

In addition to the obvious benefits the road brings to communities in Limpopo, Gauteng and the North West provinces, it is also a primary link for the transportation of goods, services and people into the Southern African Development Community. The traffic growth on this network and the rising value of goods transported underscores the importance of this road for the regional economy.

The country is faced with the vexed question of how this vital infrastructure which sustains economic growth and greatly benefit communities should be funded.

Public infrastructure spending has been on a steady decline in recent years, and it currently amounts to only 13% of total expenditure. It will have to accelerate rapidly in the remainder of the decade if it wants to achieve the 30% by 2030 envisaged in the National Development Plan.

President Ramaphosa has repeatedly committed the government to the promotion of "aggressive infrastructure investment" and supporting its delivery. At the Infrastructure Development Conference in 2020, he indicated that the country hopes to unlock some R1t in infrastructure.

This will be administered through the Infrastructure Fund which is a blended financing instrument – jointly governed by the public and private sectors and multilateral development banks. With this approach, projects are derisked to make them more attractive for private sector participation.

Framework for future investment

The Infrastructure Investment Plan subsequently released by government was a major step in the right direction. It offers a framework for future investments and provides details of credible and bankable projects that are in the pipeline.

Importantly, it recognises the central role played by public-private partnerships – especially in the transport and construction sectors – and commits government "… to remove policy bottlenecks in engaging with the private sector".

Investment in road infrastructure has to be at the core of the economic transformation strategy. On the list of infrastructure projects announced by government are several shovel-ready construction and maintenance projects which will be implemented in all nine provinces and improve the quality of life of all citizens.

We welcome President Ramaphosa's commitment to a more coordinated engagement between government, the private sector and other players in the infrastructure financing space. This will, no doubt, lead to greater private sector participation in both the planning and implementation of critical road projects. Moreover, the National Treasury is preparing legislative changes to enable retirement funds to invest more readily in infrastructure project – a move that will further release critical funding.

The use of tolling to fund road projects is a workable and cost-effective approach. It ensures that the money received from toll fees is ploughed back into road asset for construction and maintenance purposes.

Compared to traditional tax-based funding, PPPs also accelerate the availability of initial resources for delivering road infrastructure earlier while providing opportunities for the private sector to invest in a new class of assets.

In its most recent report, the National Planning Commission notes the concern that the state does not have the institutional or financial capability to finance infrastructure to the required scale. It then concludes: "Given the Government's limited finances, private sector funding will need to be sourced for some of these investments."

Legislative amendments mooted by National Treasury that will enable pension funds to invest easily in infrastructure is a timeous and welcome move.

PPPs such as Bakwena transfers the risk from the public sector to the private sector. The concessionaire assumes full responsibilities and risks for the condition of the road pavement, the management of traffic volumes, the collection of toll revenue and the costs associated with maintenance, rehabilitation and expansions for the duration of the concession.

The toll revenues collected are used to recover costs for debt servicing, capital expenditure, maintenance, and a return on equity to the investors with a defined cap. This offers a win/win option for the companies, the government and citizens and ensures that vital infrastructure such as the N1 and N4 routes that Bakwena manage continue to flourish.

ABOUT THE AUTHOR

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