Public Private Partnerships (PPP) can be acommpanied by difficulties, particularly in the context of developing countries. Given that PPP can be an instrument for financing infrastructure development in the Southern African Development Community (SADC) region, these systemic weaknesses need to be addressed at both national and regional level. To assist in this regard, the SADC Secretariat and the SADC Development Finance Resource Centre (DFRC), in collaboration with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) has commissioned a series of case studies examining private sector experiences of Public Private Partnerships (PPP).

A CASE STUDY ON N4 TOLL CONCESSION

NOVEMBER 2012

FIRM OVERVIEW

Title	N4 Toll Concession
Name of private sector partner	Trans African Concessions
Nationality	South Africa
Sector	Road infrastructure
Countries where doing business	South Africa and Mozambique
PPP Type	Concession
Partners	Trans Africa Concessions Government of the Republic of South Africa Government of Mozambique

BACKGROUND

The N4 toll road is a high-profile infrastructure PPP between the governments of Mozambique and South Africa, and a private company, Trans African Concessions. The main focus is the N4 toll road from Witbank in South Africa to Maputo, the capital city of Mozambique. The term of the concession is 30 years, after which the ownership of the infrastructure asset reverts back to the two governments. The value of the project was approximately $466m.

The N4 was financed through a combination of equity finance by the private partner, plus loan finance from a range of the major financial houses in the sub-continent – primarily from South Africa. A percentage of the finance was also provided by the Development Bank of South Africa and a mine workers pension fund. Both governments agreed to underwrite or guarantee the debt in case of TRAC's inability to service the loan.

Being the shortest link to an export harbour for South Africa's industrial heartland, the N4 corridor has quite rapidly evolved into a major intersection for Southern Africa's linkages with the world economy from an outward focus. From an inward focus, hundreds of thousands of Mozambicans use the road to access work and opportunities in South Africa.

The construction was handled by the private partner, which was a consortium that included three construction companies. Labour and sub-contractors were sourced from both South Africa and Mozambique.

BARRIERS ENCOUNTERED BY PRIVATE SECTOR PARTNERS

A key risk or barrier was whether or not Mozambican users could afford to pay the fees. As the concession has proceeded, it has become apparent that the traffic volume is sufficient to sustain the project. There has been a steady increase in traffic volume over the past four years, and there has also been a significant growth in the Mozambican tourism and property sectors due to an influx of South African holiday makers and investors.

The political situation in Mpumalanga province was a major barrier, as the project was initially championed by a former premier, Mr Matthews Phosa. When the project was already underway and being packaged, the political leadership changed, throwing the process into a political vacuum.

One temporary barrier that was identified was that during the construction phase, local politicians used the toll road as a political football with some of them promising local road users that they would be exempted from paying toll fees. Also, on the South African side there was popular opposition to the road, sometimes placing a toll gate between a parent and their child's place of schooling. On the Mozambican side of the border, it was alleged that there was a lack of transparency in general about the toll road. The private company reported that civil society groups were often invited to participate in pricing talks but never attended or came unprepared.

The PPP project affects government at national, provincial and local level. In South Africa, at national level the National Treasury and the national Department of Transport (SANRAL) were the key players and there were some complaints in the initial stages about the complex treasury regulations. At provincial level government was involved with regard to environmental authorisations, and at local level municipalities affected by the town had to be engaged. The private sector partner experienced difficulties at the bureaucratic costs of such engagement and said there were some basic capacity constraints which resulted in long delays in obtaining environmental authorisations. A high staff turnover in government also contributed to the private sector frustration because institutional memory was lost. At municipal level they reported that there are often "acting" mayors, and "acting" CEOs, so decision making is slow and tortuous. At the moment there is more effective communication between the private partner and the national level because SANRAL has appointed a representative directly responsible for the concession.

Another barrier is the attraction of the road for informal traders who used the road as a market place causing dangerous situations as trucks pulled over to sample the wares of the solicitors.

A further barrier are delays at the border posts which cause congestion for cargo.

IMPACT OF BARRIERS

- Construction delays due to bureaucratic processes, environmental legislation
- There were negative perceptions created about the benefits of the toll road.
- There project became over-politicized and the subject of dispute and political wrangling.
- The private sector operator felt that they were left alone to face the public and justify and explain toll fees and rules.

FIRM RESPONSE TO BARRIERS, INCLUDING INTERACTION WITH POLICYMAKERS

In response to political support, the private company responded by lobbying at a high level both at the provincial and at the national sphere of government in South Africa. Eventually provincial support was leveraged anew. The private partner had to allocate senior resource time to engage with political figures and manage the shifting political terrain. There has also been a grudging realisation that dealing with bureaucracy is part of the cost of doing business.

In response to negative perceptions and misinformation the company engaged in a substantial information campaign using pamphlets, posters and other broadcasting media platforms. The same strategy was used in the Portuguese language in Mozambique.

To deal with wealth disparities and affordability issues on either side of the border, the management team created a pricing schedule with heavier fees on the South African side than on the Mozambican side.

In order to deal with militant local users pricing concessions were granted to local residents, who now pay reduced (though the prices remain disputed) rates for using the N4.

A formal market was built to house informal traders – with limited success. The private partner feels that the facility is not properly managed by the local authority, and that it is not maintained or its potential optimised.

PPPs in general always involve interaction with policy makers, and the N4 toll route was no exception. There was extensive interaction at provincial and national level in South Africa, and interaction at national level in Mozambique.

OUTCOME FROM REACTION TO BARRIER

In spite of continued high staff turnover in the selected departments, the parties to the PPP have gained more experience and the amount of PPP management capacity has increased in the government partner. This was never a problem in SANRAL which already had experience of managing PPPs, but more of an issue with the national Department of Transport, provincial departments and municipalities.

There has been a simmering, or even settling down of tension between road users and the private company regarding pricing and concessions.

The market built for informal traders is functioning and the informal trader situation has improved, though it has not been solved. There has been a deterioration in the management of the market.

The process is underway to establish a one-stop border facility: To facilitate easy access and the flow of goods and people between the two countries, a single border facility has been planned at Komatipoort/Ressano Garcia. This facility will, if all goes well, reduce cross-border bottlenecks by providing a one-stop border control procedure. Various departments in South Africa and Mozambique have been meeting to progress the financial approach and other technical details and the border complex is estimated to cost US$ 20 million. The process is however going through a slow patch due to lack of financial resource allocations on both sides of the border.