PAPER 4

SPECIAL PURPOSE VEHICLES AS A MODEL FOR COMPETITIVE ECONOMIC DEVELOPMENT IN SOUTH AFRICAN CITIES

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ABSTRACT

Cities that embark on an infrastructure delivery quickly realise that traditional city administrations are engulfed with basic service delivery and that strategic infrastructure can only be done through the strategic establishment of a Special Purpose Vehicle (SPV) outside a municipality, but controlled by the municipality. Such an approach can also be made relevant to other development focusses, such as the Coega Development Corporation building an Industrial Development Zone, the Saldanha Bay Industrial Development Zone, the Mandela Bay Development Agency in Nelson Mandela Bay or the newly established Western Cape Government Strategic Economic Development Infrastructure Company (SEDIC), with a focus on infrastructure. The latter three were formed outside the normal provincial and national government structures, but as a SPV - in the case of the IDZ and SEDIC - legislated by the provincial and national government with a very specific mandate to focus on a very specific development mandate. Traditional government often does not have the experience nor capacity to fulfil in such a very specific development mandate.

E.g. in a local government urban renewal perspective, the establishment of a SPV urban renewal vehicle is an interventionist approach to activate development. This intersection between an economic and an urban feel of development produces far-reaching effects on the discourses of urban management and planning. One needs to find an effective "third way" for development (Voges: 2013). This "third way" lies in the formation of a SPV.

Considerations concerning growth related objectives on planning demands, a shift from the rational, linear and government based planning to an interactive governance of planning and development, where integrated urban and economic strategies inter-play with planning and implementation, has become important. It is a "third way" of development, an approach that involves a process of "guided development". The paper will focus on how new SPV based economic and social growth based structures can be induced to integrate with the process of development and redevelopment.

Local economic development has been lauded as the saviour of development at local level. The approach rarely culminated in specific sustainable capital driven projects. Local economic development has failed – it requires a fundamental "change in gears". Growth related discourses are discussed in terms of trusted development and innovation. It can be referred to as a Dynamic Place Initiative (DPI)(Voges: 2013).

Infrastructure planning should be a process of transformation, from being a method for regulations and control into being a channel for possibilities and enabling development at local level. Traditional government structures are more than often unable to do this.

In short, other than making social and political sense, infrastructure planning must make financial and economic sense.

Effective SPV's, whether they are responsible for urban renewal through a very strong project focus (e.g. urban renewal) or whether they are established to build an IDZ or other infrastructure, can be a very effective conduit to deal with systems gaps, ensuring that project planning does not concern infrastructure, architecture and design only, but ensuring that it speaks to customer needs and makes financial and economic sense. The traditional form of government is unlikely to fulfil this role.

Let's look at SPV and assess their potential to contribute more effectively to catalytic infrastructure delivery.

1. INTRODUCTION - THE NEED FOR REGIONAL INFRASTRUCTURE COMPETITIVENESS

Competitiveness is determined by a number of key factors. These factors are demonstrated in Figure 1.

Given the South African national government's high priority of economic growth and job creation, national and international competitiveness should be at the top of any city or region's economic agenda. While economic policies at a national level are important to the agenda of regional/city competitiveness, more than 75% of people in South Africa live in urban areas, the areas collectively producing more than 90% of the Gross Domestic Product (GDP) of the country. The question is therefore "what can cities do to improve economic performance and create jobs?" City and regional governments have frequently asked this question. For cities, economic competition has become more intense with globalisation. Many city or regional government officials have been striving to enhance infrastructure and services, while others have been working on reducing the cost of doing business to make the areas more attractive for private sector investment. On the other hand, promoting local economic development without considering the local economic context and market conditions, does not always achieve expectations.

After a number of years in pursuing a local economic agenda in South Africa, unrealistic assumptions in respect of not taking present and future market conditions into account, led to a lack lustre performance of local economic development. The challenge is for both local and national policy makers to understand how to promote city

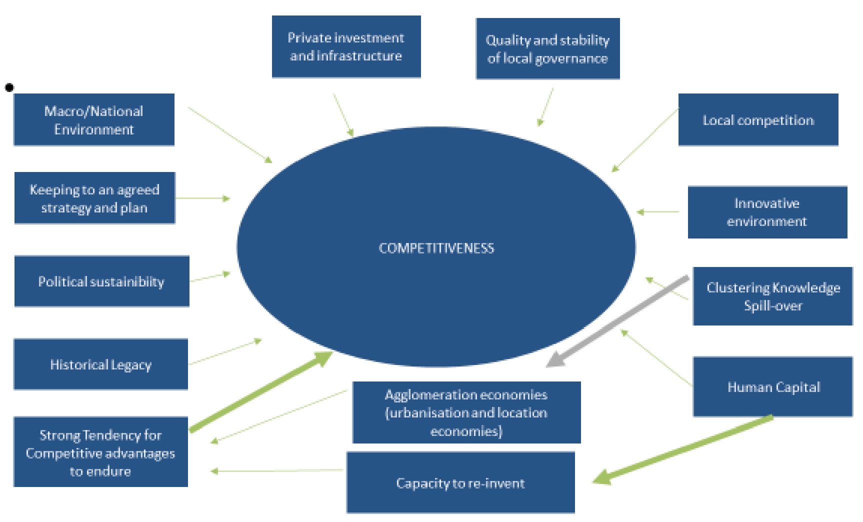


Figure 1: Key determinants of regional competitiveness
Source: Pierre Voges: 2013

competitiveness and therefore local economic development. The key questions in this regard are "What will work? What will not work?" What are the conditions necessary for sustainable local economic development to be effected?" For the past 20 years policy makers, politicians and officials have tried to make local economic development a key development driver, but little success is being achieved in this regard. Irrespective of the extensive powers that local authorities have in the creation of sustainable infrastructure development, it was often felt that local economic programmes lack economic reality, and considering the unique and specific market conditions in a specific city or region was one of the main reasons why local economic development has not done well in South Africa.

The concept of city competitiveness is not without its controversies though. Some economists, most noted Nobel Prize winner, Paul Krugman, questioned the extent to which it is meaningful to even apply the term "competitiveness" to entities other than firms(Alexandros: 2016: 52). It is true that cities do not compete as private businesses do; in fact, in most cases, the wealth of cities are created by the private sector and its business, it is private businesses that need to compete locally, nationally and internationally. However, it is often believed that the term "competitiveness", is a dynamic concept, is helpful for local policy makers as it refers to essential aspects of promoting local economic development. In dynamic concepts two issues need to be considered. Cities do not only need to provide a good business environment – they need to strive to provide a better one than others, at least in certain aspects or in certain investment niches, and cities need to continuously upgrade and innovate the achieved sustained growth path that they may have achieved (Pierre Voges, Article in the Herald June 2016).

Competitiveness and sustainability are closely linked. A city or region cannot be competitive in a national or international context if business practice and policies and local economic development are not sustainable. It is important that certain economic seeds are planted and finance provided, but the city or region can only be competitive if the projects embarked on are sustainable and able to look after themselves in the medium to long term.

In my view sustainable economic development means the integration of social economic and environmental factors into planning, implementation and decision making to ensure the development serves the present and future generations.

Infrastructure development is a key component of national and international competitiveness. In designing infrastructure, the technology used should focus on local needs and rely on local maintenance to take local market conditions into account. Any regional authority has the responsibility for financing the development and maintenance of infrastructure.

The regional authority must have a balanced financial plan, which does not put financial burdens on future generations. Planning is key in the implementation of sustainable infrastructure. For policymakers at a local government level, city level factors and policies for growth are inevitably critical and effective local economic development and eventual competitiveness. It is known in South Africa that if a city dies, then a region dies. City economic growth and competitiveness have generally not been high on the list of achievements at a local government level in South Africa. Considering the extensive local economic development powers that a city possesses, it is uncertain why this has transpired in this way. While many cities have given them much importance, in most cases there is a lack of high, city wide, coherent and sustainable policies and efforts to pursue a viable local economic development infrastructure strategy that will also enhance competitiveness.

It is common cause that regional authorities are required to raise the bar in terms of competitiveness. They are grappling to do it inside the relevant government and well-structured SPV's (almost by default) are increasingly explored to get to the end in mind. The question needs to be asked "why not?". To enhance national and international competitiveness, a local government will focus on three areas – providing infrastructure such as transportation, telecommunication, water, sanitation, etc., improving public services including education, health, security and housing and reducing the cost of doing business through simplified regulations, making it easier to open business, pay salaries, hire workers and acquire land.

At a regional government, better infrastructures are associated with greater forms of competitiveness, lower poverty and better health and education outcomes of the poor. Infrastructure under-investment may lead significantly to lower growth and worsening social indicators.

There are several reasons why infrastructure investment in developing cities and regions may be below levels required for dynamic growth. Many infrastructure investments have characteristics of public goods/ non-exhaustive and non-exclusive in consumption and therefore may be under supplied by the private sector in certain cases. Macro-economics and political instability may effectively cut off the source of state and private finance and the public sector may not be strong enough to pick up the slack. Infrastructure directly affects human welfare and equity across community groups.

Urban and rural households in sub-Saharan Africa, South Africa included, experienced widely different access to basic infrastructure services. The lowest household income groups experienced no or extremely limit access to electricity, water and sanitation or even basic telephone services. It is sustainable infrastructure that makes a region competitive- a it is then fair to say it is not countries that are competitive, but regions (Pierre Voges, Article in the Herald June 2016).

Regional competitiveness inter alia lies in sustainable infrastructure creation, creation revenue streams, adding to the Gross Domestic Product (GDP), creating jobs and adding to the rates base, International competitiveness also lies in making it easier for investment, the key driver to economic growth and bigger rates base. It is not having an eye on tomorrow; it is about having the eye on five years to ten years from now onward.

Regions must take the lead. And in taking the lead, a well-structured SPV's may be a solution to conceptualise, fund and complete the required infrastructure to create a high degree of regional competitiveness. Careful planning now becomes paramount.

Lastly, to pro-actively pursue the pr-active and innovative catalytic infrastructure development we need strong and decisive leadership, the kind of leadership that will not only bear fruit in the next twelve months, but come to significant realisation in five to ten years' time.

In South Africa we now seems to have a new leadership which is modest, decisive, having a strategic long term delivery mandate in mind and the experienced ability to cut through the municipal bureaucracy to not only deliver in municipal services, but also having a long term economic development view to grow the economy, ensure national and international competitiveness, increase the GDP, job creation, grow the rates base and build our townships into liveable urban spaces with creative economies, giving the townships the status of proper suburbs and not neglected dust bowls.

2. TYPES OF SPECIAL SERVICE DELIVERY VEHICLES (SPV's)

A SPV is a legal entity created by the sponsor or originator (private sector or public sector), to fulfil a temporary or permanent objective of the sponsoring entity. Its powers are very restricted and limited and its life is destined to end when the purpose is attained. Public sector SPV's generally have a much longer life span.

Private and public sector SPV's can be demonstrated as follows (Figure 2):

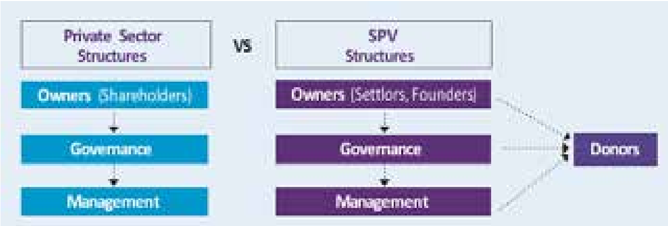


Figure 2: Private and public sector SPV's
Source: KPMG: Impact Paper: What it takes to get it right in practice: 20 July 2017

SPV's can be viewed as a method of disaggregating the risks of an underlying pool of exposures held by the SPV and reallocating them to investors or funders willing to take on those risks. This allows investment access to investment opportunities which would not otherwise exist, and provides a new source of revenue generation for the sponsoring entity. In the public sector SPV's often fill the capital requirement void when there is a capital market failure (i.e. the project is too risky) and the government initiate the project with the objective of eventual private sector buy-in (Goel: 2015: 4). The type of SPV floated depends upon the purpose to be fulfilled by such a SPV. But just for classification we can categorise SPV's as:

On – Balance sheet SPV	Off – Balance Sheet SPV
An "on–balance sheet SPV" is that entity whose financial results are consolidated with the results of its sponsor.	An "off-balance sheet SPV" is that entity whose financial results are not to be consolidated with the results of its sponsor.
In the case on–balance sheet SPV the income or receivables are by some way or other transferred to the sponsor company.	In the case off-balance sheet SPV the income or receivables are not transferred to the sponsor company.

The above is demonstrated in the following image (Figure 3):

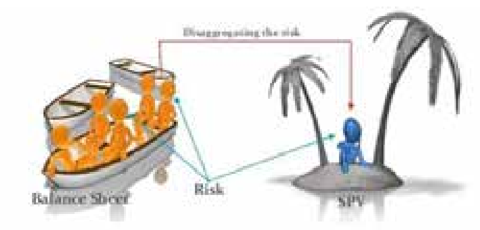


Figure 3: The concept of Special Purpose Vehicles
Source: Sahil Goel: 20 November 2015

Let's move the attention to public sector related SPV's as I believe that they are effective vehicles to conceptualise and implement infrastructure projects.

Why is government, whether it is national, provincial government, often failing in the delivery of catalytic infrastructure projects, i.e. the kind of projects that create sustainable economic growth and employment creation?

- Bureaucracy and an inability to pro-actively deal with Bureaucracy
- Lack of entrepreneurial flair
- Political meddling
- An ability to attract experienced human capital (qualifications do not necessarily mean experience)
- An approach of "Why it cannot be done" versus an approach "Why it can be done"
- A lack of an earmarked focus

Public Private Partnership Model of a SPV: Due to the policy of the liberalization and encouragement to private sector participation in the areas reserved for the public sector, a trend has been started by government sector entities by forming SPVs for special projects. The SPV's (more than often development agencies) operating in infrastructure industry usually float entities with mainly public-sector funding and possibly private sector funding (which is usually done through a call for proposal process). It is convenient in many ways. Such a setting up provides convenience approvals from the State at various levels. Once the project is completed the government may easily exit and leave it to the private sector. Here one can refer to the Cradle of Humankind project initiated and completed by Blue IQ, a Gauteng Province SPV.

3. SPECIAL PURPOSE VEHICLES AS A PUBLIC-SECTOR INFRASTRUCTURE DEVELOPMENT MECHANSISM

Figure 4: What it takes to get it right – acting as a conduit between the state, the private sector and the public
Source: The concept of Special Purpose Vehicles; Sahil Goel: 20 November 2015

This paper takes a critical look at SPVs, from the perspective of the development of a local economy using such vehicles as one modality through which projects and be conceptualised, the funding raised and the project completed (the "concept to completion" approach). Over the past few years, development partners have made increasingly use of SPV's and it is time to review that experience in terms of what has worked well and what has been problematic and challenging. Some provinces and municipalities have been at the frontline in the design and implementation of a number of the most significant SPVs, particularly in Africa, from which millions of poorer households have benefited. Good examples are Blue IQ (a provincial initiative), the Coega Development Corporation (a national and provincial initiative), the Saldanha Bay Industrial Development Zone (a national and provincial initiative), the Johannesburg Development Agency (a local government initiative) and the Mandela Bay Development Agency ((a local government initiative). This paper focuses on what must be done right if an SPV is to achieve its stated aims and objectives.

This paper looks at why there has been increasing interest in SPV's, their alternative legal forms and domiciles, the various roles "owners" can and should play, and the possible governance and management arrangements they can adopt.

In recognition of the fact that SPV's will be increasingly important as current efforts to blend soft and commercial finance become more frequent, we highlight what needs to be done right for them to work effectively, and share the lessons learned to inform those wishing to set up similar development mechanisms.

4. GOVERNMENT CATALTIC INFRASTRUCTURE FAILURE

Over the past few years, most due to government failure or a lack of capacity and experience, the three tiers of government have been making increasing use of SPVs, to achieve development outcomes and impact.

We define SPVs in this context as "not–for–profit" legal entities, into which government can inject start-up capital (due to capital failure) to implement programmes and projects.

While such mechanisms were a rarity in the nineties, they have become increasingly popular, and we now see many types of SPV's with various legal, ownership, governance and management structures – some of which would appear to have worked better than others. Some are legislated (e.g. the Saldanha Bay Industrial Development Zone), some not (e.g. the Mandela Bay Development Agency).

Before looking at the pros and cons of various ownership, governance and management structures for SPVs, it is worth reminding ourselves why SPV's have become so popular with government in South Africa and elsewhere and philanthropists in recent years.

Before the mid-nineties the only SPVs on the scene were the Development Finance Institutions such as the International Finance Corporation (IFC), Industrial Development Corporation (IDC) and the like, and subsidiaries set up by these institutions, such as agricultural cooperatives. After 1995, we started to see some government institutions started to support the creation of the private infrastructure development initiatives (e.g. the development of the Gautrain) and the Banking Council of South Africa. The intention was to create a friendly investment climate.

The key aspects of such SPVs, which have led to their popularity, are the ease with which joint/multiparty funding can be handled, longevity, embeddedness and legitimacy, absorptive capacity, value for money, flexibility and other valuable characteristics. The joint/ multiparty funding advantage was perhaps the driver of SPV's as, historically, the state has found it difficult to co–fund projects and to fund projects with different partners. SPV's make this task easier, with all parties able to fund the same registered not-for-profit entity – and to do this without a much more streamlined/faster tender process – with associated timing and cost advantages. The second key advantage, is that a well-structured, experience staffed and well-positioned SPV can play a medium to longer term more influential role than what time limited development projects, initiated and operated within government, are able to do (KPMG: 2017: 5).

Empirical and anecdotal evidence suggests that SPV's have served the development community and beneficiaries well. With further adjustments in design to make them even more fit for purpose, the future for SPV's in the development business looks secure(De Clerck: 2005:6).

It is common cause that the main reason for the failure of SPV's in South Africa is a lack of autonomy from the shareholder, a bad relationship between the SPV and the shareholder and an inability to deliver on the assigned mandate.

The structure of an SPV in the private sector and within government differ, as the shareholder within a private sector SPV is profit driven, whereas the shareholder within a public sector SPV is project delivery driven through different forms of public and private sector funding to ensure an increase in the Gross Domestic Product (GDP) and in employment creation.

The challenges about legal entity and domicile are relatively minor compared to issues of how the "owners" of an SPV should or should not influence its operations, and if they should, then how should this "influence" be structured and channelled. These are complex questions which frequently present challenges to successful implementation, but are seldom carefully considered in programme design.

The mantra for designing public sector SPV's should be that their structure should, as far as possible, mirror the culture of the private sector – i.e. efficiency and purpose driven. As such, the shareholders should appoint the governance (the Board Chairperson and the Board) and governance (the Board) should appoint management and management should appoint staff, which creates an uncomplicated and direct accountability structure. If there is any undue interference in that line of appointment, the SPV will fail. Many shareholders at government level try hard to implement this structure, but even where they have tried hard to do so, have not been very successful. The fundamental problem often lies with the shareholder who wants to exercise absolute control (i.e. the SPV Board does not have autonomy). The "owners" (government), who as civil servants, only represent the ultimate owners – the taxpayers – and frequently are not able to behave in the way that true owners would.

The reality is that in several SPVs, the owners (government) wish to influence and increasingly control what the SPV does, but cannot or do not wish to play a direct role on the Board of the SPV. In the private sector, the shareholders depending on how many of the shares they own or control, will decide who should be on the Board and ensure the Board is fully accountable to them. In South Africa the Municipal Finance Management Act (56 of 2003) and the Public Service Management Act (1 of 1999) prohibit any owner legal representation on the SPV Board – which is often a huge bone of contention. Be that as it may, there is a tendency to micro-manage from a non-legal distance without being part of the legal structure of the SPV.

This has the potential to undermine the governance structure they have so carefully developed. The public-sector shareholder finds it difficult, if not impossible, to act like true owners who typically meet with the executive and non-executive directors just once per year at the company Annual General Meeting. One would want to suggest that it is probably better to recognise that shareholders will always wish to direct the SPV and thus the structure should be designed to accommodate this – simply through good communication and the recognition of roles. Some suggestions are made below.

5. ALTERNATIVE SPV GOVERNANCE STRUCTURES

Advantages and disadvantages

Assuming that the SPV is being created as a Trust then the legal governance of the organisation will either be the Board of Trustees or the Board of Directors.

Normally, as started above, we would expect Board members to be appointed by, and act on behalf of, the "owners" of the entity. Unless great care is taken this creates two centres of authority – the Board and the "owners", which may be dictating what the entity should be doing and how it should be doing it. This is a challenge, particularly when the "owner", following much work and complicated selection procedures, have chosen the best minds to sit on the Board only for the Board members to find that they have little real ability to influence the organisation despite being given the legal mandate to do so. Not surprisingly, and in many cases, the shareholder or owners believes it knows better than the Board – because it designed that facility – with the latter frequently believing the opposite – as they often have the local knowledge and networks.

Experience to date would suggest that the Board Chairperson and the head of the shareholder need to meet frequently, understand each other's roles and communicate constantly to keep the end in mind. It is often important that the Board must include a very strong legal mind to almost act as a "legal trustee". The advantage of this is that the legal trustees will not engage in the management of the entry, but will ensure that all legal, regulatory, fiduciary and operational procedures will be followed to the letter, while leaving others to ensure that the SPV does its business. This is somewhat akin to having two boards – a legal board for legal and fiduciary purposes, and an operational board in the form of an advisory committee of the shareholder, whose role is to approve the activities proposed by management.

There are financial and practical issues to think about also. Boards made up of the great and good can be difficult and expensive to convene and manage. The best Board Directors are often very experienced, semi-retired, no real ambition (been there and done it all), not interested in Board fees and a burning ambition to make a difference through the application of many years of in-depth experience.

The only time that a Board of the great and good is essential, is where the SPV has a policy and advocacy mandate, and where the SPV is expected to be a legitimate player in the field and embedded in the institutional landscape of the country or region. Such a Board will have an important advocacy and influencing role to play across a region or country, and as such, it requires a Chairman and Board Members with high level networks to be successful. In addition, there may be cases where the great and the good have a major fund-raising role, but this is rare.

Key benefits for the shareholder (e.g. a municipality):

- **Create an expert pool of capacity** – The SPV can congest the right people for the right job. The general trend of employees will be well-qualified, pro-active, committed, purpose driven, can act as a conduit between government and the private sector and demonstrate a high degree of flair. It is not the kind of person that will apply for a normal government job – the latter will have too many legal constraints
- **Minimal red tape** – With required flair, normal red tape can be overcome with little governmental authorisation required.
- **Clarity of documentation** – It is easy to limit certain activities or to prohibit unauthorised transactions within the SPV documentation.
- **Regulatory Compliance** – A special purpose entity can sometimes be set up to overcome regulatory restrictions, such as regulations relating to nationality of ownership of specific assets.
- **Tax benefits** – There are definite tax benefits of SPVs where assets are exempt from certain direct taxes. Non-for-profit companies are exempted from tax – these are funds that can be ploughed back into catalytic infrastructure projects. If a SPV is set up for property development purposes, such a company will make a profit and needs to be tax effective. This is particularly applicable to SPV's managing a property portfolio.
- **Legal protection** – By structuring the SPV appropriately, the sponsor may limit legal liability if the underlying project fails.

All in all, a SPV provides much needed flexibility in achieving and end in mind – it remains a careful balancing act though.

Key risks to the parent municipality:

- **Lack of transparency** – The complexity of SPVs, often in the form of layers upon layers of compliance that can make it near impossible to monitor and track the level of risk involved and who it lies with.
- **Reputational risk** – The firm's own perceived credit quality may be blemished by the under-performance or default of an affiliated or sponsored SPV. For this reason, it is not a credible risk that the firm will abandon the SPV in times of difficulty.
- **Signalling effect** – The poor performance of collateral in an SPV attracts a high degree of attention and assumptions are made that the quality of the firm's own balance sheet can be judged on a similar basis.
- **Liquidity and funding risk** – The poor performance of an affiliated SPV may affect the firm's access to the capital markets and lack of funding from the shareholder.
- **Equity risk** – The shareholder might hold a large equity tranche in a vehicle. If the shareholder does not step in and support or save the vehicle from collapse in difficult situations, the resulting wind-down of the SPV and sale of the assets at depressed valuations is likely to erode the firm's equity in the SPV, to a greater extent than the shareholder stepping in and either affecting an orderly wind-down of the vehicle or bringing its assets back into its balance sheet.

Governance in municipal related SPV's:

There are various benefits associated with establishing a functioning governance framework for these SPVs.

These include:

- Improved governance and risk management for all stages of the life-cycle of each of the projects
- Assistance in timely and accurate project reporting for all stakeholders
- Improved adherence by SPVs to government standards and policy
- The adoption of a consistent approach across government in the establishment of SPVs
- Ensuring governance expectations from the establishment of the SPV, as a company, are maintained
- Time and cost savings in establishing new SPVs as information, templates and governance structures will be readily available
- That the region will have a reputation as a leader in innovative infrastructure delivery on a large scale with the use of SPVs.

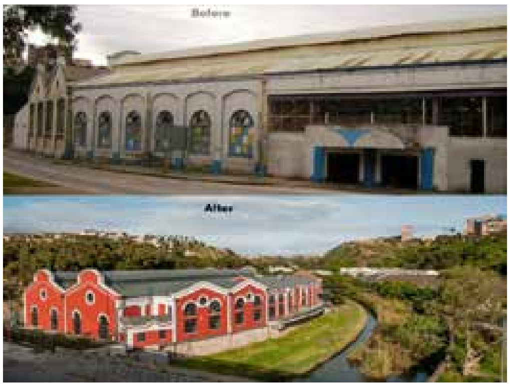
These benefits provide the government and the community with the confidence that establishing SPVs for delivering infrastructure is a viable infrastructure procurement approach that delivers the government value for money and accountability.

The required Governance Principles:

SPV's are expected to incorporate the following principles:

- **Lay solid foundations for management and oversight**
  SPV's should establish and disclose the respective roles and responsibilities of board and management through a formal statement or board charter.
- **Structure the board to add value**
  SPV's should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties, with a majority of the board being independent directors.
- **Promote ethical and responsible decision-making**
  SPV's should actively promote ethical and responsible decision making and are expected to observe the highest standards of ethical behaviour.
- **Safeguard integrity in financial reporting**
  SPV's should have a structure to independently verify and safeguard the integrity of their financial reporting.
- **Make timely and balanced disclosure**
  SPV's should promote timely and balanced disclosure of all material matters concerning the company.
- **Respect the rights of the shareholder (the municipality and other minority shareholders)**
  It needs to be stated that the MFMA only allows for a minority shareholding in the SPV - the municipality must always have the majority shareholding). SPV's should respect the rights of shareholders and facilitate the effective exercise of those rights.
- **Recognise and manage risk**
  SPV's should establish a robust system of risk oversight and management and internal control.
- **Remunerate fairly and responsibly**
  SPVs are expected to ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

- **SPV's and Project Management:**
  Project management is the discipline of planning, organising, and managing resources to bring about the successful conceptualisation and completion of specific projects (and their goals and objectives). The primary challenge of project management is to achieve all the project goals and objectives while adhering to classic project constraints, usually scope, quality, time and budget.



The importance of SPV in delivering on an infrastructure delivery plan:

SPV's are expected to appropriately manage the delivery of their projects. The SPV's governance/compliance unit must prepare an infrastructure delivery planning template to reference the plans, policies and procedures upon which project delivery is expected to rely upon, including:

- Scope management
- Milestone management
- Deliverables management
- Project risk management
- Issues management
- Cost management
- Project reporting.

Alternative Management Strategies

There are many different approaches to the management of SPVs. The options are really on a continuum between carrying out all the management tasks in-house with their own staff, and contracting out the management of the SPV in its entirety. Experience has shown that it is more cost effective to maintain a small of a very experienced staff of professionals (engineers, planners, architects, markets researchers, finance/compliance, HR), but outsourcing specific projects tasks to consultants through a well-structured procurement process that may include panels of consultants in specific disciplines. These consultants must be managed as if they are staff members though. Employing all the expertise required in-house may be very costly and it usually results in times where the full (expensive) staff is not fully utilised.

The pros and cons of the various options are really ones of efficiency and effectiveness. Two particularly successful SPV's, i.e. the Johannesburg Development Agency and the Mandela Bay Development Agency (simply because they delivered in the set mandate) has shown by the numerous impact reviews of their activities that they both fall into the former model, with all staff directly hired, but with various activities outsourced where necessary.

Perhaps more important than whether an SPV is managed in-house or management is outsourced, is getting the right CEO and senior staff. The success of an SPV, much more than most traditional government managed infrastructure projects, seems to depend on getting the right team to run the show. The basic message is that people matter, and the quality of the CEO matters most.

The reality is that good leaders of development entities are passionate about what they do, but still expect to be paid well. SPVs need to pay competitive salaries if they are to attract the best and achieve the most.

A good example of a SPV that was used to develop derelict municipal buildings is the Mandela Bay Development Agency in Nelson Mandela Bay. The redevelopment of the Tramways Building was unlikely to happen without the Agency. From severe dereliction to an urban renewal success.

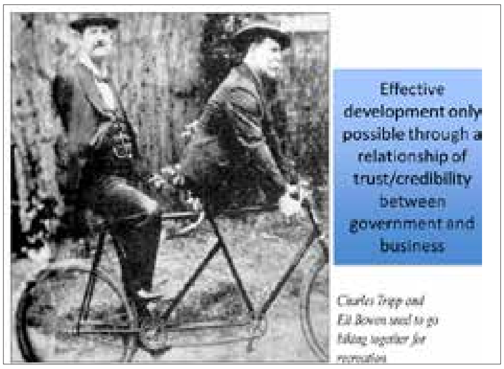
6. CONCLUSION

Creating a SPV is simple, but maintaining and to keep it to an end in mind is a tedious job. It involves all secretarial compliances like conducting of requisite board meetings, general meetings as prescribed by law, maintenance of statutory registers, filing of various forms and returns, etc. As the board of directors of such subsidiaries are the employees of the holding company, the meetings are reduced to mere formalities.

However, non-compliance of any provision of law can create trouble at the time of disposal of the SOV, in the form of unnecessary delays. Therefore, the creation of a SPV must be considered after deliberating all other options available. It needs to culminate in a detailed agreement which clearly defines the rights and liabilities of both the parties, i.e. the shareholder and the SPV.

It common cause that in South Africa most three tiers of government failed dismally in creating effective avenues for catalytic infrastructure conceptualisation and implementation. If an effective structure is put in place, competent staff hired and good relationships are maintained between the shareholder and the SPV Board it can be put to very good use in infrastructure delivery in South Africa, particularly at local and provincial government level.

If this avenue is not effectively implemented, then catalytic infrastructure implementation will fall behind, sustainable economic growth will decrease or come to a standstill and a region will slowly sink into an acute state of poverty. There is clearly a need for an entity that sits between traditional government and a profit seeking private sector. That entity is a well-structured SPV. It becomes a balanced public and private sector approach where both parties realise the one can do what the other one cannot do. Just like Charle Tripp and Eli Bowen.



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