

**Development Policy Research Unit
University of Cape Town**



**The Maputo-Witbank Toll Road:
Lessons for Development Corridors?**

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Foreword

The Development Policy Research Unit (DPRU), located within the University of Cape Town's School of Economics, was formed in 1990 to undertake economic policy-oriented research.

The aim of the unit's work is the achievement of more effective public policy for industrial development in South and Southern Africa.

The DPRU's mission is to undertake internationally recognised policy research that contributes to the quality and effectiveness of such policy.

The unit is involved in research activities in the following areas:

- labour markets and poverty
- regulatory reform
- regional integration

These policy briefs are intended to catalyse policy debate. They express the views of their respective authors and not necessarily those of the DPRU.

They present the major research findings of the *Industrial Strategy Project (ISP)*. The aim of the ISP is to promote industrial development in the *Southern African Development Community (SADC)* through regional economic integration and cooperation. It is a three-year project that commenced in August 1998 and is funded by the *International Development Research Centre (IDRC)*. Ultimately, this project will identify the policies and programmes that support regional interactions that contribute to the industrialisation of SADC national economies.

This policy brief is a shortened version of DPRU Working Paper no. 00/44, published in December 2000:

Title: Public-Private Partnerships: Lessons from the Maputo Development Corridor Toll Road

Author: Dr Ian Taylor

If you have any questions, or comments pertaining to the content of this policy brief, please do not hesitate to contact us:

Trudi Hartzenberg
Deputy Director
E-mail: trudi@hiddingh.uct.ac.za
Tel: (27 21) 480 7155/62
Fax: (27 21) 423 2501

Martine Visser
Senior Researcher
E-mail: mvisser@hiddingh.uct.ac.za
Tel: (27 21) 480 7156/62
Fax: (27 21) 423 2501

Introduction

The Maputo Development Corridor (MDC), running from Witbank to Maputo, is the flagship of one of the key investment strategies of the South African government, namely "Spatial Development Initiatives" (SDIs). Launched in 1995, SDIs aim to be short-term and targeted attempts to stimulate "growth" by creating globally competitive spatial entities *via* new investment, infrastructural development and job creation.

The South African government sees, as its primary task, the need to work with private capital in partnership in order to facilitate such SDIs.

As part of the SDIs programme, the renewal and construction of key infrastructure amenities is considered crucial. The toll road between Witbank and Maputo is part of this broader project.

Importance of roads

Constructing and developing roads are important because:

- Road transport is the dominant form of transport in Africa.
- Trade is the engine of economic growth.
- Reliable and efficient transport is essential for successful trade.

BUT

- Chronic fiscal constraints on governments.
- Financing road projects must be found from somewhere.

Role of public-private partnerships

Public-private partnerships (PPPs) are playing an increasingly important role in providing the supply and/or renovation of infrastructural projects.

Global trends

With its emphasis on low public expenditure and a concentration on trade deficit reduction and low national debt, the call to increasingly involve the private sector in supplying services formerly provided by the state has become almost universalised:

- The PPP philosophy inherent in the SDI project(s) is reflective of international trends and experience.
- Both the World Bank and the United Nations Development Programme advocate the usage of PPPs in providing or renovating services.

What are public-private partnerships?

PPPs can take on many forms from the commercialisation of existing state activity to outright privatisation. In general, PPPs may be said to be long-term contracts involving both the public and private sectors to supply and run infrastructure and/or services.

Some degree of private participation in the delivery of traditionally state-provided services is essential. The “private sector” can be broadly defined to include: private enterprise, informal market actors, communitybased organisations, non-governmental organisations, universities, private individuals .

Spreading risks

By involving both the private sector and the public sector, responsibilities, as well as risks and benefits can be shared.

Scope for increased funding and resource availability

PPPs represent indirect access by the government, through private partners, to resources provided by the private sector.

As resources are limited and the availability of funding for large-scale infrastructural projects is severely constrained, the potential of utilising PPPs becomes a very attractive means of developing infrastructure:

- Government policy since 1997, via the National Roads Agency, has encouraged bids from the private sector to increase the number of roads that are upgraded and tolled.
- The state seeks avenues for PPPs to promote economic development by upgrading and/or constructing badly needed infrastructure.
- A new public-private partnerships unit, announced in early 2000, signals the government's determination to push PPPs.
- N4 toll road a signal regarding the viability of PPPs in financing region's infrastructure requirements.

Origins of the MDC

The MDC was Launched in May 1996, with the aim of establishing a developmental axis between the port of Maputo and the industrial centre of South Africa (Gauteng). The proclaimed objectives of the Corridor were:

- To rehabilitate the primary infrastructure along the Corridor using the private sector.
- To encourage private investment in the inherent potential of the Corridor and in the opportunities afforded by rebuilt infrastructure.
- To ensure that development provides employment *via* economic growth.

Main projects integral to the MDC

Among the main projects integral to the MDC are:

- **Single toll road - the N4 from Witbank to Maputo:** The project will be the largest road project yet undertaken in sub-Saharan Africa, rehabilitating 380 km of existing road and building about 50 km of new road in Mozambique. Project's value is in excess of US\$ 180 million.
- **Port of Maputo:** As the micro-region's *raison d'être* is to link up with the global economy, the port of Maputo is a crucial infra-structural component. Private sector is planned to take 67% share in a joint venture with the Mozambican government, expected to total around US\$ 170 million.
- **Railway links to Maputo:** Three railway lines run to the port of Maputo and form the rail arteries of the micro-region:
 - the Goba line from Swaziland;
 - the Limpopo line from Zimbabwe and the
 - Ressano Garcia line from South Africa.

Total cost of upgrading the 90 km rail link between Maputo and Ressano Garcia on the South African border is expected to be around US\$ 20 million. Seventeen new locomotives and five hundred wagons costing around US\$ 80 million are scheduled to be purchased as part of the line's rehabilitation.

- **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 and should reduce cross-border bottlenecks by providing a one-stop border control procedure. The border complex is estimated to cost US\$ 20 million.
- **Sectoral Investments:** There are a number of very large investments planned and/or under construction. Notable among these are:
 - The Mozal aluminium smelter near Maputo worth US\$ 1.3 billion.
 - The Pende gas extraction project costing US\$ 700 million north east of Maputo.
 - The US\$ 300 million heavy minerals project adjoining Red River near Tzaneen in the Northern Province.
 - the US\$ 300 million ilmenite/magnetite and vanadium project (also near Tzaneen).

The N4 toll road as a PPP

Trans African Concession (TRAC) was awarded the N4 toll road contract as preferred bidder in December 1996.

The road is constructed on a build-operate-transfer (BOT) basis, with the concession operating for a thirty year period.

After the construction phase of three and a half years the cost of upgrading, maintenance and operation of the road will be raised from project revenues, in the form of tolling at strategically located plazas:

- near Middelburg
- Machadodorp;
- between Kaapmuiden and Malelane;
- Moamba (in Mozambique);
- Matola (outside of Maputo).

Toll charges

In South Africa, toll road charges cost, on average, R0.20 per km for light vehicles and R0.50 per km for heavy vehicles. The tariffs are set jointly by the National Roads

Agency, TRAC as well as the lenders and shareholders of the PPP and will be increased per annum in line with inflation.

The N4 toll road

- is 440km long, from Witbank to Maputo.
- rehabilitates existing 390km route from Balmoral (20km west of Witbank) to Moamba, and construction of new 50km-long road from Moamba to Maputo.
- is a new route that will cut 150km off the trip between Gauteng and Maputo, and shorten travelling time to around four hours.

Determination of toll prices

The toll prices are determined by the type of vehicle. There are four types of vehicles listed for the purpose of toll pricing:

- **Class 1 - Light Vehicles:** These are motor vehicles with no heavy axles. Light vehicles include motor vehicles with trailers or caravans. Motor cycles, motor tricycles, motor cars and light delivery vehicles are classified in this category
- **Class 2 - Medium Heavy Vehicles:** Medium heavy vehicles are vehicles with at least one heavy axle. Medium heavy vehicles may NOT have more than one heavy axle.
- **Class 3 - Large Heavy Vehicles:** Large heavy vehicles are vehicles with three or four axles where at least one of the axles is a heavy axle.
- **Class 4 - Extra Large Heavy Vehicles:** Extra large heavy vehicles are vehicles with five or more axles where one or more of the axles is classified as heavy

Toll discounts

TRAC has introduced a system of discounts for commuter and local users which are below (in some cases substantially below) “normal” fares.

Identifiable Problems

A number of problems with the toll road as a PPP and its overall enabling environment have been identified:

- **Expectations** - a great deal of high expectations were built around the road project. More realistic evaluations of what was possible would have been better advised.
- **Maputo Port** - the slow manner in which the port at Maputo has been renovated has been a major stumbling block. This has impacted negatively on the flow of traffic using the N4 toll road.
- **Political support** - there has been deep disquiet about the provincial leadership in Mpumalanga. Competence and support for the MDC has declined. There is a lack of interest and vision in regional integration.
- **Toll fares** - lack of information regarding the tolling process has impacted negatively on local perceptions of the PPP. There has been a lack of openness *vis-à-vis* the concession agreement. Many local residents are outraged that placing tolls on the N4 will separate them from their schools, jobs and the main shopping centres in Nelspruit.
- **Big bang approach** - *lack of public involvement/consultation* - the “fast-track” approach promoted as an integral part of the SDI project(s) is problematic. The emphasis on speed precludes serious or in-depth engagement with stakeholders outside of the financial sector.
- **Issues of gender in the MDC** - women seem to have lost out thus far in a number of projects related to the MDC, with the majority of tenders to build the N4 toll route awarded to male-managed businesses. There seems to be no gender policy for the SDI projects.

Lessons

There a number of lessons that can be learned from the PPP approach used for the Witbank-Maputo N4 toll road:

- PPPs require a favourable macroeconomic climate and a regulatory framework that supports and encourages private sector involvement.
- PPPs must be 100% backed by national and provincial government
- Maverick behaviour by politicians and/or public officials must be dealt with speedily and openly.
- The “fast-track” philosophy expounded by key members within the Department of Transport is highly problematic and has lead to difficulties for both the state and the private contractors.
- SDIs should not be about big-bang infrastructure projects, but rather integrated projects that holistically aim to stimulate development within a certain micro-region.
- Big infrastructure projects undermine the chances of success for SDIs as there is a disjuncture between big projects and the rest of the micro-region.
- The rush to advance the N4 PPP whilst the Maputo port remained at a very low level of operational capacity was a mistake.
- Local processes must be accommodated within SDIs and must play a role in PPPs, otherwise popular support for the PPP philosophy will evaporate.
- An overtly top-down and over-zealous approach to pulling the state out of active involvement after its initial fast track facilitating role is highly problematic and led to the private sector having to take on a role it is not suited to (nor should fulfil).
- Introducing PPPs requires an active dialogue with civil society so that the public understand (and hopefully) accept the PPP approach.
- Briefings to the media and concerned parties should be a regular feature as the project progresses.
- Future PPPs need to be structured with great care at the start to make the project requirements, roles and responsibilities clear. This is particularly important when it comes to regulating conflicts of interest.

- Administrative and political support must be maintained and commitment at the highest level must be continuous.
- Communication between the national and provincial must be efficient and regular.
- A dedicated and well-resourced team is required to oversee this process, similar to the vision behind forming the Maputo Corridor Company.
- There should be regular liaison between national and provincial administrations and with the private sector.
- Future PPPs need a firm commitment on the part of the state to provide support for private actors and agree on a set list of responsibilities.
- The state must not abandon private investors to the vagaries of political opinion.
- The private sector needs to understand its social responsibilities.
- The state should *compel and monitor and enforce* empowerment and developmental obligations undertaken by contracting capital ventures.
- Specific contractual obligations to involve local partners on the ground, particularly those managed by and with a strong labour component comprised of disadvantaged persons is vital to ensure positive spin-offs.
- Gender-oriented NGOs or bodies should be involved in monitoring developments and providing recommendations for the ongoing running of PPPs. This primarily needs to be done at the planning process, perhaps slowing down the “fast-track” approach.

A big-bang and then hands-off approach mitigates against the above points and needs to be re-thought if future PPPs are to avoid similar problems.