

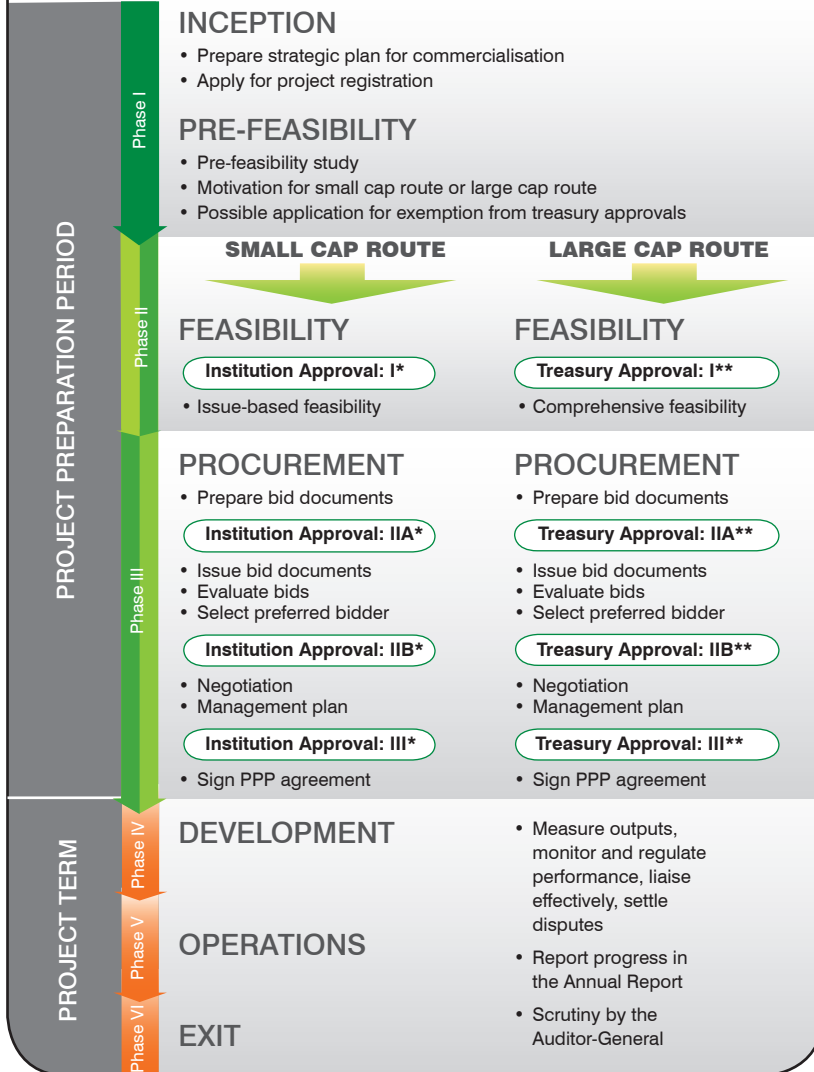
**NATIONAL TREASURY
PPP TOOLKIT FOR TOURISM**
MODULE 1:
**PPP INCEPTION AND PRE-FEASIBILITY
PHASE FOR TOURISM PPPs**



PPP unit

PPP PROJECT CYCLE FOR TOURISM PPPs

Reflecting Treasury Regulation 16 to the Public Finance Management Act, 1999



* If exemption from treasury approvals is granted.

** Unless exemption from treasury approvals is granted.

ABOUT THIS MODULE

Module 1 sets out the steps to be followed in the PPP inception and pre-feasibility phase of tourism PPPs.

Key milestones for the institution during this phase are the strategic plan for commercialisation, applying to the relevant treasury to register the project and doing the pre-feasibility study.

Based on the outcome of the pre-feasibility study, the institution decides whether to pursue the small cap or large cap route. The institution also decides whether to apply for exemption from treasury approvals.

Templates

Each template for this module, listed on the contents page, can be downloaded, in Microsoft Word, from the CD accompanying the Toolkit and from the PPP Unit's website, www.ppp.gov.za. A summary of what is contained in each template and annexure is provided at the end of the module, or the relevant section within the module.

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PPP TOOLKIT FOR TOURISM

PPP INCEPTION



INTRODUCTION

Extract from Treasury Regulation 16 to the Public Finance Management Act

16.3 Project inception

16.3.1 *As soon as the institution identifies a project that may be concluded as a PPP, the accounting officer or accounting authority must in writing –*

- (a) register the PPP with the relevant treasury;*
- (b) inform the relevant treasury of the expertise within that institution to proceed with a PPP;*
- (c) appoint a project officer from within or outside the institution; and*
- (d) appoint a transaction advisor if the relevant treasury so requests.*

There are six stages to PPP inception for tourism PPPs

- Stage 1: The accounting officer/authority decides to consider PPPs
- Stage 2: Appoint the project officer
- Stage 3: Set up the project team
- Stage 4: Complete the strategic plan for commercialisation
- Stage 5: Register the project with the relevant treasury
- Stage 6: Appoint consultants or a transaction advisor

STAGE 1: THE ACCOUNTING OFFICER/ AUTHORITY DECIDES TO CONSIDER PPPs

The Public Finance Management Act, 1999 (PFMA) assigns significant responsibilities and accountability to accounting officers/authorities to manage the resources of institutions in the public interest and as mandated. The tests and processes which he/she must follow for a public private partnership¹ (PPP) are set out in Treasury Regulation 16 to the PFMA.

In the inception phase of the PPP project cycle the accounting officer/authority is responsible for:

- deciding to review the potential for PPPs in the institution²
- preparing the strategic plan for commercialisation
- informing the relevant treasury of the institution's capacity to proceed with PPPs
- registering the PPP project(s) with the relevant treasury
- appointing a project officer
- appointing consultants or a transaction advisor.

The duties of the accounting officer/authority

Throughout the PPP project cycle, the accounting officer/authority will:

- provide strategic direction and vision, ensuring that the PPP outcomes are consistent with the institution's mandate and strategy for the use of state property
- build and secure political support for the commercialisation strategy and the project(s)
- ensure senior management support
- build other stakeholder support
- provide the project officer with suitable delegations and responsibility for project management and include him or her in the senior management team of the institution
- allocate suitable project resources, including budgets and personnel, to the project officer
- receive regular, direct reports from the project officer and provide strategic direction
- where possible resolve disputes that cannot be resolved within the project team
- ensure smooth transitions between changing institutional personnel who may be responsible for the project at different times in the PPP project cycle
- represent the project publicly on behalf of the institution.

The accounting officer/authority's specific regulatory responsibilities in PPPs include:

- getting treasury approvals
- representing the institution on behalf of government as signatory to the PPP agreement
- making sure that the PPP agreement is properly enforced
- making sure that state property is appropriately protected.

1. See *Getting started: 1. Understanding the Toolkit: 'Annexure 1: Treasury Regulation 16': 16.1 Definitions.*

2. See *Getting started: 1. Understanding the Toolkit: 'Annexure 1: Treasury Regulation 16': 16.1 Definitions.*

STAGE 2: APPOINT THE PROJECT OFFICER

Extract from Treasury Regulation 16 to the Public Finance Management Act

16.1 Definitions

“project officer” means a person identified by the accounting officer or accounting authority of an institution, who is capable of managing and appropriately qualified to manage a PPP to which that institution is party from its inception to its expiration or termination.

Take note

Appointing the project officer is a critical stage. It should happen as early as possible after the accounting officer/authority has decided to consider PPPs. Only in exceptional cases should the project officer be appointed after the project has been registered with the relevant treasury.

The project officer is responsible for making the project(s) work for the institution, on time, on budget and to the standards set by National Treasury. The project officer is the institution’s anchor and champion for a PPP project and should be a full-time appointment.

What does the project officer do?

All the institutional tasks and obligations detailed in Treasury Regulation 16 and the Toolkit land on the desk of the project officer.

The project officer’s is a full-time project management job, requiring a suitable term contract. The project officer should be hired to manage the project from inception, through the feasibility study phase, the procurement phase, and into at least the development phase and the first years of the delivery phase, when he or she will be primarily concerned with PPP agreement management functions.

Broadly, the project officer will:

- manage the planning, procurement and implementation of the PPP project on behalf of the institution, exercising delegated authority
- carry out all stages of the inception phase, including the appointment of the consultants and/or transaction advisor
- direct and manage the work of the consultants or transaction advisor and approve payments in terms of the contract at every phase of project preparation

- report to the accounting officer/authority on the progress of the PPP
- manage the PPP agreement for the project term³, representing the institution.

Required qualities and competencies of the project officer

If the project officer is incompetent, lazy or unreliable the project is bound to fail. He or she must be unquestionably honest and committed to achieving best value in the public interest. The job needs the kind of person who is prepared to live the project. It requires a passionate driver who is committed to achieving an optimal project outcome and who has the skills to match. The project officer will be required to act and make decisions with the utmost integrity at all times and to protect the institution's interests and those of the public.

The project officer should be given suitable, legally sound delegations by the accounting officer/authority for the central, driving role he or she has to play on behalf of the institution. The project officer should therefore be or become a member of the institution's senior management team in order to ensure thorough institutional buy-in that the institution's management participates in key project decisions. He or she should have the full trust of the accounting officer/authority, who will depend on the project officer to deliver the best possible project for the institution.

The project officer should therefore have the necessary authority to undertake the feasibility study and to obtain all relevant information from the staff.

Figure 1.1 is a competency model for a PPP project officer. While the model presents a somewhat idealised 'Renaissance human' its aim is to illustrate the wide range of attributes required of a project officer.

Institutions can use the model as:

- a recruitment and selection tool
- an assessment tool for performance appraisals
- a development tool when the project officer is looking to keep his or her expertise aligned with the evolving requirements of the job.

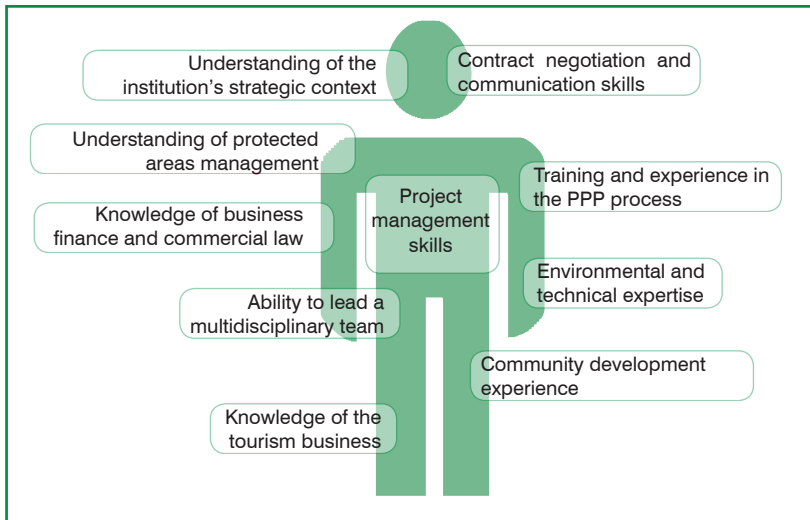
3. See *Module 4: Managing the PPP agreement* for a detailed description of the project officer's PPP agreement management functions throughout the PPP project cycle.

Figure 1.1: Competency model for a PPP project officer

Competency cluster	Competencies	Indicators
Self	Applies professional expertise and experience	PPP knowledge and experience, from the public or the private sector
		Comparable project experience
		Relevant knowledge and skill in tourism business, law, finance, public administration and document management
	Develops self and others	PPP knowledge
		Personal development
		Team development
		Career development of self and others
	Is resilient and motivates	Determination
		Self-motivation
Motivation of others		
Task	Implements strategy	Strategy development
		Strategy implementation
		Strategy communication
	Solves problems	Problem solving
		Creative thinking
		Decision-making
	Achieves results	Project management
		Resource management
		Quality management
		Risk management
		Managing ongoing change
		Variation management
Knowledge management		
Monitoring		
People	Builds relationships, communicates and negotiates	Partnership and relationship management
		Communication
		PPP negotiation
	Leads and manages team	Leadership and management
		Delegation

Source: UK Office of Government Commerce

Figure 1.2: Specific skills and experience required of a tourism PPP project officer



Formally appointing the project officer

The project officer may be appointed from within or outside the institution, depending on the institution's own capacity and resources. In either case, the institution is advised to enter into a contract with the project officer using 'Template 1: Duties and responsibilities of the project officer'. The contract should clearly identify the measurable outputs of the job and enable the institution to terminate the project officer's services if he or she fails to deliver as agreed, or is found to be corrupt.

If an internal staff member is appointed as the project officer, ideally he or she should hand over his or her current duties in order to focus on the project officer duties full time.

The project officer's first steps

When first appointed, the project officer must:

- **Review and understand the institution's statutory mandate and all the strategic plans and commercial ventures it has initiated to date.** Institutions are governed by legislation, most institutions have strategic plans, many will have identified commercial opportunities, and many have existing commercial ventures of various kinds. These need to be carefully reviewed by the project officer.

- **Study the Toolkit.** This should include attending a National Treasury PPP Unit training course on the Toolkit
- **Gather and review information on similar previous PPP projects.** The lessons learnt and approaches adopted by other institutions should inform the project officer of key issues to be managed and appropriate methodologies to be used. Case studies are available from National Treasury's PPP Unit⁴.
- **Identify the required technical and management expertise.** For each phase of the PPP process the skills needed should be identified, quantified and allocated. The available skills in the institution should be critically reviewed and then assessed against the requirements. Skills which are not available for each phase will need to be sourced from other government institutions or from consultants or a transaction advisor at the appropriate time.
- **Define the scope of work and available budget for the project team, each member in the project team, and for consultants or the transaction advisor** (if consultants or a transaction advisor are going to be used).
- **Set up the project team.** The project officer is required to set up a strong team to lead and monitor the project from the start.

4. Go to www.ppp.gov.za.

STAGE 3: SET UP THE PROJECT TEAM

The project team

- provides strategic direction and facilitates management and political buy-in
- oversees project development budgets and expenditure
- makes sure that the project's progress is effectively communicated within the institution and to the public when required
- approves the deliverables of consultants or the transaction advisor (where used)
- reviews and endorses documentation to be submitted to the accounting officer/ authority for the applications for the treasury approvals
- attends and proactively contributes to all relevant meetings.

The main functions and responsibilities of the project team

The project team will be led by the project officer and should be kept as small as possible without losing critical representation.

The project team members are responsible for collecting the necessary data within the institution and making sure that all key internal and external stakeholders buy into the project throughout the project cycle.

The project team members should have a clear mandate and the necessary authority to participate in the project team. Each team member's scope of work and responsibilities should be clearly communicated according to best practice in project management. Continuity is very important, so the team members need to stay on the team until the PPP agreement is signed. Members will be expected to attend all meetings and to contribute actively to the PPP process.

The project officer should actively manage the project team members' inputs to make sure that the outputs are co-ordinated and integrated. The project officer should create a culture of preparation for meetings by thinking through the issues, generating focused agendas, providing information timeously before meetings, and insisting on disciplined and rigorous input from the project team members.

The project team's core skill set

The members of the project team and the supporting staff necessary to complete the PPP process will vary from project to project. Typically, the project team for a conservation institution will require the following skill set:

- human resources
- reserve management planning and zoning
- ecological services
- finance and budgeting
- community participation and BEE.

The composition of the project team

The PPP project team should comprise the officials who can provide both strategic and technical support to the project officer. Managers who understand the relationships between the institution's different components are particularly valuable. Technical experts and experienced and perceptive staff who have a clear grasp of market demand and conservation management are needed to establish the project specifications and to evaluate the feasibility study and subsequent bids. If development financing is likely to be necessary for private investors, staff from development finance institutions (DFIs) can be included in the project team during the pre-feasibility and feasibility study phases to give strategic advice on commercial viability. Staff from other institutions or entities can be included if there is no conflict of interest and they can add value.

The transaction advisor or consultants (if appointed) and the relevant treasury PPP unit's project advisor should participate actively in the regular meetings of the project team. For day-to-day project management the project officer will need to set up structured working arrangements with the transaction advisor and the project advisor.

Different skills required at different times

The different phases, stages and steps in the PPP process require different skills and inputs and the project officer should be aware of this. For example, the transaction advisor will be part of the project team for a limited period, ending his or her contract when the PPP agreement is signed – at the end of the procurement phase. For the purposes of continuity, the core project team should take the project from inception to the signing of the PPP agreement. After that, some of the project team members should be involved in managing the PPP agreement. This is important to ensure that the knowledge gained in the preparation period is not lost.

At least two or three people in the institution, including the chief financial officer, project officer and senior operational managers, should complete a National Treasury's PPP Unit training course on the Toolkit during the inception phase.

Supporting personnel

If it is clear that the proposed PPP, or bundle of proposed PPPs, is sizeable, the project officer should get dedicated administrative assistance. A secretariat should be appointed and a suitable operating budget should be made available.

The secretariat's primary role will be to ensure scrupulous document management and meetings administration throughout the PPP project cycle.

Well-kept project records are vital, enabling an institution to:

- compile its annual reports as required by the PFMA
- supply the Auditor-General with the legally required documentation at any time
- produce, at any time, accurate project information in terms of the Promotion of Access to Information Act, 2000
- make decisions quickly and compile PPP procurement documentation accurately and efficiently, based on preceding project decisions
- give quick and accurate briefings to the institution's accounting officer/ authority and senior management
- devise and implement an effective project communication strategy for engaging with key stakeholders throughout the project cycle.

Take note

The project officer and the project secretariat are strongly advised to set up the PPP project management systems in consultation with the institution's internal audit unit to ensure appropriate compliance with the institution's risk management, internal controls, and governance standards.

STAGE 4: COMPLETE THE STRATEGIC PLAN FOR COMMERCIALISATION

The strategic plan for commercialisation should be adopted by the relevant accounting authority/officer and endorsed by the relevant executive authority. It should show clearly that the institution has the fundamentals in place for a successful PPP process. If this is not the case, the institution will waste its own and the private sector's time, money and effort. If the institution does not have the capacity or skills to complete the plan it may need to appoint relevant consultants to help. The process to be followed for the appointment of consultants or transaction advisors is set out in Stage 6.

The strategic plan is intended to be a living document and should be viewed and treated by the institution as a long-term investment. While the first round of an institution's process for PPPs for tourism involves a considerable amount of work, it will not be necessary to start from scratch and produce a new plan for each subsequent round of PPPs. Many of the institution's objectives and its strategic planning work will apply to later PPPs. It will therefore only be necessary to refine the plan over time and to develop further inputs specific to particular sites.

Steps

- Step 1: Articulate the institution's mandate, vision, mission, objectives and activities
- Step 2: Identify possible sites and opportunities for PPPs
- Step 3: Assess the institution's legal capacity to carry out a PPP
- Step 4: Articulate the institution's commercialisation policy, objectives and strategy
- Step 5: Assess the institution's personnel and systems capacity for PPPs
- Step 6: Establish budgetary parameters
- Step 7: Identify internal and external stakeholders
- Step 8: Identify what additional support the institution needs
- Step 9: Compile an initial checklist for each of the commercial opportunities identified

The strategic plan for commercialisation must be aligned with existing plans

It may not be necessary for an institution to compile documentation from scratch for its strategic plan for commercialisation if much of this work has been done or is part of other planning processes. It is necessary, however, to make sure that all the information needed is in one document, and that the existing planning is checked against the Toolkit's guidance for commercialisation planning. It needs to be compiled as a strategic plan for commercialisation and be aligned within the institution's broader planning framework and for each reserve that is targeted for PPP(s).

Reserve management plan

Crucial for the strategic plan for commercialisation is the institution's reserve management plan (RMP). In terms of legislation for protected areas, an RMP must be done for every protected area in South Africa. Much of the necessary information for the strategic plan for commercialisation (and the pre-feasibility and feasibility phases of the PPP) will be contained in the RMP, and the two should be closely aligned. If an RMP has not yet been done for the protected area identified for PPPs, the strategic plan for commercialisation and the RMP should be done simultaneously to make sure that they are aligned.

Take note

A PPP cannot be pursued if the RMP for the identified protected area has not been completed.

What a reserve management plan needs to cover

Conservation institutions' RMPs typically incorporate:

- the vision for the protected area
- policy and management guidelines describing how the various assets of a reserve will be managed, specifically in relation to:
 - natural resources
 - cultural, historical and archaeological resources
 - zoning
 - tourism
 - marketing
 - partners
 - social/community development
 - infrastructure
 - administration and management
 - land management and use.

Step 1: Articulate the institution's mandate, vision, mission, objectives and activities

The strategic plan for commercialisation must be grounded in the institution's statutory mandate and complement the institution's overall vision, mission and objectives, which must be clearly defined at the outset.

Step 2: Identify possible sites and opportunities for PPPs

While this step is an initial identification at a high level, the institution must be wary of including too many sites as possibilities. This could incur unnecessary additional costs if pre-feasibility studies are done on sites which are clearly unsuitable for PPPs. Furthermore, an institution must take into account the relevant RMP that may set limits on any potential development.

Reasons for identifying possible sites and opportunities would include:

- unsolicited proposals received
- no existing development or an identified gap in the market
- known market interest or demand
- successful commercial development in a similar area or market.

Take note

It is not always necessary to identify a precise site for a tourism PPP. Very often private parties wish to have some input in what specific site will be used. It is sufficient at this stage just to identify the reserve, dam or area in which a PPP may be proposed.

It is also possible that a range of commercial activities or uses for assets may be identified. An institution does not have to identify the specific commercial activity at this stage. The pre-feasibility and feasibility studies will refine these site and opportunity options and provide specific information upon which final decisions can be made.

Step 3: Assess the institution's legal capacity to carry out a PPP

This section focuses on both the institution's rights and powers to contract with private parties for the commercial use of state property and on the institution's authority to retain revenues. The policy and regulatory framework applicable to the institution is to be carefully evaluated to determine the institutional mandate.

The following preliminary questions must be answered:

- Does the institution have the right to enter into a PPP?
- Does the institution have the right to retain revenues derived from the PPP?
- Does the institution have the mandate over the state property it proposes for the PPP?
- Are there any other institutions which may have similar rights or interests in the state property and therefore have to be involved in the PPP process? Do they have the mandate to enter into PPPs?

If, in the preliminary legal assessment, the answer to any of these questions is no, these issues should be properly addressed before going further, taking account of the guidance given in the introductory section to the Toolkit: *Getting started: Clarifying some key policy issues*. If the regulatory framework of the institution dictates that these issues cannot be addressed, the institution will not be able to proceed with a PPP.

Step 4: Articulate the institution's commercialisation policy, objectives and strategy

The institution needs to be very clear about why it is pursuing PPPs, for what outcomes, and how it will go about the process. The commercialisation policy will be the guiding document for the commercialisation process, the objectives will become value-for-money targets, and the strategy will indicate how the PPP process will unfold.

This step should clearly articulate the following:

- **The motivation for commercialisation.** The background to the move to commercialisation and a summary of the institution's strategic policy on commercialisation.
- **High-level commercialisation objectives for the institution.** Revenue generation for the institution, loss minimisation or savings on existing operations, optimal use of under-performing assets, job creation, BEE, infrastructure upgrades, tourism promotion, and further biodiversity protection and conservation. The objectives should be prioritised, and will be used to set specific value-for-money targets for each PPP later in the PPP project cycle.
- **The overall commercialisation strategy and planned approach for developing the sites and opportunities identified in Step 2.** Strategies may vary from bringing all potential opportunities to market at once, or in bundles, or to introduce them to market one at a time. The institution must be mindful that demand is generally not high for tourism PPPs and that transaction costs can be reduced by bundling. The strategy must be consistent with the processes set out in the Toolkit.

Commercialisation objectives become value-for-money benchmarks for PPPs

Once clearly refined for a particular project or set of projects, the targets set for each of these become the institution's value-for-money indicators throughout the PPP cycle.

The objectives set by the institution at the inception phase are vital as they provide the benchmarks for the feasibility and procurement phases. During the management of the PPP agreement they are used to measure the success of commercialisation.

Typical objectives that guide the institution's commercialisation strategy may include:

- revenue generation for the institution
- loss minimisation or savings on existing operations
- optimal utilisation of under-performing assets
- job creation
- BEE
- infrastructure upgrades
- tourism promotion
- further biodiversity protection and conservation.

The indicators are used in the institution's assessment of whether a bid does indeed yield value for money. A PPP cannot proceed if an institution cannot demonstrate that the project will meet its value-for-money criteria.

Step 5: Assess the institution's personnel and systems capacity for PPPs

Before an institution considers contracting with private parties it must ensure that its own management and administrative structures are in place and functioning. When the private sector is engaged, the institution must have the capacity to interact as an equal partner. This step needs to address the following:

- **The proposed organisational structure.** Treasury Regulation 16 gives full authority to the accounting officer/authority to enter into a PPP agreement. He or she must establish an appropriately located and authorised division within the institution for PPPs to be managed effectively and efficiently on his or her behalf, by suitable delegation. The organisational structure must align with the decision-making policy and procedures of the institution, indicate what staff have been assigned at what levels, and show who can make what kind of decisions.
- **The project officer.** Job description, skills and experience must be specified, the expertise of the person appointed must be demonstrated, and the allocation of support personnel must be confirmed.
- **Planning, procurement and management systems.** These must instil confidence that the institution's governance is sound and that checks and balances are in place to ensure integrity of decision-making and to protect the interests of the public.
- **The institution's approval processes for each phase of the PPP project cycle.** These must be aligned with Treasury Regulation 16 and reflect the phases and steps outlined in the Toolkit, whether or not an exemption from treasury approvals is to be sought.

Step 6: Establish budgetary parameters

This step involves identifying and analysing the institution's medium-term expenditure framework budget with a view to the PPP initiatives, and identifying costs to be incurred for PPPs.

The additional costs that the institution will have to carry to prepare for PPPs and manage PPP agreements must be acknowledged. How these will impact on funding other institutional priorities needs to be identified.

The following list is an indication of likely costs to the institution during the PPP project cycle.

Figure 1.3 Typical institutional costs of tourism PPPs

PPP phase	Costs to institution
Inception and pre-feasibility	<ul style="list-style-type: none"> • project officer and staff • consultants or transaction advisor
Feasibility	<ul style="list-style-type: none"> • project officer and staff • consultants or transaction advisor • expression of interest⁵ • stakeholder engagement • supporting infrastructure upgrades
Procurement	<ul style="list-style-type: none"> • project officer and staff • consultants or transaction advisor • advertising
Managing the PPP agreement	<ul style="list-style-type: none"> • project officer and staff (long term) • supporting infrastructure maintenance • conservation management obligations

National Treasury's Project Development Facility

If the envisaged PPP is of a scale that it is able to repay transaction costs in the early years of the PPP agreement, bridging funding can be sourced by the institution for a significant portion of the transaction advisor costs from National Treasury's Project Development Facility (PDF). These costs are recovered from the successful private party bidder after signature of the PPP agreement. They must be specified in the procurement documentation so that the private party incorporates them into its business plan. The PDF application procedure is described in Module 3 of National Treasury's *PPP Manual*, available on www.ppp.gov.za.

Step 7: Identify internal and external stakeholders

All internal and external stakeholders need to be identified. Internal stakeholders include all affected reserve managers, specialist technical staff, and political principals. External stakeholders include neighbouring communities and other neighbouring private landowners, other government institutions, local authorities, utilities, NGOs, and any stakeholders that may be deemed interested and affected parties in terms of environmental legislation. Government institutions that need to be consulted or identified for later involvement typically include the Department of Water Affairs and Forestry (DWAF), the Department of Environmental Affairs and Tourism (DEAT), the Department of Land Affairs (DLA), and the Department of Public Works (DPW). Other institutions include the Tourism, Hospitality and Sport Education and Training Authority (THETA), and the DFIs, particularly the Development Bank of Southern Africa (DBSA), the Industrial Development Corporation (IDC), and relevant financing entities within the Department of Trade and Industry (DTI).

5. See *Module 3: Feasibility study and procurement phases for large cap tourism PPPs*.

Step 8: Identify what additional support the institution needs

This includes the need for consulting and transaction advisory services at each stage of the PPP project cycle. The extent of this support will depend largely on the internal capacity and skills in the institution as well as the scale of the PPP or bundle of PPPs. Small projects will seldom justify the expense of hiring a transaction advisor. The guidance provided in the Toolkit for most small cap⁶ tourism PPPs should be sufficient, possibly with only some specific, short-term consultant input if necessary. Using consultants and transaction advisors is discussed in Stage 6 and in Modules 2 and 3 of the Toolkit. The strategic plan for commercialisation must specify the extent to which such support will be needed and whether the necessary funds for such support are available to the institution.

Step 9: Compile an initial checklist for each of the commercial opportunities identified

This checklist will help the institution complete a preliminary assessment of whether the PPP opportunities identified can achieve their objectives for commercialisation and whether they will be attractive to the private sector. More detailed due diligence will be done in the pre-feasibility and feasibility phases.

The following initial questions must be addressed for each opportunity:

- Is it a PPP by definition?
- Is the legal mandate in place for the institution to conclude a PPP agreement on the site?
- Is there any known private sector interest?
- Is there a budget to implement?
- Does the project have the support of reserve management?
- Does an RMP need to be done or updated?
- Are there any human resource issues at stake?
- Are there any major environmental issues at stake?
- Are there any special considerations? (For example, if it is a World Heritage Site, what conditions apply?)
- What specific project objectives are to be value-for-money benchmarks for this opportunity?

6. Used throughout the Toolkit for easy reference, the colloquial term 'small cap' stands for 'small capital expenditure' and, 'large cap' stands for 'large capital expenditure'.

STAGE 5: REGISTER THE PROJECT WITH THE RELEVANT TREASURY

The submission to the relevant treasury must contain the following:

- an application letter from the accounting officer/authority⁷
- the strategic plan for commercialisation.

Before the relevant treasury will register an institution's PPP it must be satisfied that the submitted strategic plan for commercialisation adequately addresses the steps outlined above. The submission should demonstrate that the institution has applied its mind to the scope of the initiative. After the relevant treasury has reviewed the strategic plan for commercialisation it may request further input before formally registering the PPP.

When a project has been registered the relevant treasury will, in writing:

- confirm registration of the project, assign a project number, and enter the project on the official database of PPP projects⁸, which will track the progress of the project and update it throughout the PPP project cycle
- if necessary, request that the institution appoint a transaction advisor or consultant (When the relevant treasury registers a project, in terms of Treasury Regulation 16, it has the right to request that transaction advisors be appointed to assist in the PPP process.)
- assign a project advisor to the project.

When a project is deregistered

If after registration the relevant treasury finds that the institution has not made any progress on the project within six months the project will be deregistered. A project officer should already have been appointed, but if not, the appointment should be made as soon as possible after registration. If a project officer has not been appointed within three months of registration the relevant treasury may deregister the project.

7. A letter is set out in 'Template 2: Application letter: Registering a tourism PPP project'.

8. This database is maintained by National Treasury's PPP Unit. It can be viewed on www.treasury.gov.za or www.ppp.gov.za.

National Treasury PPP Unit's project advisor

National Treasury's PPP Unit will assign a project advisor to every PPP project registered in terms of Treasury Regulation 16.

The project advisor provides hands-on technical assistance from the date of registration to the signing of the PPP agreement and in the development and delivery phases of the project term.

The PPP Unit's project advisor:

- supports the institution through every step of the PPP project cycle, drawing on best practice from other projects and advising on how the institution can best meet the requirements of Treasury Regulation 16
- recommends an institution's application to the PDF if applicable (See Stage 4: Step 6 for a description of the PDF.)
- makes sure that treasury approval applications are processed efficiently within National Treasury
- recommends to the relevant senior official of National Treasury whether the institution's applications for treasury approvals should be approved or declined
- makes sure that communication between National Treasury and the institution is managed professionally at all times.

The project advisor's first tasks will be to help the project officer:

- establish a project team
- draft the terms of reference for consultants or a transaction advisor
- calculate a suitable budget for the costs of the consultants or transaction advisor
- make an application to the PDF, if applicable
- procure the services of the consultants or transaction advisor.

STAGE 6: APPOINT CONSULTANTS OR A TRANSACTION ADVISOR

An institution may decide that it does not have the necessary personnel, internal capacity or skills to draft successfully an appropriate strategic plan for commercialisation (see Stage 4) or an appropriate pre-feasibility study (see PPP Pre-feasibility: Stage 1.)

In this case, and if the scale of the anticipated PPP initiative justifies it, an institution should appoint consultants to provide specifically defined inputs into these phases, or a transaction advisor to provide the full set of required skills from the inception phase to the end of the procurement phase. If the institution and the relevant treasury are satisfied that the institution has the capacity, skills and experience it will not be necessary to appoint further advisors.

The difference between consultants and a transaction advisor in the PPP process

A transaction advisor is typically a consortium of consultants from different disciplines, hired as a team under a single lead company and appointed to assist an institution from the feasibility phase to the end of the procurement phase of the PPP project cycle. A number of individual consultants may be hired by the institution to assist in particular aspects of preparatory work before the feasibility study phase, or for specific elements of the feasibility and procurement phases if a transaction advisor is not required. While it is possible that the skills of consultants and the transaction advisor may overlap, it is important to note that they are likely to be hired at different phases of the PPP project cycle, or for different purposes, depending on the capacity within the institution, and on its budgetary constraints.

When the required registration documentation has been submitted, the relevant treasury may direct an institution to procure specific consultant or transaction advisor skills if it believes that the strategic plan for commercialisation is not adequate or appropriate.

An institution must use its own established procurement systems in accordance with the Regulations in terms of the Public Finance Management Act, 1999: Framework for Supply Chain Management in appointing consultants⁹.

9. More information on the use of a transaction advisor and consultants is contained in *Module 2: Feasibility and procurement phases for small cap tourism PPPs*, and *Module 3: Feasibility and procurement phases for large cap tourism PPPs*.

When PPP inception is complete

- the institution will have appointed the personnel needed for PPPs
- the institution will have completed its strategic plan for commercialisation
- the project(s) will be registered with the relevant treasury
- the relevant treasury will have given direction and advice
- the institution will be ready to move to the pre-feasibility phase.

TEMPLATES

TEMPLATE 1

Duties and responsibilities of the project officer

This template provides the standard PPP project officer's duties and responsibilities during the phases of the PPP project cycle. It should be used by the institution in the project officer's contract of employment.

TEMPLATE 2

Application letter: Registering a tourism PPP project

This is a template letter which the institution should use to apply to the relevant treasury to register a PPP project or projects in terms of Treasury Regulation 16 to the PFMA. The institution attaches its strategic plan for commercialisation.



PPP TOOLKIT FOR TOURISM

PPP PRE-FEASIBILITY



INTRODUCTION

The phases of the generic PPP project cycle are inception, feasibility, procurement and PPP agreement management. It does not provide for a pre-feasibility phase. However, experience in tourism PPPs has clearly shown that it is necessary for the institution to conduct a proper planning exercise before the feasibility phase. This is to determine specifically what level of feasibility study and what form of procurement will be appropriate.

Importantly for tourism PPPs, the pre-feasibility phase enables the institution to determine whether a PPP is to follow the small cap or the large cap route.

The outcome of the pre-feasibility study will also enable the institution to consider whether it is appropriate to apply to the relevant treasury for exemption from the treasury approvals in Treasury Regulation 16. Exemption is most likely to be granted for the small cap route if the institution can demonstrate its capacity to manage the process as set out in the Toolkit. For a project following the large cap route an exemption from treasury approvals would be granted only if the institution can demonstrate a track record of successfully completing similar projects and that it has the necessary internal capacity to do so.

There are two or three stages to PPP pre-feasibility for tourism PPPs

Stage 1: The pre-feasibility study

Stage 2: Choose the small cap or large cap route

Possible Stage 3: Apply to the relevant treasury for exemption from treasury approvals

STAGE 1: THE PRE-FEASIBILITY STUDY

The main output of the pre-feasibility study is to establish the indicative viability of the project(s) proposed by the institution, and to identify specific issues that require detailed feasibility analysis.

The pre-feasibility study stage allows the institution to motivate to the relevant treasury whether to direct the project to the small cap or large cap route, and to motivate for exemption from treasury approvals if appropriate.

Take note

The inception phase refers to the possibility of numerous PPP projects being planned together. From this pre-feasibility phase onwards the Toolkit refers to a single project because the same level of attention must be given to each. The institution may, however, in many instances, be pursuing more than one PPP at a time. The project officer will need to plan for each identified project specifically, and adapt the Toolkit's template documentation where necessary to accommodate a bundle of PPPs.

Take note

The institution may need assistance from consultants for certain technical aspects of the pre-feasibility study, such as the legal review, indicative market review and environmental pre-scoping.

Remember that much of this information may already be available in institutional documents such as reserve management plans (RMPs). All relevant information should be checked and collated for the pre-feasibility study, for the purposes of PPP planning.

The contents of the pre-feasibility study

The pre-feasibility study should contain the following:

- **A strategic planning context.** This requires a description of how the project supports the current local, provincial and national development priorities and the institution's strategic priorities. The project must be contextualised within the relevant district integrated development plans and other applicable planning frameworks, where they exist. The strategic plan for commercialisation which was completed in the inception phase must be referenced and attached.

- **Value-for-money targets.** The institution's value-for-money targets for the project must be set out clearly. These should be particular targets, based on the objectives set in the strategic plan for commercialisation. The value-for-money targets established for each tourism PPP project are key to its success. They enable the institution to focus the forthcoming feasibility study appropriately, set bid evaluation criteria in the bid documents, evaluate bids, and monitor outcomes during the management of the PPP agreements. In the following procurement phase they enable the institution to draft the RFP documents with bid evaluation criteria clearly specified, to evaluate bids precisely, and to negotiate the terms of the PPP agreement appropriately. Once the PPP agreement is signed, the institution can monitor the PPP's achievements over time and benchmark them against the project's original value-for-money targets.

Value-for-money targets are likely to be set for any combination of the following objectives:

- revenue generation for the institution
- loss minimisation or savings on existing operations
- optimal use of under-performing assets
- job creation
- BEE
- infrastructure upgrades
- tourism promotion
- further biodiversity protection and conservation.

Value for money, therefore, does not only depend on the actual monetary receipts from a PPP. It includes numerous other factors which an institution may regard as very important.

- **A legal and site review.** This must confirm the institution's rights to tenure and rights to enter into PPP agreements for the identified state property. It must confirm that these rights are, for the purpose of the PPP agreement, vested in a single institution. Site-specific issues such as servitudes or any existing contractual arrangements that may affect development and require a detailed feasibility study must be identified.
- **A budget review.** This serves to confirm that the institution has sufficient budget to fulfil its obligations both in preparing for and managing a PPP agreement.

- **An indicative or preliminary market review.** A rapid demand-and-supply analysis must be done. Key indicators for a market review would include:
 - current occupancy rates and related trends. For example, are occupancies and rates increasing or decreasing?
 - trends in terms of tourism product types and utilisation. For example, are there many upmarket lodges in the area? Would building another create an over-supply, or are there any gaps in the market which could be exploited?
 - investment patterns as per the existing and proposed tourism products. For example, are private parties investing money in a similar product or area?
 - existing secondary research and analysis. For example, existing sub-regional, regional and national supply and demand analysis, including data routinely collected and analysed by South African Tourism, can be used.
 - an informal ‘test-the-water exercise’ with the private sector. The institution should, at an early stage, engage in this process by conducting interviews with prospective investors and existing operators in the area to gauge investor interest and to get private sector advice. Acquiring this intelligence early on should help to avoid costly wrong decisions. It should also help to dampen the over-expectations that often exist within many institutions about the investment potential of the state property they manage.
- Environmental pre-scoping to screen for fatal flaws. An environmental pre-scoping exercise designed to screen for fatal flaws that would result from the likely impacts of the project (and would thus either prevent the PPP or require major mitigating interventions) must be conducted. This exercise will need to identify any specific environmental issues requiring further assessment in the detailed feasibility study and will enable a record of decision¹⁰ (RoD) to be made as quickly as possible¹¹. The pre-feasibility study must document the outcome of the institution’s engagement with the competent authority.

10. See *Getting started: 2. Clarifying some key policy issues*.

11. This is a high-level exercise designed to identify fatal flaws of the following kinds of impacts (this is not an exhaustive list but is indicative of the kind of fatal-flaw impacts that scoping is designed to screen for): impacts on endemic species; impacts on red-data or endangered species; geological and hydrological features that will not tolerate human impacts, such as waste, sewage, noise, required by the project; and specific and valuable features of the landscape that could be adversely affected by the type of construction proposed.

It must specifically reflect the agreements reached on the environmental impact assessment¹² (EIA) processes to be followed for the project and any other recommendations or directions given by the competent authority. Other relevant issues such as possible water use applications or zoning issues should also be considered.

- **Stakeholder analysis.** The main internal and external stakeholders, including adjacent communities and landowners, reserve management staff, and interested and affected parties, must be identified. It must be determined whether or not they support the proposed project and whether any of these stakeholders are likely to oppose the PPP initiatives. If the answer is ‘yes’, the options for resolving the disputes must be identified along with any specific issues requiring a detailed feasibility study.
- **Personnel and human resources issues.** It must be determined where the implementation of the PPP could require staff skills upgrading, retraining or transfers. To properly manage the PPP, additional staff or shifts may be required to allow the PPP agreement to achieve its goals (such as additional reserve staff). These must be listed and quantified and the costs and funding must be specified. Staff who are busy with other activities and who may need to spend more time on PPP-related issues must be identified and their input must be quantified. These changes can impact on existing goals and objectives and the cost must be quantified and explained. Staff operating tourism facilities which have been identified for PPPs may need to be re-deployed or transferred to the private party’s employment in terms of labour legislation. Issues requiring a detailed feasibility study must be identified .
- **An infrastructure assessment.** Strategic infrastructure, such as access roads, bulk electricity, bulk sanitation, bulk water supply and communications must be checked for weaknesses. If there is no strategic infrastructure or if it is in a sub-optimal state, it must be determined whether it is likely to diminish the chances of securing quality investors. In particular there needs to be a focus on elements of infrastructure that the institution or the state will probably have to provide, rather than on what the private party could provide. Identify any specific issues requiring a detailed feasibility study. These must all be listed in the assessment and quantified. They must include not only the infrastructure on the site but the necessary support infrastructure, such as access roads and gates, game drive roads, beach access, and boardwalks. The existing use and costs of maintaining these assets must be quantified and any improvements or upgrading that may be required must be clearly accounted for. The likely costs, if any, to further develop

12. See *Getting started: 2. Clarifying some key policy issues*.

the infrastructure must be quantified and funding responsibly specified. A maintenance budget for all these assets must then be drafted and it must be clearly stated who will be responsible for the maintenance and to what standard. Particular attention must be paid to incremental costs where assets may be used for conservation, but may need to be upgraded for tourism use. The additional costs must be allocated to the project so its viability can be properly assessed.

- **An equipment assessment.** Additional equipment that may be required must be listed and quantified. If existing equipment is to be used an estimate of the quantity required and the cost must be calculated. These must be added to the overall costs of implementing the PPP when it is checked for feasibility and value for money.
- **BEE and social development issues.** Based on its strategic plan for commercialisation, the institution's BEE work in the pre-feasibility study entails:
 - reviewing the preliminary market analysis from a BEE perspective
 - identifying any community trusts in the vicinity of the proposed PPP which could be specified as partners in the private party to the PPP and beneficiaries of the project through its corporate social investment
 - contacting the municipality to determine how the proposed PPP could best complement local economic development plans
 - preparing the preliminary BEE scorecard for the project
 - identifying all development finance institutions (DFIs), other financing institutions and support organisations that may support private party bidders and possible community trust partners in their financing packages, business and operational plans, development and environmental plans, and generally, in achieving the project's desired BEE outcomes
 - contacting these DFIs, other financing institutions and support organisations, informing them of the institution's PPP initiatives, and preparing to formulate memoranda of understanding (MoUs) with them. These relationships will be formalised during the feasibility study phase.
- **Performance standards.** It must be determined what is expected from the private party and the institution during the development and operational phases of the PPP agreement. This would include a detailed description of what may be carried out on the site and the reserve in general, covering any issues dealt with in an RMP, or equivalent. The development parameters, which set out the restrictions or requirements of any construction, form part of the performance standards and should address a wide range of issues.

These issues would typically include:

- visual aspects
- design and building style
- supply of services, including type, how they are provided and any limitations on consumption
- communication services
- roads, tracks, trails and paths
- visitor services
- aircraft
- fencing
- landscaping
- use of local materials
- cultural and heritage issues
- waste management
- any limitations during construction
- limits on the number of users at the site, including staff
- access control
- conservation management arrangements.

For conservation institutions their RMP is a key document for determining performance standards in a potential PPP agreement.

Take note

The performance standards set in the pre-feasibility study will regulate the behaviour of both parties over the period of a PPP agreement.

These must be established at this early stage so that cost implications can be assessed during the feasibility study and so that they are reflected in the procurement documentation. Some may be changed later, but the broad parameters should remain intact. They must be given very careful thought as they will impact not only on conservation but on future use and development of the reserve, its ecological importance, 'sense of place' and public access. Performance standards will also form an integral component of an EIA, to be considered by the competent authority and, if required, also by interested and affected parties.

- **Risk allocation.** The risk matrix that follows, which can be elaborated if necessary, can be used to describe the project-specific risks, how they can be mitigated, and who will bear them. Remember, risks can only be allocated between the parties to the PPP agreement. If a risk-taker is outside the principal parties to the PPP agreement, there must be a back-to-back agreement with the third party that deals with these risks.

Figure 1.4: PPP Risk Matrix

Risk	General description	Project-specific description	Probability of the risk arising (high/medium/low)	Mitigation measures	Allocation (institution/private party/shared)
Financing	The raising of capital for capital expenditure and operating expenditure, tax, inflation, interest rate, and currency risks				
Supporting infrastructure	The risk that supporting infrastructure may be inadequate to sustain the enterprise				
Planning, design and construction	The possibility that planning consents are not obtained; that the design is not fit for the purpose; and that construction is not completed on time and on budget				
Utilities	The risk that utilities may not be fully available or may cause delays				
Environment and heritage	The possibility of liability for losses caused by environmental or heritage damage or delays				
Maintenance	The possibility that the costs of maintenance to required standards may vary from projections or that maintenance is not carried out				
Operations	The possibility of any factors (other than force majeure) impacting on operations				
Market, demand, volume	The possibility that demand for the product is less than projected				
Political	The possibility of unforeseeable conduct by any government institution adversely affecting the project or expropriation of private party assets				
Force majeure	The possibility of the occurrence of unexpected events beyond either party's control adversely affecting the project				

- **Conclusion.** With all these factors taken into consideration the pre-feasibility study should conclude by making a firm recommendation on the site and the commercial opportunity that the institution has identified for the project.

Take note

The pre-feasibility study will either:

- recommend that the PPP option, identified site and commercial opportunity **initially appears to be feasible** as envisaged by the institution, and that the institution should proceed to the detailed feasibility study, **or**
- recommend that the PPP option, identified site and commercial opportunity **initially appear to be unfeasible** and that the option should no longer be considered, or that it should be refined.

The pre-feasibility study therefore:

- narrows down the specific project options originally considered by the institution in its strategic plan for commercialisation
- provides a firm and comprehensive checklist to be used throughout the PPP process.

STAGE 2: CHOOSE THE SMALL CAP OR LARGE CAP ROUTE

The choice is based on an assessment of both quantitative and qualitative factors.

Questions that need to be asked for the quantitative assessment based on the findings of the pre-feasibility study are:

- What is the likely 'ball park' **capital investment** required from a private party (and/or the institution)?
- What is the likely 'ball park' **turnover** of the anticipated business?
- What is the likely number of **employees**?
- Is this an **SMME opportunity** or not?

If the capital investment projected is **R10 million or less**, the institution should motivate for the small cap route. If the anticipated capital sum is marginally greater than R10 million, the institution should motivate whether it is still justified to pursue the small cap route, or whether the project clearly requires the rigorous feasibility and procurement processes and more comprehensive PPP agreement terms of the large cap route. If the anticipated capital sum is significantly greater than R10 million, the large cap route PPP process should be pursued.

Questions that need to be asked for the qualitative assessment – with reference to the **risk matrix** developed in the pre-feasibility study – are:

- What are the key project risks that may indicate the need, in the interests of the project and the institution, for a more rigorous feasibility study than the low cap route provides?
- Are there any risks that the institution would have to bear in relation to the financing of the project, investment in supporting infrastructure, design and construction, operation and maintenance of facilities, marketing and reservations, or the environmental sensitivity of the site?

In many cases the findings of the quantitative assessment will be clear or will be resolved by discussion between the institution and the relevant treasury, based on the work done in the pre-feasibility study. But the quantitative assessment may result in a marginal conclusion, or be open to contention. In this case, the qualitative risk assessment becomes very important in determining the PPP process to be followed. Whether the qualitative risk assessment becomes the deciding factor or not, it remains an important early warning system for the

institution to establish at the pre-feasibility phase. It enables the institution to set the project on a path that has a reasonable chance of success.

The institution is expected to apply its mind to these important quantitative and qualitative project assessments and to motivate properly whether the small cap or large cap route should be followed.

If the institution does not wish to apply for an exemption from treasury approvals it must submit to the relevant treasury:

- the pre-feasibility study
- the comprehensive motivation for the small cap or large cap choice.

The relevant treasury may recommend that the institution needs to do further preparatory work on the pre-feasibility study.

The relevant treasury may or may not agree with the conclusion the institution has reached on which route it wants to follow.

As treasury approvals are required later in the feasibility study and procurement phases, it will be necessary for the institution and the relevant treasury to reach agreement on these matters in the pre-feasibility phase.

STAGE 3: APPLY TO THE RELEVANT TREASURY FOR EXEMPTION FROM TREASURY APPROVALS

Extract from Treasury Regulation 16 to the Public Finance Management Act:

16.10.1 The relevant treasury may, subject to any terms and conditions that it considers appropriate and upon written application from an institution, exempt that institution whether in relation to a specific PPP or in general, from complying with any or all of the provisions of this Regulation 16.

Exemption from treasury approvals

An institution may be exempt from obtaining the prescribed treasury approvals. This means that the feasibility and procurement phases of a PPP may go ahead without the oversight and statutory approvals of the relevant treasury.

For institutions undertaking PPPs involving the use of state property by a private party for commercial purposes, the relevant treasury will consider an application for exemption if:

- the pre-feasibility report demonstrates that the project is suited to the small cap PPP project cycle as set out in the Toolkit, and that the institution has the capacity to manage the feasibility and procurement phases according to the guidance given in the Toolkit
- the pre-feasibility report demonstrates that the project is suited to the large cap PPP project cycle as set out in the Toolkit, that the institution has successfully concluded similar PPP agreements, and that the institution has the internal capacity to manage the feasibility and procurement phases according to the guidance given in the Toolkit.

The pre-feasibility report submitted to the relevant treasury forms the basis of the application for exemption.

An exemption is not an exemption from Treasury Regulation 16. The institution will still have to follow the regulated PPP project cycle and follow the guidelines set out in the Toolkit.

To do so, it will have to establish appropriate 'arm's-length' internal approval systems consistent with those that would have been applied by the relevant treasury. This is why, for the small cap route, reference is made to institutional approvals (IAs).

Once an exemption from treasury approvals has been granted for a particular project or number of projects, the relevant treasury will no longer be involved in the PPP. But it will continue to be involved if the institution wishes to deviate

materially from the Toolkit, or if reasons for withdrawing the exemption become apparent (as discussed under ‘Withdrawal of exemption’), or if the institution wishes to have certain specific input from the relevant treasury at a later stage.

The contents of an application for exemption

An exemption application should contain:

- the pre-feasibility study
- a comprehensive motivation for whether the small cap or large cap route should be followed
- a comprehensive motivation demonstrating the institution’s capacity to manage the PPP through the phases and to the standards set by Treasury Regulation 16 and according to the guidance given in the Toolkit.

Specifically, this must include:

- an outline of the institution’s management capacity for the project, attaching relevant résumés of key personnel, the curriculum vitae and job description of the appointed project officer and his or her support staff, and the terms of reference of any appointed consultant(s) or transaction advisors
- a write-up of the institution’s track record in successfully concluding similar PPP agreements
- an outline of the institution’s internal management and accounting authority/officer approval systems established for the project, reflecting the approvals of Treasury Regulation 16.

Withdrawal of exemption

The relevant treasury retains the full discretion to withdraw or vary the conditions of an exemption at any time before the PPP agreement is signed. This may occur in a number of situations. For example, if the risk allocation changes because the institution is exposed to additional risks owing to information discovered after the exemption was granted, or if the bids received differ dramatically from what was initially expected. Furthermore, any evidence of mismanagement or lack of capacity within the institution will also prompt the relevant treasury to withdraw an exemption.

Material deviation from the Toolkit

The Toolkit has been drafted as a standard guide to be used in entering into and managing tourism PPPs. However, it is clear that it is not always possible to apply a standard guide to every PPP that may arise. If the relevant treasury has granted an exemption and allowed an institution to grant internal approvals, any

proposed material deviation from the guidance of the Toolkit must be approved by the relevant treasury before this material deviation begins. Deviations which are not material do not have to be approved. An institution should be wary of deviating from the Toolkit unnecessarily.

When pre-feasibility is completed

- the institution will have a list of possible PPP projects that have a reasonable prospect of being viable
- the institution will have identified specific issues for each project requiring detailed feasibility study work
- there will be agreement between the institution and the relevant treasury on the small cap and the large cap route for each project
- an exemption from treasury approvals may have been granted to the institution
- the institution will be ready to move to the feasibility study phase.