

ADDRESS BY
TREVOR MANUEL, MINISTER OF FINANCE,
TO
THE BLUE IQ SMART PARTNERSHIP CONFERENCE
PROGRAMME
SANDTON CONVENTION CENTRE JOHANNESBURG
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Ladies and gentlemen, distinguished guests.

It is most encouraging to see so many people from the investment community here today. Encouraging because it demonstrates your faith in the dynamic leadership of the Gauteng Provincial Government and its efforts to turn the third largest economy on the African continent into a value added growth economy. Through Blue IQ Gauteng will invest in economic infrastructure through mega projects in tourism, smart industries and high value added manufacturing, to create a truly smart province. It is a dynamic catalyst for funding and promoting strategic investment in Gauteng. Blue IQ works in partnership with business, government departments, parastatals and other organisations to achieve its objectives.

I will pause briefly on our macro-economic environment.

The prudent fiscal policy of the last many years has resulted in lower debt levels and lower debt service charges. This has reduced the public sector borrowing requirement, further reducing pressure on interest rates, and has released significant funds for non-interest expenditure. Strong revenue growth has helped government reduce the deficit on the national budget, while at the same time allowing for a reduction in tax rates. The ongoing restructuring of state owned enterprises has released resources to be spent on other government priorities, and also assists in lowering government debt. The robust fiscal policy choices have contributed towards achieving a sound

and sustainable macro-economic environment. Equally, the reduction in inflation sets the ideal scene for infrastructure investment to be accelerated.

The resources now becoming available to the state will be spent on raising the quality and quantity of services provided. In this respect, government is prioritising expenditure on capital formation in the public sector. Emphasis will be placed over the next few years on well-structured major public work programmes, which create skills, reduce unemployment and contribute to the infrastructure capability of the country. This will raise the levels of sustainable long-term growth and enhance the state's capacity to deliver services.

Blue IQ's mandate is firmly placed in this strategy. That is, to develop world-class infrastructure that provides comparative and competitive advantages for Gauteng's investors. It has to implement marketing and investment strategies to attract local and foreign investors for targeted sectors. It is result driven and focuses on fast tracked delivery; Blue IQ's modus operandi is to create public-private partnerships (PPPs) to drive the selected projects. The task is enormous, however the incisive thinking that has contributed to building the Blue IQ programme bodes promise for its' success.

Blue IQ Holdings Limited has been established under an enabling legislation as the holding company for all eleven projects on the list so far. With Gauteng taking shares in the company, the company is deemed a provincial public entity as defined by the Public Finance Management Act ("PFMA") and falls within the ambit of the PFMA. This means that the provincial public entity has to comply with all of the governance issues and stipulations of the PFMA. The holding company and its subsidiaries will be listed under Schedule 3 of the PFMA as provincial public entities.

The Public-Private Partnership Unit established in the National Treasury in May 2000, presently have over 50 registered projects that are in various stages of feasibility, procurement and negotiation. These span the sectors of government accommodation; fleet management; information technology; hospital co-location and airport concessioning. There are already 10 signed

deals in the portfolio of the Unit in the fields of health, IT, government accommodation and fleet management.

We have learnt a great deal and I am sure that you have shared in this learning curve both before and since our *Strategic Framework for delivering Public Private Partnerships* was published three years ago. That learning is in itself a partnership of non-trivial dimensions, and I would like to pay tribute to the unsung efforts of all those who have joined in this process, but those whose efforts have been charged by the hour and those whose motivation has been more qualitatively calibrated.

Regulation 16 under the PFMA that establishes the legal framework for PPP's has three critical tenets by which all projects are tested, affordability, value for money and risk transfer. These hurdles in the design of a project have to be met. We cannot allow projects to be concluded that are unaffordable, we will not go down that route, equally, the risk transfer that government seeks must be optimised to promote value for money. These principles are behind the deals that have been concluded to date. All indications are that, in respect of the earlier projects that have been concluded, they are moving in the right direction to deliver what has been promised by the private sector. Because PPP's are long term relationships the idea of a "quick fix" will not serve as an evaluation tool. The greatest achievement of these projects is that they lever private sector capital, where before none was available to deliver public services in an efficient manner.

PPP's also offer an opportunity for black empowerment in a meaningful way. The interrogation of their role as owners, managers and operators of business is properly investigated and contracted for. The long-term natures of the contracts allow them to develop proper skills for future opportunities. These are some of the real benefits of the programmes that we in government seek and are seeing through the policy of PPP's.

Through the years, we have seen too many projects wander through the maze of legal uncertainty because of laws that conflict, or committed

participants in a project, to a dual at dawn. Between the PFMA and the law that establishes Blue IQ, these legal uncertainties have been harmonized to oil the wheels of projects, rather than contribute to a jurisprudential triumph for those practicing the second oldest profession.

The fact that Blue IQ needs to take the discipline of the PFMA into account, when deciding and concluding projects means that projects will be thought through. This must contribute to the reduction of the perceived risks, and associated premium required by private investors.

Blue IQ projects that are undertaken, as Public-Private Partnerships in terms of the PFMA will also enjoy the robust investigation required by the rules of the PFMA. The risk in these projects will be carefully identified, isolated and allocated. This will place the private and public sector on a firm footing to conclude sustainable projects. The mystical reports of consultants are now forced to offer up dependable advice.

Of course, this scenario begins to re-shape the role of a government department that enters into a PPP for aspects of its public mandate for service delivery. Our public sector skills profile therefore needs to evolve into a new kind of “partnership-fit” being – one that is able to engage with private consortia with confidence, integrity and intelligence, always alert to the needs of the people being served. This is surely a critical challenge for the years ahead.

Two such Blue IQ projects; Gautrain Rapid Rail Link and the Cradle of Humankind World Heritage Site are already registered as Public Private Partnerships under the PFMA, and are at fairly advanced stages.

If all went well at the signing ceremony yesterday of the Cradle of Humankind project, the poor sexless Ples, will at least have a new home soon. Bids have also been received for the development of the Rapid Rail Link, and the race to name the express train, I guess, will soon be underway as well.

These various activities through Public Private Partnerships that occur either under the PFMA or Blue IQ, or those that take place in other contexts must have one golden thread. That of being able to claim that these partnerships have resulted in a relationship between government and the private sector that is based on trust. A trust that each can rely on the other to assist the firm but gradual alleviation of poverty and strife in our society.

At the broadest level the business of Blue IQ is to facilitate the provision of strategic economic infrastructure so as to change the trajectory of the Gauteng economy over time, the so called economists' multiplier effect. In terms of its day-to-day business it is a project design company. It does this by designing and structuring the projects to include necessary stakeholders. Thereafter Blue IQ is a contract negotiating and managing organisation i.e. it oversees that projects are being delivered according to the project management agreement or business plan of the company.

This sound approach by the Blue IQ in my view certainly warrants a second glance from experienced investors seeking new opportunities to balance portfolio risks.

The projects of Blue IQ are a means to an end and not an end in themselves i.e. It fits into an overall strategic approach of what the economy needs. This initiative has political support at the highest level, evidenced by the passing of a focussed law to carry out its work. Over the recent past and those of you braver than I, who ran to mark the opening of the "Madiba Bridge" will realise that Blue IQ interacts with the private sector in a substantive way to deliver a project.

You in the private sector are an indivisible part of the activities of Blue IQ. Together you form links of a chain toward economic growth. The legislative and institutional framework is being forged to encourage your success. This success lies in the hard road of relationship building and today I offer a gentle nudge in that direction. I invite the investor community to share the vision of government through these various opportunities and benefit in its' rewards.