



**MINISTRY OF FINANCE**  
**REPUBLIC OF SOUTH AFRICA**

**ADDRESS BY**  
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**AT THE LAUNCH OF NATIONAL TREASURY'S**  
***PPP MANUAL AND STANDARDISED PPP PROVISIONS***

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Fellow Ministers, ladies and gentlemen, distinguished guests.

Just over a year ago I spoke at a PPP forum, which was a somewhat smaller gathering of smart public and private sector minds, organised to mark the launch of a public consultation process to develop sound contracting standards for South African PPPs. Within a short space of time, we were ploughing through over 300 pages of comment. That's why we are here today: to acknowledge the huge amount of work that has gone into this exercise, all of it done with enthusiasm and care, and much of it after-hours and un-remunerated.

Not that I want to suggest that anybody involved in this business is underpaid. Just that there is clearly also a material non-transferable, non-pecuniary reward (as yet untaxed) in this peculiar shared interest in the intricacies of complex, multi-party, service delivery contracts.

Now, with a few more partnership agreements under our belts, a few more 'on time, on budget' construction completions achieved, PPP service delivery happening in a range of sectors, and with substantive PPP best practice guidance and standard provisions on the table, it is timely to reflect on why we are pursuing PPPs.

South Africa has achieved many things in ten years of democracy, but one of the most remarkable is the way we have embraced a shared future, the way we have had to reverse a history of divisions, the way we are profoundly conscious that we are,

together, custodians of our nation's well-being and future. It is a sense that we can galvanise the full wealth of our people's skill, our innovation, and our energy to eradicate poverty and drive development. The agenda is of course, weighty: quality health care for all; quality education for all; safe water and sanitation for all; road, rail, port, communications infrastructure that will stimulate growth; black economic empowerment; a justice system that works; sport and cultural facilities that build pride; the protection of our biodiversity heritage. And much more.

So when we are confronted with the practical matters of "how to", it is not surprising that we look to the full spectrum of our country's resources, both public and private. But we do so not with a fuzzy notion that somehow we are all philanthropists. We do so rather, with a sober understanding that the diverse interests of different sectors can in fact, be harnessed for the collective good. That is what PPP projects are about. The public gets better, more cost-effective services, the private sector gets new business opportunities. Both are in the interests of the nation. Doubtless, it is a fine balance to strike in each deal. Doubtless, this is why PPPs are tricky and require high levels of expertise. But it is also why we have worked so hard to get them right.

Our policy is to use diverse sources of funding for meeting our identified infrastructure and service delivery needs, and in a manner that is cost-effective and appropriately adapted to the circumstances of each particular project. To make the appropriate choice in each case requires careful assessment of options and computation of costs and benefits.

We are no longer debating whether PPPs are useful procurement tools. We know that they are. We are now in the trenches of projects, tackling the practicalities of how to do what we need to do, only better each time. Perhaps this is the really exciting thing, both for us in government and I am sure for many of our business partners, that every project takes us several steps further in finding competitive solutions, in negotiating tighter margins, in stretching the boundaries of contractual pre-commitment.

A key international lesson in public sector project management, is that governments need to establish standard systems, based in certain legislation, that become familiar territory for all stakeholders. Critical public projects should be able to take off on a clear and certain path, not re-inventing the wheel each time. This is particularly important in countries where public sector capacity is slim. What National Treasury's PPP Unit has done is to produce a set of very practical tools for this purpose.

The *PPP Manual* is without doubt, a world first, taking the reader step-by-step through the PPP project cycle, removing the mystery, empowering institutions to get on with the job. *Standardised PPP Provisions* are up there with the world's best – with a touch of South African spunk - creating certainty about the terms under which our deals will roll. There really is no longer any excuse for public sector managers who dilly-dally in implementing their mandates, and no reason for the private sector to doubt government's commitment to this delivery path.

But as we pursue our ground-breaking projects, let's not forget that we are infants in the PPP business and that PPP capacity is not an overnight acquisition. We have to build a track record and measure our progress with honesty. I look forward to the first

detailed case studies of our early deals, which the PPP Unit is currently commissioning.

At the same time, we are continuing to follow with interest the track record of countries who have forged the PPP path ahead of ourselves, whose PPP markets are maturing, and from whom we have learned a great deal in recent years.

The South African PPP market is in early days, but we will be vigilant in tracking international project finance trends as we simultaneously develop our home-grown systems, seeking always to optimise value at every turn. This is a long-term business, and we are in it for the long haul, together.

South Africa has committed very significant budgets to infrastructure spending in the forthcoming period. Medium term three-year estimates for infrastructure projects by national departments amount to R63 billion, growing at 10.8% per annum. Public enterprises over the same period are set to spend in the region of R87 billion. Municipal infrastructure spending is steadily growing. To what extent PPP will be the procurement choice in these mandates remains to be seen, but the tools are now in place, and we are developing a clearer understanding of the appropriate criteria for selecting procurement methods. We are also setting more stringent project feasibility requirements – as many of you will have discovered – which contributes over time to better project selection and greater certainty about project outcomes.

Perhaps the most important signal of the expanding envelope of opportunities for infrastructure and service delivery partnerships is the progress that has been made over the last year in constructing the Financial Services Charter. The targets that have been agreed for investment in infrastructure, housing, empowerment, small business development and public services can only be met through a rapid growth in well-designed PPPs, in which private finance is effectively mobilised, project by project, in the transformation of our social and economic landscape.

To the bankers here tonight, I know that we have driven hard PPP bargains with you in the past few years, that your margins are now tighter than they were at first, that the BEE financing arrangements for PPPs demand new approaches, that re-financing opportunities require ever-more skill and diligence, and – I am told – engaging with government in these projects presents an increasing challenge!

To the sponsor companies who have placed equity on the table, carried bid costs, driven BEE alliances, and whose sub-contracting arrangements are actively delivering the goods, I know it has required tough sell in your board rooms and that many executives have suffered more than a few sleepless nights thanks to PPPs. Your faith in government's commitment to doing fair and reliable deals is not misplaced.

To the BEE partners who have gone out on a limb, stretched your borrowing and balance sheet capacities to the limit for these projects, and whose businesses are just getting going, I know it has been daunting, that the playing field has not been even, that the risks have been high. But I also know that the rewards are not insignificant. We will continue to drive empowerment in every facet of PPPs because we know

these projects hold huge potential to grow new black businesses – big and small, build black management, develop skills, and create jobs.

To the advisory firms that are honing PPP skills, your role is critical, whichever side of the table you work. And we look forward to witnessing strong growth in the numbers of experienced black professionals in this exciting field.

And then, let me express Treasury's appreciation to the government institutions that have bravely forged ahead with the first South African PPPs, sometimes in the face of resistance, scepticism and fear from your own ranks. (And always in the face of difficult questions, impossible deadlines, tight budget constraints, and lack of sympathy on the part of the Treasury officials you have to deal with.) You have set examples for many others. It is on your shoulders that South Africa's PPP record is being built. Your project successes and failures in the years ahead will be closely watched and measured, and the country's growing PPP abilities will draw heavily on your sweat and tears.

South Africa is a nation at work. We have both public and private resources at our disposal and the collective will to put them together for the common good. We have committed public servants, innovative capital markets, and vibrant businesses looking to grow. We have the legal framework and practical tools for PPP delivery in every sector. Increasingly, we can see and take pride in the results.

Let me conclude with just one word. Trust. The partnerships we are building between government and the private sector, between citizens and service providers, between taxpayers and civil servants, fundamentally rest on trust. Well-structured PPPs reinforce that trust, because they commit so much to documented service level agreements, negotiated prices, penalties for non-delivery and rewards for efficiency. But even when every lawyer round the table has exhausted his supply of sub-clauses and annexures, there is still a residual space, that is unknown, and that relies on good faith and solidarity. Trust is the bedrock of partnership.

I thank you.