



**MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA**

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**SPEECH BY THE MINISTER OF FINANCE
LAUNCH OF MACQUARIE FIRST SOUTH
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Good evening Ladies and Gentlemen
Distinguished Board Members and Executives
Dear Friends

Thank you for the opportunity to share this auspicious occasion with you. For indeed we are celebrating a ground breaking partnership on many levels. We have been called to witness a marriage of diversity – a blend of the long established skills and global expertise of Macquarie, combined with the knowledge, insight and energy of Macquarie’s local, somewhat-younger bride.

Together I am sure they are likely to be a potent combination, ready to breathe fresh vigour into the local financial markets.

The combination of First South’s talented stockbroking and research business with Macquarie’s corporate and infrastructure advisory and debt markets business will I’m sure create a powerful South African investment bank.

Macquarie has built for itself a fierce, global reputation for entrepreneurship and seizing opportunities. This is a trait which, I am sure, must have a fair

amount to do with Macquarie's Australian origins. Whilst a southern hemisphere trait not always appreciated by South African's on the sports field, I'm sure that it bodes well for Macquarie First South's endeavours in the financial markets.

It is not only our resource-based economies and southern hemisphere ties that bind us. For I am sure that Macquarie's reputation for tenacity, innovation, and hunger to bring about change is a characteristic that you will already have found echoed in the South African culture. As a global player; the number one broker in Australia by market share; and a growing force in Asia; it would seem logical that South Africa will offer great potential for expansion.

There can be few economic opportunities as exciting as South Africa. South Africa has achieved many things in its dozen years of democracy, but one of the most remarkable has been the way we have embraced a shared future, the way we have had to reverse a history of division, and the way that we are conscious of the fact that we are all, collectively, the joint custodians of our nation's future well-being. We have learnt to encourage marriages and partnerships across all sorts of former-boundaries. We have embraced the integration of South African business across international borders; we have learnt the value of public-private partnership in achieving our shared objectives; and we have been galvanized to extract the full wealth of the skills, innovation and energy of all of South Africa's people.

Much of this is encoded in the Financial Sector Charter. The Charter is indeed a remarkable achievement. It goes to the core of how the financial sector will address the urgent need to make business sense of a more sustainable, inclusive and equitable future.

The Charter represents a powerful model of collective partnership – it demonstrates how co-operation and collective effort can overcome the barriers of information asymmetry and economies of scale that are so often the major causes of market failure in the provision of targeted, developmental investment.

Secondly, it demonstrates how industry participants can, with the right vision and leadership, take control of their own destinies by realising that, ultimately, those destinies are inseparable from the long-term prosperity and development of all of our people.

South Africa has achieved the political freedom which many commentators saw as being beyond our reach, but which other country on the planet shares quite the same economic and social challenges that we do? Fortunately, we are a country that is blessed with many riches – not only of the mineral kind, but also, more importantly, a wealth of vision and leadership. The world has marveled at the examples we have set of political leadership. But the same can be said of the leadership that has been demonstrated in finding homegrown solutions to our socioeconomic challenges.

Some invaluable lessons have been gathered from the Financial Sector Charter process. Firstly, through being a *voluntary* initiative, in many ways driven by the private sector, the Financial Sector Charter has created an incredible sense of ownership and accountability. Secondly, the architects of the Financial Sector Charter have been vigilant in terms of crafting a framework that is as broad based as possible. The Financial Sector Charter has also been unlike any other Charter in that it carves out an explicit development role in the economy for the financial sector. Not only does it commit tens of billions of Rands to targeted investment in support of SMEs, low-income housing, resource-poor farmers and developmental infrastructure, but it also sets out explicit targets for ensuring that the financial sector broadens its reach in terms of providing affordable and appropriate access to banking, insurance and savings products.

The Mzansi bank account has been a front-runner in this regard. With over 3,3 million accounts opened since its inception in October 2004, the Mzansi account has silenced the skeptics who thought it not possible to sustainably service the low-income sector of the population. The Charter constituencies are busy putting the finishing touches to an agreement on Generic Access

Standards, which will see the introduction of the likes of low cost household insurance and funeral and life insurance products.

Distinguished guests here tonight will also doubtlessly be aware of the commitments made in the Financial Sector Charter to the financing of Transformational Infrastructure. Financial institutions have collectively committed themselves to provide R25 billion worth of funding for transformational infrastructure by the end of 2008.

The Financial Sector Charter recognises the need for the financial sector to dedicate funding to infrastructure projects in underdeveloped areas where communities have historically been denied equitable access to economic resources. The definition of Transformational Infrastructure is intended to focus financing efforts on entities that provide infrastructure that will contribute towards reducing infrastructure backlogs and increase the potential for economic growth and development in South Africa. Such infrastructure projects include safe water and sanitation; road, rail, port and communications infrastructure that will stimulate growth; community facilities that build pride; and social infrastructure, such as quality health care and education facilities for all.

Historically, the participation of private sector financial institutions in funding infrastructure has been limited - some of it to do with legal restrictions, but mostly due to skepticism about commercial viability. The Charter has brought about a recognition of the need for innovative thinking and collaboration between the affected financial institutions, Government and other stakeholders to address some of these real or perceived constraints.

Fortunately, I am sure that infrastructure finance will be just as high on Macquarie First South's list of priorities as it is on South Africa's. We know that Macquarie cut its teeth in Australia on private sector involvement in developing and running infrastructure - tools which it has become well known for around the world and which we look forward to you applying in South Africa.

South Africa has committed very significant budgets to infrastructure spending over the medium term. Estimates for infrastructure spending over the next three years exceed R370 billion. The funding of this infrastructure spend will be from a variety of sources. State Owned Enterprises (SOEs) have their own balance sheets and will raise capital through both the capital and debt markets. National and Provincial departments have budgets that show steadily increasing allocations for infrastructure. At the same time, we are very mindful of the need to ensure the quality of infrastructure investment. We are thus perhaps more insistent than other developing countries in requiring that investment decisions be backed by sound feasibility studies so that we can make rational investment decisions. You may find this frustrating at times, but you should understand the importance of getting the investment in infrastructure right.

When we are confronted with the practical matters of “how to” deliver on Government’s transformational agenda, we must look, increasingly, to such collective partnerships. Through Public Private Partnerships (PPPs) we strive for better, more cost-effective services for all South Africans, and new business opportunities for the private sector. 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. But we have the benefit of established, standardised systems for these assessments. Our *PPP Manual* is world class, providing step-by-step details of the PPP project cycle, and *Standardised PPP Provisions* create certainty about the terms under which our deals will roll.

Every project takes us several steps further in finding competitive solutions, in fine-tuning margins, in building trust and certainty around contractual pre-commitment. Thirteen PPPs have been implemented to date under the auspices of the National Treasury's PPP Unit. There are currently a further forty-eight PPP projects registered with the PPP Unit as being in either feasibility study or procurement stage. The projected private investment in PPP projects over the next three years is R13,8 billion.

We will continue to drive empowerment in every facet of PPPs because we know that these projects hold huge potential to grow new black businesses – both big and small – and to develop black management and skills.

These are the exciting opportunities that await Macquarie First South as you embark on this new journey. Making the most of the opportunities will require a diversity of skills and talents – but I feel sure that your collective experience of building a shared vision and true partnerships will fare you well for the challenges ahead.

Thank You