

**The role of Public Private Partnerships in dealing with the crisis, Paper Presented by Jerry Vilakazi, Chief Executive Officer at the Mpumalanga Economic Summit, Nelspruit 15 October 2009**

Honourable Premier Mabuza, MECs present, Cllrs, Programme director, distinguished guests, Ladies and Gentlemen. On behalf of Business Unity South Africa let me say how honoured we are to participate in this summit. I am particularly pleased to be speaking at home. For those who are not familiar with our work, BUSA is a confederation of business organisations including chambers of commerce and industry, professional associations, corporate associations and unisectoral organisations. We represent South African business on macroeconomic and high-level issues that affect business at the national and international levels. We aim to ensure that organised business plays a constructive role in the country's economic growth, development and transformation and to create an environment in which businesses of all sizes and in all sectors can thrive, expand and be competitive.

As the principal representative of Business in South Africa, BUSA represents the views of its members in a number of national structures and bodies, both statutory and non-statutory. BUSA also represents businesses' interests in the National Economic Development and Labour Council (NEDLAC).

Internationally, BUSA is a member of the International Organisation of Employers (IOE), the Pan-African Employers' Confederation (PEC) and the Southern African Development Community (SADC) Employers' Group. BUSA is also the official representative of business at the International Labour Organisation (ILO), African Union (AU) Social Affairs Commission and World Trade Organisation (WTO). In the past twelve months we have been privileged to submit our inputs on the crisis to the leaders of the G20 countries as part of the business communities with our counterparts in the other countries.

I have been asked to share perspectives on the role of Public Private Partnerships in dealing with the crisis. An interesting angle indeed in view of the fact that in our national response document to the global economic crisis we have not explored the potential of PPPs as a critical tool for galvanizing our national resources and capabilities that vests in the different sectors of our economy.

Increased use of PPPs is a valuable mechanism for coordinated activity and active implementation of prospects and programs. Currently, only about 3-5% of infrastructural expenditure by central government is presently allocated to PPPs in terms of Asgisa and National Treasury. By world standards this is low. A more positive attitude towards the use of PPPs is necessary and any remaining obstacles should be addressed. We need to experiment with all kinds of new partnerships between the state and private enterprise. I dare to say that a stretch target closer to, say, 20% of infrastructural spending would mobilize private financing (both internal and external) into public assets on a much bigger scale. Apart from its other advantages, this could be helpful in a period in which global financial developments make public financing considerably more difficult. The developments at OR Tambo Airport in the last two years and the opportunities created for private enterprises – small, medium and large to invest in operational activities that have contributed in the creation of much needed jobs is an important indication of how business and government can achieve common objectives.

Emerging economies like South Africa are clearly not immune to the negative global forces as the pool of international liquidity has lately dried up as the world economy slows. Given the country's very low domestic savings rate, South Africa has been borrowing savings from the rest of the world to help fund the economy's rising rate of investment. To illustrate the point, Government borrowing grew from R25 Billion in 2008 to R170 Billion this year. But in the absence of any substantial rise in domestic savings rates, the country will have to try to borrow funds in tight foreign markets to fund massive investment programmes for companies like Transnet and Eskom, in addition to the private sector's investment plans over the next five years. What it does basically mean is that the amount of capital available is less and also more expensive.

Given these constraints on the availability of global capital, the room for South Africa to maneuver in terms of access to foreign borrowings and in terms of macroeconomic policy choices has narrowed. When the Medium Term Expenditure Framework is released by the Minister of Finance on 27 October we will see the strain which the global crisis and recession have put on state finances. There is not only less room for error but also a need to become more competitive if South Africa is to be preferred investment destination for foreign investment. Yet we find that the roll-out of PPPs is seriously hampered by a lack of capacity

and skills in government departments and provincial authorities. Herein lies the contradiction – whereas the state needs PPPs to enhance its capacity and service delivery, lack of capacity to initiate, design and monitor PPPs is a major barrier to implementation.

It is also helpful to distinguish between ‘high-powered’ investment and ‘ordinary’ investment. Transportation, Eskom and the like are ‘high-powered’, in the sense that they can have a meaningful effect on cost reduction and on the productivity of all sectors that depend on the basic infrastructure. State-owned enterprises alone are estimated to control about 20% of capital stock in South Africa, whereas much factory investment, while satisfying consumers, does not necessarily add to the productivity of industry *in general*. Public resource development can open up private investment opportunities, but we do not need to be locked into the mode that *only* the government can successfully run parastatals. There is scope for better business models and South Africa should be prepared to explore them. Mobilising strategic minority interests could be one of them. As much as the notion that everything that is run by the private sector is efficient and good is fallacy, the view that a developmental state will succeed by excluding the private sector and diminishing private sector role in its programmes is fatal.

At the national level Eskom remains a clear example of where there needs to be a completely new business model that will put our future electricity supply on a more sustainable and efficient basis. The opportunities for co-generation needs to be expanded and harnessing the private sector to a far larger extent forms an important element in what needs to be done to tackle our energy challenges in the years ahead.

It is our view that an excessive burden of ESKOM’s future funding should not be placed on higher tariffs— as it is clear from recent CPI data that electricity costs are playing a major role in preventing inflation from falling faster. This keeps interest rates higher than they otherwise need be and hampers economic recovery. There is a need to revisit the ‘mix’ of **tariff increases, loan financing and additional state funding** in the financing of ESKOM. The constant ESKOM tariff ‘crises’ every few months are becoming bad for business confidence and planning, and not helpful in overcoming the effects of the recession.

BUSA believes that in this context Nersa will not only have to interrogate the ESKOM application critically but also encourage the urgent development of a new sustainable funding

formula for ESKOM for the future. A new business model is also needed for ESKOM to promote competition and encourage alternative suppliers of electricity in a restructured electricity market. BUSA will be making submissions to the appropriate agencies on these various aspects of ESKOM's future in due course. This country needs an urgent regulatory environment that will enable private players to partner the state in ensuring long term energy security required to attract the kind of investments that will create the jobs that we so need in SA.

My message therefore is a simple one. As I am talking at provincial level today, I believe it is important for business and provincial government to explore how public-private sector partnerships can play a bigger role in enhancing delivery and in achieving our socio-economic goals. If there are problems and obstacles to promoting partnerships, how can they be removed? One way is to look at successful examples and see what lessons can be learned in the areas. I will use an example of a project by a SA company that has been hailed internationally as breaking new grounds in transforming healthcare delivery through PPP to create equitable access to quality healthcare service in severely under resourced circumstances.

In October 2008, the Lesotho Government entered into a Public Private Investment Partnership with a consortium of local and international healthcare providers to construct a new referral hospital with 425 beds and adjacent gateway clinic, and to renovate three strategically chosen urban filter clinics. This PPP project encompasses the design, construction, full maintenance, and full operation of all services at the country's primary referral hospital and a new gateway clinic, and the refurbishment and re-equipment of three filter clinics. The consortium will manage all clinical care and non clinical services in these public facilities for 18 years. It is made up of five stakeholder groups: Netcare (40%) – SA largest provider of private health services and hospital management group which is the largest provider of private health services in the UK; a health services company composed of SA doctors from Bloemfontein who will serve as a resource for clinical specialists to the new hospital (20%); a Women Investment Company (10%) made up of Basotho women who will also provide non-clinical services; a group of Basotho doctors who will serve at the hospital and clinics (10%) and a local investment arm of the Lesotho Chamber of Commerce (10%). This form of PPP is modeled around the concept of DESIGN, BUILD, OPERATE and DELIVER. The consortium will employ all doctors, nurses and other staff for the duration.

It has also entered into an agreement to utilize its state of the art hospital for professional development and training for all levels of Lesotho's health workforce.

How was it financed? 36% capital contribution came from the government and the 64% balance was privately financed through the DBSA and the consortium own equity. The government's annual unitary payment for the new facilities is fixed to an amount equal to current hospital costs, adjusting annually for inflation.

I have used this experience to highlight a case study that demonstrates that if we do venture into thinking out of the box we can find creative and innovative solutions to some of our complex problems and challenges. Emerging out of this recession we will have to do things differently. This is the time for us to engage frankly amongst the social partners in the spirit of true partnership and trust. If there was a time in the history of our democracy when we need a social pact – this is it. All of us business, labour and government should now ask our self what is in the interest of SA?

It is in this context that we endorsed the call by the IOE to the recent G20 meeting sought to ensure that labour market legislation and institutions can effectively facilitate a transition from recession to recovery. The crisis has reinforced our belief that policy makers need to focus on protecting 'employment' rather than 'jobs'. It can not be business as usual. We say to our members: Be responsible and accountable, you can not be seen to be awarding yourselves salary packages and bonuses that are out of sink with the current economic environment. In a similar way we call upon our social partners in labour to partner in a true spirit of partnership and trust in creating a business environment that will build confidence to local and domestic investors. Protecting employment requires labour market institutions to provide flexibility that enables employers and employees to implement fair and creative measures to maintain employment levels. To achieve this, government, labour and business need to work together as social partners. We need sustainable economic growth levels in order to create descent jobs. Business stands ready to work with the new administration in government, labour and civil society towards a better life for all.

We must approach the challenge bearing in mind President Zuma's mantra of 'partnership' and recalling that 'together we can do more' This also applies PPPs and we need to mobilize them on a much bigger scale to achieve our goals. The private sector stands ready to join

hands with all levels of government to facilitate a more effective use of public-private sector partnerships.

I thank you