

Session 8: Public/Private/NGOs: Partnerships and Empowerment

Chair: Luci Abrahams

Chairperson's remarks

The theory and practice of public-private partnerships (PPP's) has advanced significantly over the last seven years. Perhaps the most well-known example internationally is the "Chunnel" between England and France. Many early partnerships foundered, in particular, as a result of disagreements between government and the private sector on the appropriate apportionment of risk between the parties.

In the past, PPP's and private financing initiatives (PFI) often focused largely on the construction and management of infrastructure toll roads, hospitals, prisons. The application of PPP and PFI approaches to the delivery of mainstream public services such as health, welfare and education will raise new challenges and demand creative solutions. These public services have two important features that lend themselves well to the PPP model – they service very large numbers of citizens and they can benefit significantly through the application of sophisticated electronic information production, exchange and electronic transaction techniques and technologies.

Attempts to introduce ICTs as important service tools in the fields of health, welfare and education in South Africa will be extremely difficult if not impossible, unless these are based on a PPP approach with a strong private financing component. An important feature for PPP's in South Africa must be consideration as to the role of non-governmental and community based organisations in such partnerships.

But the key considerations for the construction of any public private partnership will remain:

- Clear definition of the objective of the project
- Clear definition of the role, responsibilities and input of government
- Clear definition of the role, responsibilities and input of the private sector and NGO/CBO partner
- Clear definition of the appropriate apportionment of risk

It must be noted that there are certain risks that cannot be transferred to or shared with the private sector. Government is ultimately responsible for the failure of service delivery in the areas of education, health and welfare.

The panel introduces a range of perspectives:

- Michael Shur, senior manager in the Department of Finance, outlines government's framework for establishing and managing public private partnerships
- Tebo Matsoso, founding Director of Motswedi, presents a private sector view of the issues to be addressed in the construction of PPP's, with particular attention to the importance of setting and fulfilling corporate social obligations for South Africa's economic development and the role of black IT companies
- Simon White of the Black Information Technology Forum, highlights some key statistics and issues of importance on the subject of black economic empowerment in the IT sector
- Pam Sykes, researcher with Business Map, reports on the recent survey conducted on black economic empowerment and also address the key issues of the role and activity of NGOs and CBOs in contributing to black economic empowerment and social restructuring

- Alan Hirsch, Chief Director in the Department of Trade and Industry, discusses the department's views on the importance of the information and communications sector to the South African economy

Michael Schur – Department of Finance

The speaker made the following observations:

South Africa faces daunting challenges in the delivery of public services and infrastructure. Although government has implemented a range of infrastructure delivery programmes that have significantly increased access to services, large backlogs remain.

Addressing backlogs in essential public services while maintaining fiscal prudence requires greater efficiency in the delivery of public services. This will enhance the scope for increasing access to services and for providing higher quality services.

The regulatory framework established by the Department of Finance attempts to mainstream public-private partnerships (PPP's) as part of service delivery. The broad concept of PPP's includes outsourcing, private financing, design/build/finance/operate ventures.

The framework is based on the assumption that the affordability constraint does not disappear because of the private financing input and that failure to conduct a reasonable affordability analysis may result in that project undermining the fiscus.

The framework identifies constraints in the public service environment and proposes an enabling environment. It addresses itself to concerns about the potential monopolistic outcomes of PPP's. It provides, within the Treasury Regulations a structured environment within which to set about constructing PPP's while acting within the constraints of the fiscus.

The UK Private Finance Initiative oversees about £12bn of PPP transactions. One of the key issues under review is how to package PPP's in ways, which will ensure long-term financial sustainability.

Amongst the lessons from the UK experience and a study of South Africa's projects is the need for a review of the policy environments within which PPP's are applied e.g. a review of tariff setting in the Water and Related Services Act and certain aspects of the Correctional Services Act.

Another example of a possible PPP would be the management of the Unemployment Insurance Fund and Workmen's Compensation Commission, which requires a capital investment in IT infrastructure of around R760m. The Department of Labour is reviewing the option of contracting with a private operator to bring in relevant finance and expertise. The key constraint is the affordability one.

One of the implications for going the PPP route would be that PPP's that are affordable are fast-tracked through a separate process from the Tender Board.

The Department of Finance's framework aims to support national and provincial government departments in identifying, procuring and implementing Public-Private Partnerships. The strategic framework identifies a set of issues that may be constraining the successful

implementation of public-private partnerships, and proposes the establishment of a process to examine and recommend a package of legislative, regulatory and institutional reforms that may be implemented over time to strengthen the enabling environment.

The package of integrated reforms consists of the following components:

- *Establishing* a clearer policy framework to ensure that PPP's are a coherent option for departments.
- *Refining* legislation through a targeted programme to remove unnecessary obstacles to cost-effective PPP arrangements.
- *Enhancing* the capacity of departments to use PPP's in sound and effective projects.
- *Providing* a simple yet effective institutional framework to ensure that PPP's achieve value for money and facilitate capacity enhancement activities.

Tebo Matsoso – Motswedi Technologies

Some of the problems in the public sector are that the rewards system is not the same and the work ethic is also different. In the public sector it is important to follow correct process, especially because public funds need to be handled carefully. IN the private sector it is about the most efficient and cost effective way. One of the most successful approaches has been the Build Operate Own Transfer (BOOT) model.

Simon White – Black IT Forum

The Black IT Forum has more than 1500 members in 7 provinces. In 1997 there were about 68 black IT companies. Now there are about 180 black IT companies with total turnover in excess of R4,5 billion. Black Economic Empowerment means different things:

1. Skills Transfer
2. Black equity
3. Being operational

Some of the problems experienced include a lack of capital, lack of skills and difficulties accessing the market. Lack of resources have meant that managing directors can often be seen fulfilling various functions: training, delivering, doing accounts etc. as in SMMEs.

Many black IT companies depend on government business for survival. Black groups are seen to be reactive. External forces push them into positions. BEE groups should set the pace themselves. They should mobilize and use collective consumer power. One successful project has been supportsmme.net where 50 partner companies have been involved.

Pam Sykes – Business Map

The first wave of black economic empowerment (BEE) concentrated heavily on equity ownership of JSE-listed companies, generating an acquisition frenzy which has proved itself to be unsustainable. The frenzy peaked in 1998, when the value of acquisitions and joint venture deals by black-controlled companies topped R21bn, according to BusinessMap's estimates, and involved 110 companies. That value plummeted to around R3.4bn, involving just 45 companies, a year later. The Asian crisis of late 1998 was partly to blame, but empowerment companies

suffered disproportionately: contributing factors probably included deal funding structures which created little incentive to add value, and a slump in government tender activity.

In the aftermath, the emphasis of BEE thinking has shifted from ownership – although black ownership remains an important lever of power – to empowerment at managerial and executive levels within companies. At the same time, attention has shifted to the role both the state and large private corporates can play in promoting and developing small black companies and small, medium and micro enterprises (SMMEs) through their procurement budgets. In the case of large listed companies in particular, trying to achieve a significant transfer of ownership to black-owned entities is unrealistic at least in the short term: these firms can far more usefully pursue empowerment goals through internal staffing policies and affirmative procurement.

Most such firms, however, are uncertain how to proceed: it is here that the government and parastatals might play a useful role in providing information and models.

Telkom offers one model of how affirmative procurement might work in the private sector. Three goals were set for its affirmative procurement programme:

1. To contribute to the elimination of economic disparities;
2. To contribute to the restructuring of the IT industry;
3. To train, develop and transfer skills and technology to black SMME suppliers.

These were to be achieved by ensuring equitable representation of black SMMEs and businesses committed to BEE and SMME development in Telkom's procurement and outsourcing activities.

A number of mechanisms have been used to build black suppliers and to help SMMEs overcome obstacles. Black-owned companies, for example, enjoy a 10% minimum weighting in any tender process and may be invited to match the price of the lowest bidder if their initial price offer is not competitive. Contracts such as that for the supply of computer consumables are set aside for black suppliers, and national contracts which may be too large for a small company to take on are split into smaller regional units. Where contracts are awarded to SMMEs at a price premium, the additional cost is not carried by the contracting department, but by a special budget, which has been set aside for capacity building.

Other actions have included financial support such as lower tender document fees, shortened payment cycles and material acquisition support, as well as management training including tender and project management courses.

This programme has seen Telkom increase its BEE spending in 1999/2000 to R3bn, 28% of the total volume of its purchases. Contracts worth R456m went to black SMMEs (defined as those with annual revenue under R25m), R435m to large black suppliers (minimum 51% black-owned) and R2bn to suppliers with "significant" BEE programmes. Encouragingly, almost half the value of contracts awarded in the first two categories was for ICT-specific purchases as opposed to more generic products and services. Contracts worth R409m went to ICT suppliers of all sizes that were at least 51% black owned or controlled, R77m of this to SMMEs. Purchases included hardware, software, IT services, cable, transmission and telephone equipment.

While Telkom may at this stage have more incentive than the average private-sector company to embark on such a programme, there are several ways in which private sector incentives can be created. Government has a major role to play by, for example, specifying affirmative procurement conditions when it awards major tenders. In the case of listed companies, NGOs might also have an important role to play. The threat of public displeasure at environmental mismanagement,

expressed by a selling down of a company's shares, has forced many major companies to take environmental issues seriously: similar pressures could be created to focus corporate attention on the need to redress economic imbalances.

Alan Hirsch – Department of Trade and Industry

The DTI's goals are to contribute to the growth of the sector. It is responsible for company law, competitions law, intellectual property law. The DTI also offers direct incentives, not only to manufacturing but also to the ICT sector, such as the THRIP grants. THRIP stands for the Technology and Human Resource for Industry Programme, which is a matching grant programme-- to encourage industry to use universities for research. Government gives up to 50% of the costs of an innovation research project primarily funded by the private sector at a University or a Technikon. The programme is also designed to give students suitable experience. Its annual budget is going up from R100m to R120m.

Two factors have shifted DTI's perspective:

1. The issue of employment. It is obvious that employment growth in this millennium, or at least this century will not come mostly from manufacturing. Therefore some DTI programmes will be aimed to help develop such sectors, in conjunction with the relevant responsible department: e.g. high-value agriculture, tourism etc.
2. The issue of the information revolution. The ICT sector is not simply an important one for its ability to create wealth; in fact, it is now one of the main means of creating wealth in all sectors, whether manufacturing, tourism, agriculture, or any other sector. Without access to effective ICT technologies, businesses in all sectors will soon lose their competitiveness. They will be like horse drawn carriages in the age of the steam engine, or like steam driven engines in the age of electricity.

As Manuel Castells said in a recent seminar in Pretoria, in 5 to 10 years there will be two kinds of companies – ICT driven companies or dead companies.

For these reasons, DTI has two main goals regarding the ICT sector.

- Firstly, it wants to contribute to the growth of the ICT sector itself in SA, working with other government departments and private partners.
- Secondly, it wants to contribute to the rapid and effective diffusion of ICT technologies throughout the economy, again, in partnership with other key agencies

A: contribute to the growth of the ICT sector

How does the DTI contribute to this?

1. Through a suitable business environment for ICT development – e.g. in Company law, competition law and intellectual property law. All these fields are DTI's primary responsibilities – up to now we have not really approached the issue of creating a business environment for the knowledge economy in a systematic way – we do have individual amendments and improvements in these laws, but not a strong central driver for this process – a new structure for the DTI which is unfolding this year will strengthen our ability to contribute in this respect.

2. The second way to help grow the sector is through direct incentives to the sector – the DTI is currently developing a new set of powerful investment incentives. These incentives will apply to traditional DTI responsibilities like manufacturing, but they will also extend to some parts of the ICT sector that could not previously access most DTI incentives. This is the first major step in the new direction (Also: SSP)
3. We will also need to review other DTI incentives to see if they can be made to apply effectively to the ICT sector. Some changes have already been made, for example, the SPII (Support Programme for Industrial Innovation) programme has supported software projects for several years, and the THRIP programme also covers ICT projects for Universities, but not all programmes have been reviewed. The SPII is a matching grant fund in which government funds up to 50% of the qualifying costs of a private firm developing a new product or process. It has an annual turnover of about R75m.
4. Venture capital: The Industrial Development Corporation is setting up some funds to allow equity investment in start-up businesses, also technology businesses. This would allow the risk to be spread.

B: the rapid and effective diffusion of ICT technologies

How can the DTI contribute to ICT diffusion? To some extent, the strategies mentioned above will inevitably also contribute to ICT diffusion; it is a bit artificial to distinguish between growth and diffusion strategies.

But we do have a few programmes that already are playing a significant role in ICT diffusion – for example, our twin competitiveness programmes: the competitiveness fund and the sectoral partnership fund. Both programmes are matching grant programmes, like the SPII and the THRIP (indeed this is the main form of DTI partnership – matching grant programmes).

1. Competitiveness Fund was set up in July 1999. This funds 50% of the cost of increasing a company's competitiveness. The largest single category of projects is assisting companies establish themselves in e-commerce. By the end of May there were 329 project approvals to the tune of R40 million of which 20% were black companies and 195 were for SMME's. Many of the projects involve the application of ICT.
2. The Sectoral Partnership fund is a similar type of project though there are two differences – it deals with collaborative groups of companies and the subsidy is up to 65% and R1million. There are not that many ICT projects yet, but some major ones are on the cards.
3. Technology Transfer facilitation is somewhat in abeyance and needs to be re-focused. It is aimed at assisting SMME's acquire suitable technologies at suitable prices.

These are some of our programmes but the key is the shift in our philosophy. No doubt the best programmes and partnerships are yet to unfold.