

# Private public partnerships: Possible saviour of South Africa's economy

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Boosting the economy, cutting our extremely high unemployment rate, and avoiding further downgrades by credit-rating agencies are central to the government's economic growth plan. While trying to achieve these goals, however, the country faces constantly rising public debt, minimal GDP growth, inefficient state-owned enterprises and the devastating effects of state capture, corruption and mismanagement of public funds.



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So, as we try to predict what our post-Covid-19 future looks like, let's consider what realistic, tangible growth prospects are available in South Africa, and whether we're asking the right questions. For example, do we have the right public-private partnerships in place? What role do we expect the government to play in reviving our economy? And what role does the private sector have in this revival?

## We need debt – but only with returns

The last decade has seen a rapid – and worrying – rise of public debt. When you put this in a global context, South Africa came out of the 2008 global financial crisis with much more debt in the world market than before. We weren't alone in this, but in the years since, other countries who had also emerged from 2008's crisis with significant debt, have managed to grow their economies and compensate for this. In contrast, the South African economy has remained largely stagnant for over a decade now, with growing levels of unemployment, all contributing to rampant debt levels.

As we deal with the economic impact of Covid-19, I wouldn't pretend to argue with Minister Mboweni about attaining more debt in the process – there is no doubt that it is needed. But, as we accrue this additional debt, we also need to be able to trust that the government will spend this borrowed money productively, in areas where it would have the broadest sustainable impact, and not be squandered or lost, as has unfortunately happened in the past. This is the challenge we face as a country.

We also need to consider whether South Africa will ever reach the point where our revenue growth will exceed the growth in the debt we accrue. Countries need debt to grow – to a point – and debt actually isn't the enemy in this case.

But the question to be asked is whether citizens will get a return on the incurred debt, that exceeds what we will have to repay to service the debt. As citizens, do we trust that our money is getting used correctly, in sustainable initiatives that are more likely than not going to generate a return in excess of the cost of the debt? And how can we use our country's resources more strategically, to enable this growth? Strong public private sector partnerships and an understanding of the government's role versus the private sector's role, come to mind.

## **Public private partnerships will work, if done right**

There is an ongoing, and yet growing, concern about what we as a country need to do to increase foreign investment in South Africa. Despite the economic challenges we face, investors have their different ambitions and are willing to take risks with their money, for the right return. So, a key question for us to ask here is – how do we create the right return for foreign investors, to shore up our international revenue?

There is a lot of talk about public private sector partnerships playing a role in funding government projects and state-owned enterprises like SAA. Without these initiatives, creating trust and investment into the sustainable enterprises generating returns to all stakeholder, South Africa would be forced to print money to continue to support the economy. However, similar to debt, if this money is not deployed in projects that generate returns in excess of the cost of the impact of this economic support strategy, the same economic spiral will continue.

However, if we could trust the execution of the economic growth initiatives, we'd be in a better position to assess the short- and long-term impact of these various economic strategies. This is where the legacy of state capture and corruption comes to the fore, and our subsequent lack of trust. Edelman's 2020 Trust Barometer puts South Africa as the country that trusts its government least – just 20% of South Africans expressed faith in Government, well below the 49% global average.

The reality is that public private partnerships can work, and the government can regain our trust. We've seen this recently in the partnership with our biggest banks to implement the Covid-19 state-backed loan scheme in which banks lent money to organisations in need during the pandemic lockdown. So far, all evidence shows that this has been a productive partnership: instead of attempting to implement the scheme themselves, the government sought banks' expertise, acknowledging they were better placed to perform the credit checks, and gave the banks a guarantee to minimise their risk – allowing them to take the reins and do what they do best.

These are the kind of partnerships South Africa desperately needs to instil trust in future government-led projects, and get our growth back on track. By partnering with the appropriate private organisations, the state's role would be to simply encourage the ease of process, make it as easy as possible to execute on the transaction, and provide some of the necessary financial support in equity and state-backed guarantees.

Take our energy crisis as an example. The job creation potential in trying to help the energy supply situation in this country is immense. Do we trust Eskom to develop a nuclear power plant? Certainly not at the moment, given the legacy created in recent years. It would be easier to place trust in a company that has a reputable history in the industry, with a legacy of great management, executing on a project and delivering a return on the investment.

## Trust will unlock opportunity

Having this kind of working partnership with the government can unlock significant levels of foreign investment. The problem is it is predicated on the idea that the government offers this support and enables the company or consortium to run independently. We need open regulations that enable us to operate this way. If we want to create jobs, there is a lot of opportunity in South Africa to do so, but the existing bureaucratic and unnecessary red tape is getting in the way.

I am encouraged when President Cyril Ramaphosa and Minister Tito Mboweni say “we’re at a turning point” and that “now is the time to grow a new South Africa”. However, I have to work harder to trust that the government at large can put politics aside and grow the country towards a new future. Can we achieve what we always set out to achieve, or are we going down the same old roads that lead us nowhere?

To ensure this isn’t the case, the government needs to let others in, enter the right private public partnerships to instill trust, achieve returns on investment, and gather momentum.

As American politician Richard Caroll said, “A leader is best when people barely know he exists, when his work is done, his aim fulfilled, they will all say: we did it ourselves”. With that in mind, it’s time for the government to take a step back, partner with businesses and people that offer the best shot at success, and enable the private sector to do what we do best for the good of the country.

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