



# BLUE IQ

*The plan for a smart province - Gauteng*



*The plan for a smart province – Gauteng*

 THE BLUE IQ STRATEGIC TASK FORCE



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*South Africa is widely recognised for innovation in maintaining its competitiveness as a preferred investment destination in a global economy.*

*“South Africa is the least expensive country in which to do business.”  
– The Economist*

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### Why invest in South Africa?

While occupying only 4% of Africa's landmass, South Africa boasts more than 50% of the continent's cars, phones, automatic bank tellers and industrial facilities.

South Africa is widely recognised for innovation and developing advanced technology in maintaining its competitiveness as a preferred investment destination in a global economy.

#### It is:

- A world leader in cost-efficient deep-level mining technology and operations (gold mining)
- Home to the largest dry-cooled coal-fired power station in the world (Matimba)
- The world's most successful producer of liquid fuel from coal using unique technology (Sasol)
- A pioneer of the Corex process, which uses coal instead of coke to produce molten iron (Iscor)

#### It has:

- The tenth-largest stock exchange in the world, with full electronic trading and settlement systems
- A sophisticated financial services sector unrivalled in emerging markets
- Inherent strengths in people, land, technology and infrastructure

### Why invest in Gauteng?

Geographically the smallest of South Africa's provinces, this economic powerhouse accounts for 40% of South Africa's gross domestic product and generates 9% of Africa's entire GDP.

#### It is:

- Home to 70% of South Africa's hi-tech workforce
- The wealthiest and most urbanised province in South Africa
- Home to the country's premier consumer market, with collective purchasing power 64% higher than the national average

#### It has:

- The highest per capita income level in South Africa
- The second-lowest rate of unemployment
- The highest adult literacy rate



## UNDERSTANDING BLUE IQ



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*Most people identify Blue IQ with its eleven projects but have little understanding of the underlying purpose of Blue IQ, its theoretical underpinning, its institutional and operational functioning or its business approach.*

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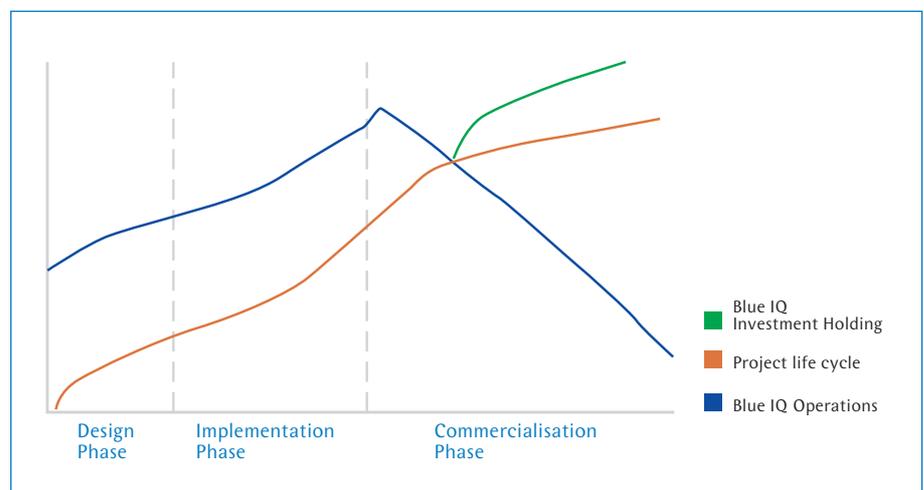
Due to an extensive outreach programme, communications strategy and use of the media, Blue IQ has become relatively well known both in South Africa and abroad. Most people identify Blue IQ with its eleven projects but have little understanding of the underlying purpose of Blue IQ, its theoretical underpinning, its institutional and operational functioning or its business approach. Given that several Blue IQ projects have developed from the conceptual phase to the implementation phase and are now poised for their final phase – that of commercialisation – in-depth stakeholder and private sector understanding of the workings of Blue IQ has become increasingly important. This brochure is an attempt to give the reader a more sophisticated understanding of the organisation and its business model.

**Chapter One** deals with the Genesis of Blue IQ; explaining the economic context in which it was created and the macro-economic role it is envisaged to play within the Gauteng Provincial economy. This chapter also looks at the underlying economic rationale and logic which supports the creation of the organisation.

**Chapter Two** deals with the structure of Blue IQ, explaining how it operates at a legal, organisational and corporate level.

**Chapter Three** looks briefly at the Province's medium- and long-term exit strategy as well as its expectations for what will happen to the projects once it exits.

The final chapter briefly reviews the eleven Blue IQ projects from a strategic and economic perspective.



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*Blue IQ's alignment and focus have been the major contributors to the rapid success and delivery of the organisation to date.*

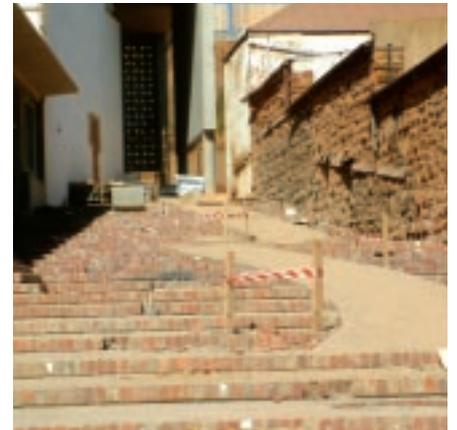
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## HOW BLUE IQ CAME ABOUT

### An application of the theory of economies of localisation

In a period of new economic institutional development in South Africa, perhaps the most distinguishing feature of Blue IQ is that it was not designed as a discreet institutional initiative with a mission and a mandate and then populated with projects as is the usual approach. Rather Blue IQ was an institutional response to a well defined, pre-identified need. This 'reverse' engineering of assessing the provincial economy's strategic economic needs within a broad macro- and micro-economic framework and only then designing an institution to address these needs has ensured that Blue IQ is entirely aligned with its goals and has an unwavering focus. This alignment and focus have been the major contributors to the rapid success and delivery of the organisation to date.



### Understanding the provincial economy

In 1997 the Department of Finance and Economic Affairs published the Trade and Industrial Strategy. This document was the culmination of three years of data gathering, analysis and interpretation of economic information and trends in Gauteng Province. At first the findings of the report seemed grim – the economy was growing at an average of 1,4% over the period 1985 to 1995, unemployment was steadily creeping up, labour absorption rates were below 1% and the standard of living had been decreasing every year over the last decade. The economy was in poor shape and would come under increasing pressure as tariff protection was decreased in line with the World Trade Organisation (WTO).

The essential finding of the report was that this poor economic performance emanated from the fact that the Province's existing economic trajectory was founded essentially on primary production industries (especially gold, iron and steel) and a low value-added and internationally uncompetitive manufacturing sector inherited from the sanctions era of required self-sufficiency and import replacement. This trajectory was deemed to be unsustainable and unable to assure stronger future growth both in terms of Gross Geographical Product (GGP) growth or employment.

The study did, however, identify an alternative, new trajectory which in principle exhibited all the dynamism and robustness necessary to suggest longer term sustainable growth and employment. This new trajectory was premised on the competitive and comparative advantages of the Province and focused on: financial and business

THE GENESIS OF BLUE IQ

services, smart industries, high value-added manufacturing and tourism. The challenge thus became how to shift the economic trajectory of an entire province.

Such shifts are nothing new in international experience. In Dubai the contribution of the oil sector to GGP was 80% in 1968 and is today down to 8%. In North Rein, Westphalia in Germany iron, steel and coal comprised 98% of GGP in 1982. Its contribution today is 0%. So – the success stories existed, the question was – how would the Gauteng Provincial Government approach the challenge?

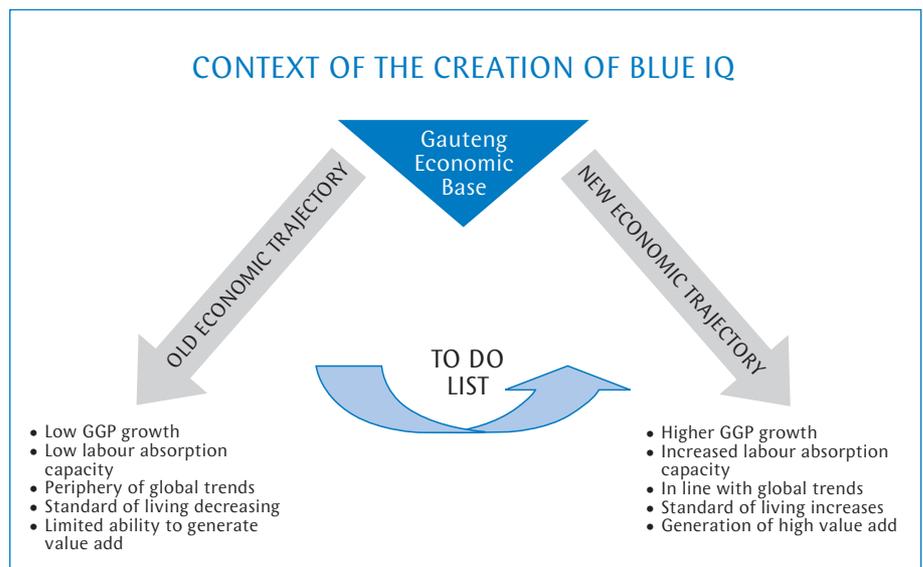
The “to do” list



From the 1997 Trade and Industrial Strategy emerged a “to do” list of over 100 projects, interventions and programmes. This list included a diverse range of initiatives ranging from educational reform to small business development to immigration and emigration requirements. The “to do” list included every department within the Gauteng Provincial Government and in certain areas required the co-operation of both local and national government departments.

The Department of Finance and Economic Affairs was given responsibility for those items on the list directly related to the economy, and so a shorter list was developed which was then refined into strategic economic infrastructure projects and non-infrastructure economic projects.

The infrastructure debate was delineated by the theories of: economies of urbanisation and economies of localisation. Economies of urbanisation speaks to how individual factors of production and factors of production together (total factor productivity) can be supported by the government to create a generically conducive environment in which private sector activity can take place. This, for example, includes issues such as the size and skill of the labour force, the supply, service and cost of utilities, the generic ease of transportation within a city or state, and size of the local market. Economies of urbanisation are necessary to provide a competitive environment for all sectors and enterprises and is highly multi-faceted. Responding to these challenges is the ongoing work of virtually all the departments of the Gauteng Provincial



Government, and in many instances is dependent on national government policy where the province lacks a constitutional mandate.

Economies of localisation is a more narrowly defined concept which moves from the general to the specific. Economies of localisation posits how a state, province or city may set itself up to support a specific economic activity for a particular sector instead of generic economic activity. The world's best known example of successful economies of localisation is the much talked about Silicon Valley in California, USA.

California had traditionally been an agricultural-based state. When a single company, Intel, approached San Jose County to see what the county could offer to attract them to the area, the county being robust and far-sighted accommodated the needs of Intel in terms of bandwidth infrastructure, bespoke buildings and a variety of other requirements set out by the company. On the back of the Intel investment decision and substantial research, the county authorities took a far-sighted position that IT was a potential growth industry and embarked on a campaign to catalyse the growth of the industry in their county such that their county would be the premier location in the USA for this type of sectoral activity. Over a period of 15 years the county modified everything in its environment to ensure that it became the first choice of firms wishing to operate in this sector: they built campus buildings instead of traditional office blocks, they attracted high end retail shops and recreational activities to service a new generation of successful entrepreneurs, they substantially increased the telecommunications system and power system of the county, they started county sponsored incubators, they attracted second tier providers and support companies to the area such that a dominant cluster emerged. Silicon Valley was the result.



What is interesting is that South Africa, and Johannesburg specifically, did exactly the same thing in the 1950's and 1960's – they set up massive economies of localisation for the gold mining industry and the iron and steel industry. The then government passed legislation to help the mining industry. They set up organisations such as Mintec and the SA Mint, they rolled out the rail transport infrastructure to meet the needs of the industry and even supported the development of financial service institutions to meet mining's capital requirements. South Africa was remarkably successful in creating these economies of localisation which supported the profitable growth and development of the iron and steel and mining industries for three decades.

What has happened in the intervening years is that these industries are no longer the growth industries of the Province. The new growth industries are financial and business services, high value-added manufacturing, tourism and the smart industries. However, the economy's structure, systems, institutions, factors of production and infrastructure are not supportive of these new industries – in other words, we have not created economies of localisation for these new industries.

Any investment in economic infrastructure which creates economies of localisation for the four pillars of the new economic trajectory the Province sought to embark upon was termed “strategic economic infrastructure” for the purposes of the development of Blue IQ. While this definition allows Blue IQ to focus on physical economic infrastructure investments, it also allows for initiatives in respect of human capital and institutional investments.

THE GENESIS OF BLUE IQ

Characteristics of projects which were adopted by Blue IQ

Understanding the characteristics of the projects to be adopted by Blue IQ was crucial in the design of the delivery institution. The following four shared characteristics were identified:

- First, all the proposed projects were very large budget items which would not be undertaken by the private sector in isolation.
- Second, all the projects were potentially commercially viable but had high initial risk profiles and some had very long time horizons in terms of market related returns on investment. This meant that while the public sector would play the lead role in the projects in their early phases, the private sector could be crowded in as projects progressed. This meant that the projects were suitable for a Public Private Partnership approach, although the partnership would be phased and non-traditional.
- Third, all the projects would need some degree of government approval, support or co-ordination between the three tiers of government.
- Finally all the projects met the causality test which was applied showing that the delivery of the projects would support the goals of the Trade and Industrial Strategy to move the economy onto a new more sustainable growth trajectory as measured by GGP growth and employment creation.



It was these four characteristics that led the Gauteng Provincial Government to establish a delivery vehicle to see this infrastructure delivered in a commercially viable and sustainable manner heralding the birth of BLUE IQ.

Knowing if Blue IQ is a success

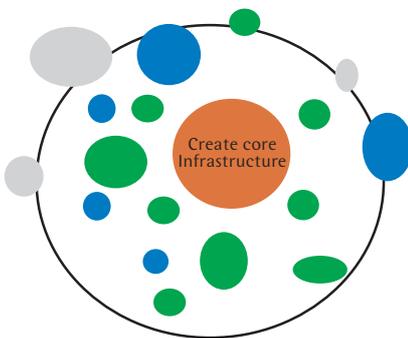
From the above it becomes clear that determining whether Blue IQ is a success or not is not just about how the individual projects progress in the short run – although this is obviously crucially important. While project delivery according to spec, on time and on budget are necessary requirements for success they are not sufficient to determine success. The measure of Blue IQ’s success in the final analysis is the answer to the question: “Did Blue IQ positively assist in shifting the economy of Gauteng onto a new economic growth trajectory?”

The indices by which to measure this are:

- The composition of provincial GGP i.e. has the Blue IQ initiative assisted in changing the contributions of individual sectors to total GGP. In other words, have the smart industries, high value-added manufacturing, tourism and financial and auxiliary services increased their contribution to GGP and have the primary sectors and low value-added manufacturing contracted in terms of GGP contributions?
- The composition of provincial exports, ie has Blue IQ assisted in changing the mix of Gauteng’s export basket?
- Labour absorption capacity – is the new economy able to absorb labour more readily and on a sustainable basis than the old economy did?
- GGP growth – is the economy growing in a sustainable way over time?

International experience suggests that such macro-indices changes will only be noted in 15 to 20 years after realignment policies are in place. The Gauteng Provincial Government is, however, already tracking indice movements and the trends are looking positive at this time.

CAUSALITY CONCEPT



- Blue IQ Catalytic Infrastructure investment
- Existing firms and stakeholders
- New firms crowded in
- Spillover economic activity (second tier Providers, Support Industries, Retail etc.)

## AN ORGANISATION DESIGNED OUTSIDE THE BOX

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*A crucial element of the success of Blue IQ has been the certainty that surrounds its operations due to extensive political and budgetary negotiations prior to the public launch of the initiative.*

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### STARTING PRINCIPLES

Once it was agreed why Blue IQ was necessary; what its mandate was and how its success would be measured; and what the nature of the business would be, a vehicle was required to deliver the above vision.

The principles of the institution were fourfold:

- First, the vehicle needed to have sufficient political support and financial resources so that it could not only do its job, but that it was taken seriously by the private sector and could meaningfully ameliorate risk in the early phases of the project. To this end a Cabinet Memorandum was passed detailing the eleven projects to be undertaken and a corresponding R3,7 billion budget was voted to the Department of Finance and Economic Affairs (DFEA) for their delivery over a five-year MTEF cycle. Funding for the rapid rail link was kept as a separate budget item.

A crucial element of the success of Blue IQ has been the certainty that surrounds its operations due to extensive political and budgetary negotiations prior to the public launch of the initiative. The years of work behind the scenes prior to the launch of Blue IQ allowed the company from day one to operate freely within its political mandate without requiring additional ratification on decision-making. This political space allowed Blue IQ to make decisions in line with private sector timeframes.

In addition, the R3,7 billion budget gave Blue IQ great certainty regarding what it could and could not commit to over a five-year timeframe. This certainty again allowed the organisation flexibility and rapid response time for decision-making of a financial nature.

While Blue IQ continues to comply with all Treasury, departmental, cabinet, legislature and Public Finance Management Act (PFMA) reporting and review criteria and processes; its broad parameters are sufficiently bedded down that it is able to meet these requirements without delaying its work in the operational field. It is generally accepted that this flexibility and consistency has been the greatest asset to Blue IQ in its quest to work productively with its stakeholders.

- Second, it was agreed from the outset that the institution was to have a limited life span. The institution was designed to deliver the pre-agreed strategic infrastructure, which would then act as a catalyst such that public sector involvement could be scaled back while private sector involvement was scaled up. This meant that the public sector's role in the projects was both phased and ultimately finite.



## AN ORGANISATION DESIGNED OUTSIDE THE BOX

It was agreed that Blue IQ would exist in full force for a period of five years after which it would wind down on a timetable which coincided with the commercialisation of the last project. The limited life span was important in terms of the budgetary and political priorities of the Gauteng Provincial Government as well as the ethos it created within the organisation itself. Having a given cut-off date acted as a strong incentive for Blue IQ to establish its projects as quickly as possible and to set up self-sustaining and independent companies to take the projects into the future once Blue IQ was no longer operating. The limited life span also sent an important signal to the private sector that Blue IQ was operating only as a catalyst and not as a long term player in the market.



- Third, it was realised immediately that a variety of project parties and the private and parastatal sectors had to be intimately involved in all the projects right from the beginning. This participation could be at the stakeholder level, the investor level or merely at the level of potential collaborator further down the line. As such it was crucial that the vehicle had the flexibility to embrace this variety of relationships and the dynamic nature of the relationships which would change as the projects matured.

It became apparent early on that the delivery structures to be adopted would need to be highly flexible to allow all necessary stakeholders to participate, each with their own appropriate channels. Blue IQ would need to enable: management agreements, co-operation agreements, partnership agreements, memorandum of understanding, memorandum of agreements, shareholders' agreements as well as patronage agreements and other forms of participation

- Fourth, due to the diminishing role of the public sector anticipated from the points above it was crucial that the organisation be "easily acceptable" to the corporate world. The organisation would need to act, behave and negotiate with the corporate sector as if it was also a private sector firm. The new vehicle would need to be lean, robust, flexible, dynamic, decisive and highly professional.
- Finally, and crucially, it was realised that the vehicle would need to access an enormous array of skills and that the skills required would span virtually every discipline and would change quickly over time as projects developed. As such, a flexible solution to accessing the best skills and developing sustainable reservoirs of information and capacity relating to specific projects, needed to be accommodated.

From this it was decided that Blue IQ should essentially be a "virtual company" with a very small full-time staff component supported by a range of skills created within individual project special-purpose vehicles and via outsourcing agreements and slate tenders which would allow the company to access on a needs basis the best brains in the market.

Directed by these principles Blue IQ, the organisation was born.

### Legal status of Blue IQ as an entity and Blue IQ Investment Holdings (Pty) Limited

Blue IQ, the operational entity, is in fact not a juristic person but merely a programme of the Department of Finance and Economic Affairs. Blue IQ is funded wholly through the Gauteng Provincial Government (GPG) budget and is accountable to the Head of Department, DFEA, the MEC for Finance and Economic Affairs, the GPG Cabinet and the Gauteng Legislature.

 AN ORGANISATION DESIGNED OUTSIDE THE BOX

To assist, however, in making Blue IQ an easy partner for the private sector to co-operate with, it operates in a carefully constructed environment which makes it look and feel more like a private sector company than a government department. Blue IQ has its own independent offices, its own corporate identity and brand and its employees, while civil servants, operate as if they were private sector employees.

Blue IQ has seven full-time staff inclusive of administrative support. The skills required to support the management team are outsourced through a single slate tender known as the skills consortium. The single slate tender eliminates delays in requiring tender approvals. The skills consortium is extremely broad and includes disciplines such as: quantity surveyors, lawyers, property economists, environmentalists, property developers, business analysts, financial advisors, tax consultants, economists, civil engineers, communications experts, etc. This skills consortium allows Blue IQ to buy in the best brains in the business on an as needed basis creating cost effective access to a wide array of skills.

In 2003 Blue IQ Investment Holdings (Pty) Limited was created via the Blue IQ Investment Holdings Bill, passed by the Gauteng Provincial Legislature. This legal entity was created to effect Blue IQ's exit strategy from its projects and to ensure GPG's continued oversight of projects once the public sector role is diminished on an operational level. Blue IQ Holdings is not an operational, delivery-based company but an investment holding company which holds the equity stake of GPG in various projects and which has the legal capacity to dispose of the government's interests in line with pre-agreed exit strategies. As such Blue IQ Investment Holdings is the corporate entity with which the private sector will contract in terms of various initiatives which will be brought to market as individual projects mature, become ready for commercialisation, and increased private sector equity participation.



INTERACTION OF ENTITIES

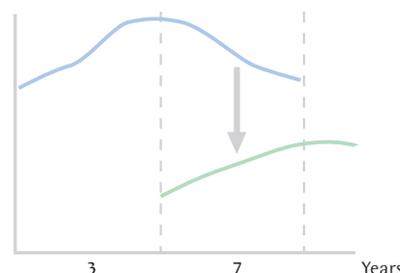
BLUE IQ

- Operational arms
- 7 fulltime staff
- Not a legal entity
- Reports to Head of Department and MEC
- Aims to wind up within 5 years

As projects reach commercialisation phase operational support from Blue IQ diminishes and investment rule of Blue IQ Holdings increases

BLUE IQ INVESTMENT HOLDINGS

- Investment arms
- No Staff; Board of Directors
- (Pty) Limited
- Board reports to MEC
- Exists in perpetuity



**AN ORGANISATION DESIGNED OUTSIDE THE BOX**

**Blue IQ delivery structures**

Blue IQ runs two types of business models: the company model and the agency model.

**The Company Model**

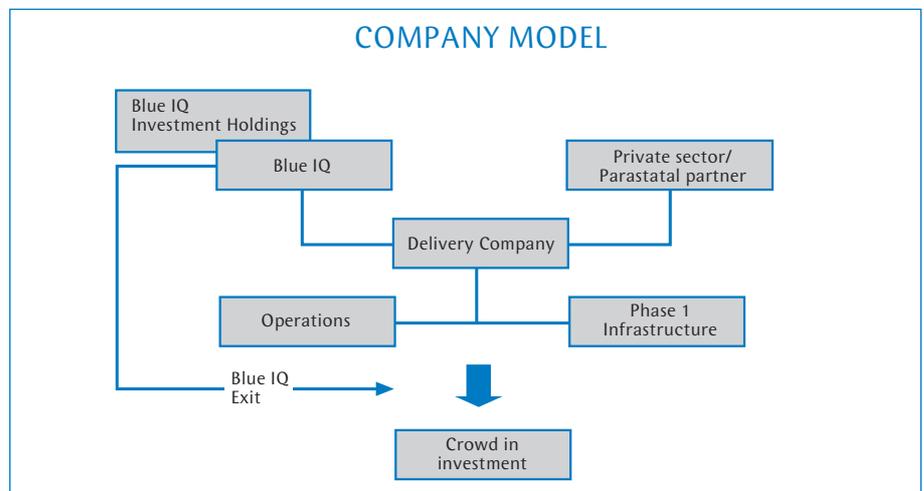
In this model, Blue IQ and its partners establish a delivery company in the form of a Proprietary Limited company. Blue IQ and its partner/partners negotiate a shareholders agreement and equity participation is based on what each party brings to the table. The shareholders' agreement specifies the nature and intent of the project, the total budget committed by Blue IQ for the duration of the project, and the commitments of the other partners. All shareholders participate at the level of the Board of Directors and in most cases external directors are also appointed in line with the King Commission recommendations, or when circumstances dictate, an Advisory Board is established to assist the Board of Directors. With the delivery company established as a legal entity, the company is staffed up appropriately with a CEO in place and a set of agreed policies and principles regarding issues such as financial administration, procurement, HR policies, etc. The company submits an annual business plan and budget to Blue IQ as well as regular progress reports and financial information so that Blue IQ can meet its oversight and reporting responsibilities to the Treasury, the Department and the Legislature.



The delivery company is run as a commercial entity from its first day of incorporation, despite the fact that in the early years the majority of the delivery company's income originates from Blue IQ. Setting up a private company from the start engenders a corporate discipline and ethos in the project as well as establishing key systems and a corporate track record.

The delivery company, in generic terms, has two key functions. The first is to establish a viable operating company which performs all the usual corporate functions of: strategy and business plan development, implementation of strategies and plans, marketing and communications, administrative services, procurement, monitoring and evaluation. The second key function of the delivery company is to implement phase one of the physical strategic economic infrastructure as agreed by the shareholders.

Typically the phase one infrastructure element includes the preparation of the site in terms of securing the site, dealing with access and security, the provision of bulk services and the construction of core buildings and facilities. Once the physical work is



**AN ORGANISATION DESIGNED OUTSIDE THE BOX**

complete the delivery company must ensure that developed space is let at market-related prices which will in time deliver a competitive return on investment.

Upon the successful completion of phase one of the physical infrastructure, the delivery company must then seek to bring in private sector equity partners to replace Blue IQ and to allow the company to develop future physical infrastructure developments. The exit process is described in greater detail in the next chapter.

The company model is used in:

- The JIA Industrial Development Zone (IDZ)
- The Innovation Hub
- The Automotive Supplier Park (ASP)
- Automotive Industrial Development Centre (AIDC)
- MetroMall

**The Agency Model**

The agency model is used for Blue IQ projects which provide public infrastructure and public goods for which no direct financial return is possible, eg upgrading of public spaces, building new roads to improve access, street lighting and township re-development.

In this model Blue IQ negotiates a Project Development Agreement with the implementing agent. Often this agent is a local authority or an agent of the local authority such as the Johannesburg Development Agency (JDA). The Project Development Agreement specifies what infrastructure is to be built at what cost and in what time frame. Management fees are included within the agreement and paid according to delivery.

The implementing agent has two functions. The first is to deliver the negotiated infrastructure. The second is to create an institutional body which will oversee the maintenance of the infrastructure and ensure that the infrastructure is leveraged for the intended purpose and its integrity maintained. These institutional bodies could be: property owners associations, city improvement districts or a formal local business and LED forum.

Once the terms of the agreement have been met Blue IQ is no longer a direct stakeholder in the project and exits the project. At this point the institutional bodies should be self-sustaining, and to the extent that they are not short term, funding must be sought, by the implementing agent, from the relevant local authority.

The agency model is used in:

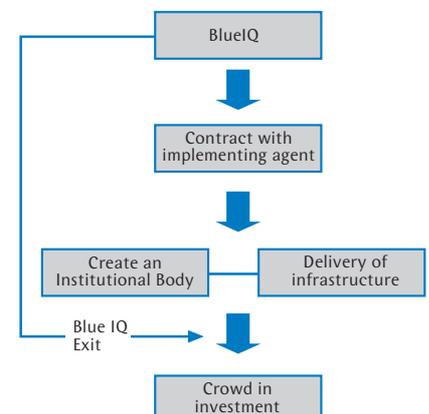
- Wadeville Alrode Industrial Corridor (WAIC)
- Newtown (some sub-projects)
- Constitution Hill (some sub-projects)
- Kliptown
- Road upgrade project around JIA

**The Hybrid Model**

In some instances a hybrid model exists. This model is used when the public goods created via a project development agreement result in associated commercially viable opportunities which could be captured in the company model. In this case both a project development agreement and a separate shareholders' agreement are entered into. The two prime examples of the hybrid model are: Newtown and Constitution Hill.



**AGENCY MODEL**





*The major return which Blue IQ and the Gauteng Provincial Government are looking for with respect to their investment in these eleven projects is the non-financial return of a better operating economy which gives rise to higher GGP and increased employment.*



**OVERVIEW**

This section looks only at the exit strategies pertaining to those projects which are created under the company model and hybrid model as explained above. Blue IQ’s company model projects are only just beginning to reach a stage of commercialisation where it is possible to contemplate the details of an exit strategy. Thinking in this area will develop over time and be refined as Blue IQ interfaces with the market and gauges its appetite for the risks and returns of the specific opportunities.

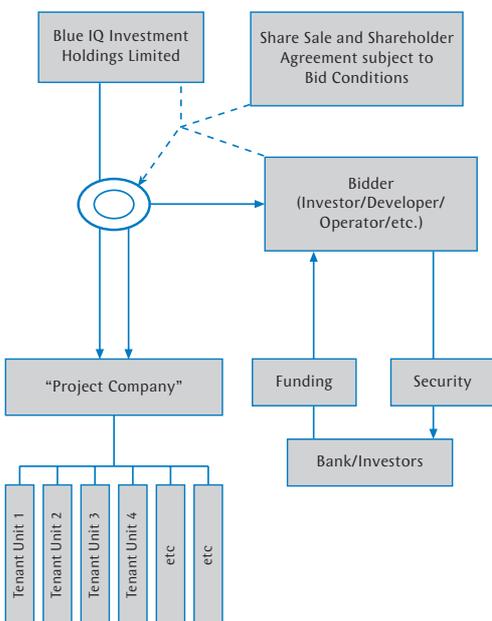
It goes without saying that the major return which Blue IQ and the Gauteng Provincial Government are looking for with respect to their investment in these eleven projects is the non-financial return of a better operating economy which gives rise to higher GGP and increased employment. Project-specific objectives become relatively more important in that they relate to delivery of economy sector-specific sustainability and efficiency enhancements. With that being said, however, the methodology of Blue IQ has been such that a financial return on investment is expected. Our initial thinking on how a return will be generated while ensuring that the project is taken to completion by the private sector is explained below at a generic level. As all investors know, the actual details of a particular transaction will be determined by the specifics of a given project and its economic drivers.

**Concept approach**

The overall concept is based on using the underlying capital value and the sustainable revenue generating potential of the project company as an incentive to attract private sector consortia to invest. Blue IQ Investment Holdings will contract to perfect the sale of the project company equity to the private sector, subject to the private sector succeeding in delivering the development to agreed requirements.

It is foreseen that the private sector (appointed in terms of a competitive process referred to hereafter as “the Bidder” will be prepared to assume the risk and responsibility of developing and populating the projects to tenant and Blue IQ Investment Holdings requirements with the rewards offered being unfettered controlling ownership of the project company at the pre-agreed completion condition of the project.

The concept envisages the Bidder becoming the senior partner with Blue IQ Investment Holdings in the “Project Company” where it will establish a presence within the Project Company to deliver its obligations in terms of the project requirements. This could be illustrated as indicated in the diagram below.



As the Bidder identifies new tenants, it will raise funds against the new tenant’s lease, the underlying property (sectioned to facilitate the provision of security if/as required)

and existing business case to develop each additional facility and in this manner, plus any other initiatives introduced by the Bidder, generate operational cash flows and a solid, sustainable business case. The Project Company will be run as a fully operational company, staffed either by the Bidder's staff, staff from the existing project company or a combination of both at the discretion of the Bidder.

### Criteria

To ensure the objectives of Blue IQ Investment Holdings are achieved and the integrity of the project maintained, a number of key criteria that are clearly definable and measurable will need to be established with the Bidder. The criteria will form an integral component of the competitive process, project monitoring and the triggers for unlocking of value to the Bidder and Blue IQ. Illustrative criteria which Blue IQ would consider include, amongst others:

- Number and size of sites to be developed and populated within the project;
- Limitations to the nature of the facilities to be developed and populated on each site and minimum technical standards;
- Limitations to the nature of tenant such as specific to a particular industry or related service; and
- Advancement of meaningful Black Economic Empowerment (BEE).

### Ensuring delivery and compliance

To ensure that the project is delivered as envisaged, Blue IQ Investment Holdings will need to establish a combination of financial commitment and incentives, countered by a mechanism to create the right/option for Blue IQ Investment Holdings to terminate and claw back value and/or control due to non-compliance or substandard performance by the Bidder.

#### *Financial commitment*

To demonstrate its commitment to the project, the Bidder would be required to bid and pay for the equity in the Project Company as part of the commercialisation process.

#### *Performance control system*

Development objectives will be established as a function of the commercialisation process and will be monitored against milestones to establish compliance and performance.

### Execution of exit

The exit process of Blue IQ will be completely open and transparent. A three-step process is envisioned starting with: an expression of interest together with an initial invitation to offer, an invitation to offer and then through to negotiation and close. Technically the exit will be run jointly by Blue IQ Investment Holdings as the disposing legal entity, and the project company. On a practical and logistical basis the exit will be run through the current operations of the Blue IQ programme with assistance from a variety of skilled consortia members.

To achieve the above objectives, it is proposed that an outright sale of the shares (to the level agreed with the Bidder through the competitive process) be concluded with




 BLUE IQ EXIT STRATEGIES


Blue IQ Investment Holdings Limited acquiring a preference share that entrenches its controls and constraints. Achievement of all of the Bidder's obligations and duties will trigger the redemption of the preference share and transfer unfettered ownership to the Bidder.

A process will be developed and focused to achieve best value for Blue IQ Investment Holdings through its disposal of interest procedures. The driving factors underpinning the bid are to ensure achievement of the underlying economic objectives of the project. As such, determinants for a preferred Bidder may include:

- Perceived expertise and capability of private sector consortium/bidder
- Level and nature of BEE participation
- Proposed company structure and staffing for purpose of delivering the transaction
- Sale price offered and level of equity offered to Blue IQ Investment Holdings (residual GPG holding)
- Timetable for development bid, including interim delivery targets to achieve project completion
- Value capture structures for Blue IQ Investment Holdings
- Demonstrated ability to acquire the equity and to raise funding for future developments
- Level of understanding of, and acceptance and commitment to, the project objectives and constraints
- Level of acceptance of risk pertaining to the project

#### Ideal exit

In the perfect scenario for Blue IQ, a successfully developed company model project would be taken to market at around the time that GPG's initial funding had been fully utilised and the company is a stable, growing corporate entity with an established revenue stream and realisable demand for additional space and sustainable growth.

In this perfect scenario, the market would, through the above process, contract with the project company in such a way that five goals could be achieved:

- First, the project would have an injection of private sector initiative and access to capital such that it could expand to meet market demand.
- Second, the continuity of the project would be assured and the potential for it to grow released from the financing and regulatory constraints of the public sector; such that the direct crowding-in of associated economic activity and spill-over economic activity can be maximised.
- Third, the company would be transferred to the private sector with a strong BEE component such that from a macro-perspective the project had not only added to the non-government contribution to provincial economic activity, but had created new value and ownership for Black Economic Empowerment.
- Fourth, the GPG could return a significant portion of its initial investment to the provincial fiscus for such funds to be utilised either for investments in social services or in other support initiatives for the Trade and Industrial Strategy.
- Finally, in the perfect scenario, Blue IQ Investment Holdings would retain a minority shareholding in the company so as to ensure it remains true to its design over time and so that in the long term, can recoup its investment through the increase in the value of the equity stake.



Blue IQ has identified eleven mega projects that have the potential to make a significant impact on the economy of Gauteng.

### SMART INDUSTRIES

- The Innovation Hub
- Gautrain Rapid Rail Link

### HIGH VALUE-ADDED MANUFACTURING

- Gauteng Automotive Cluster
- Wadeville Alrode Industrial Corridor
- JIA Industrial Development Zone
- City Deep Transport Logistics Hub

### TOURISM

- Cradle of Humankind World Heritage Site
- Constitution Hill
- Newtown
- Dinokeng
- KlipTown

## THE INNOVATION HUB™

*For international firms, The Innovation Hub will offer access to cost competitive R&D facilities and staff, as well as a platform to engage with local intellectual property.*



The Innovation Hub project at its simplest can be described as a Science and Technology Park. The purpose for undertaking the project was to provide a strong foundation of intellectual property creation and then commercialisation as a support for the broader development of the smart industries within the Province. Smart industries by definition and due to international pressure, must continually improve and innovate. Hence, if Gauteng is to develop as a smart province, the first step is to ensure that a solid pipeline is created for the support and development of new intellectual property.

For the local market, the project allows a strong and facilitated interface between entrepreneurs, academics and researchers with the private and public and parastatal sector. For small and emerging local companies Innovation Hub offers: commercialisation support services, incubation, venture capital, networking opportunities and other value-added services. For the larger established local firms, Innovation Hub offers state-of-the-art facilities, special access to academic and other institutional research institutions as well as access to new intellectual property emerging from smaller companies at the Science Park and the work of the partnering institutions. For international firms, the Science Park offers access to cost competitive R&D facilities and staff, as well as a platform to engage with local intellectual property.

The development provides for the physical clustering of knowledge-intensive businesses in a range of leasehold buildings and opportunity for freehold establishment of company-owned properties.

### Location

The final site will be developed on 60 hectares of land situated between the University of Pretoria and the CSIR.

### Blue IQ commitment

R184 million

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*One of the greatest distorters of urban economic growth and urban planning is traffic congestion.*

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The purpose of the Gautrain Rapid Rail Link is to allow Johannesburg, Pretoria, Johannesburg International Airport and the corridors between these nodes to continue to grow and develop without being hindered by access problems and traffic congestion in future years. One of the greatest distorters of urban economic growth and urban planning is traffic congestion. The investment in a mass rapid transport system of this nature at this time is a long-term measure to ensure that future growth is unhindered and to encourage economic activity and urban densification along the crucial north-south and east-west axes. Besides the tangible benefits of reducing congestion, improving accessibility and mobility, assisting tourism, promoting the use of public transport and reducing pollution in economic terms the Gautrain is seen as a key element in improving economies of urbanisation, increasing total factor productivity and improving the conduciveness of the local economic environment.



### Location

The 80 km network line will link Johannesburg, Sandton, Pretoria and Johannesburg International Airport and will have ten stations. The distance between Pretoria Central and Johannesburg will be covered in less than 35 minutes at speeds of 160 kms an hour or more. It will be served by dedicated road-based feeder and distribution systems and park-and-ride facilities.

### Blue IQ commitment

To be determined

### Contact

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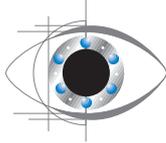
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**GAUTENG AUTOMOTIVE CLUSTER**



Gauteng Automotive Cluster

The Gauteng Automotive Cluster is an aggregation of automotive assemblers, component manufacturers and material suppliers in the same location that are together responsible for some 40% of the country's production. The project has two important components that will particularly enhance the global competitiveness of the automotive industry – the Automotive Industry Development Centre (AIDC) and the Automotive Supplier Park (ASP). The Automotive Supplier Park was designed to concentrate component manufacturers and suppliers in one location adjacent to key OEM assembly plants so as to strengthen the supply chain in an industry with exacting standards of just-in-time and just-in-sequence manufacture. The AIDC has been designed to offer world-class services for automotive design and testing, automotive research and development and human resource development.



**Automotive Supplier Park (ASP)**

The importance of the motor vehicle industry to Gauteng is based on its GGP contribution to the provincial economy, its high levels of employment and its massive potential to grow and expand through exports. The ASP was designed to concentrate component manufacturers and suppliers in one location adjacent to key OEM assembly plants so as to strengthen the supply chain in an industry with exacting standards of just-in-time and just-in-sequence manufacture. Via economies of scale, centralised services and sector-specific logistics and transportation initiatives, the ASP should result in cost savings which will enhance the competitiveness of the local industry and provide it with a firm basis for future growth.

**Location**

Rosslyn, Pretoria

**Blue IQ commitment**

R200 million

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**Automotive Industry Development Centre (AIDC)**

The AIDC has been designed to offer world-class services for automotive design and testing, automotive research and development and human resource development. The purpose of the project is to deliver support services to the industry which would allow firms to maintain or improve their competitive advantage and productivity in an international market where change is constant.



Automotive Supplier Park

**Location**

Pretoria

**Blue IQ commitment**

R130 million

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Automotive Industry Development Centre (Pty) Ltd

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*Creating an integrated platform for the expansion of the tradable goods sector and supporting exports, especially into sub-Saharan Africa.*

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The purpose of the WAIC project is to regenerate a locationally significant manufacturing corridor which had degenerated due to exogenous changes in macro-economic policy. Situated between the Johannesburg International Airport and the City Deep terminal, this East Rand corridor had been home to many local manufacturing firms that failed to survive in the post-sanctions, WTO tariff reduction era. Fundamentally good infrastructure lay wasting and under-utilised. Infrastructure and support services in the area are being upgraded so as to optimally utilise existing infrastructure, take advantage of the locational benefits of the area, thereby creating an integrated platform for the expansion of the tradable goods sector and supporting exports, especially into sub-Saharan Africa.



### Location

Wadeville and Alrode, neighbouring towns on the East Rand that form the heart of the manufacturing base of Gauteng.



### Blue IQ commitment

R112 million

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*The purpose of the Industrial Development Zone is to increase the contribution of the aerospace, avionics, electronics and telecommunications industries to provincial GGP.*

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The purpose of the JIA Industrial Development Zone is to provide an efficient and effective import and export duty-free zone for high value-added light manufactured goods which are exported via air freight. The hope for the project is that by providing state-of-the-art transport and logistics advantages, due to the proximity of the IDZ to the airport – good security; effective and efficient customs procedures; supply chain clustering and bespoke facilities – the project will attract time-sensitive and high value-adding industries to the area. Specifically the purpose of the IDZ is to increase the contribution of the aerospace, avionics and electronics and telecommunications industries to provincial GGP.

### Location

Kempton Park, adjacent to the Johannesburg International Airport, strategically sited for access to Gauteng's major industrial and manufacturing centres.

### Blue IQ commitment

R213 million

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*Being a landlocked province 600 km from the nearest sea port, the economic importance of an effective transport and logistics platform for containers is crucial to the composition and location of firms in the province.*

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**CITYDEEP**  
TRANSPORT LOGISTICS HUB

The City Deep terminal is the premier container depot in South Africa and this inland port is the largest in Africa and fifth-largest in the world. City Deep is currently under-utilised and distortions in freight movement and transport costs as a percentage of production costs have occurred with negative effects for the provincial economy. The purpose of the City Deep project is to increase the efficiency and decrease the cost of containerised cargo moving into and out of Gauteng. Being a landlocked province 600kms from the nearest sea port, the economic importance of an effective transport and logistics platform for containers is crucial to the composition and location of firms in the Province. More specifically the purpose of the project is to: increase the profitability of Gauteng firms by decreasing transport costs; to create the infrastructure and operations to support a major export hub for goods into sub-Saharan Africa and to retain exiting firms and then expand this base of companies which moves large volumes of containerised freight.



### Location

The concentration of container terminals, storage facilities and distribution systems at City Deep near the Johannesburg City Centre, provides optimal conditions for importing to and exporting from South Africa's richest, most industrialised region.

### Blue IQ commitment

R80 million

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## CRADLE OF HUMANKIND WORLD HERITAGE SITE




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*This 47 000 hectare site was declared a World Heritage Site in 1999 and comprises a unique band of palaeo-anthropological sites which have yielded valuable insight in regard to the origin of modern humans.*

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This 47 000 hectare site was declared a World Heritage Site in 1999 and comprises a unique band of palaeo-anthropological sites which have yielded valuable insight in regard to the origin of modern humans.

The purpose of this project is to provide the infrastructure and support structures necessary to optimally develop the tourism potential of this unique and formerly untapped World Heritage Site such that the tourism sector's contribution to the surrounding communities and provincial GGP and employment increases. From an economic perspective the logic of the project is that the creation of additional 'tourism product' will attract niche tourists as well as extend the stay of existing tourists thereby expanding the sector.



### Location

North-West Gauteng

### Blue IQ commitment

R184 million



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*Dinokeng will create an opportunity to enjoy wildlife in a natural environment as well as the rich culture and history of the people of the area close to the province's major cities.*

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Twenty minutes from Pretoria and the Johannesburg International Airport, Dinokeng will create an opportunity to enjoy wildlife in a natural environment as well as the rich culture and history of the people of the area close to the Province's major cities.



The purpose of this project is to provide the infrastructure and support structures necessary to optimally develop the tourism potential of a unique 'urban' game reserve and ecotourism experience such that the tourism sector's contribution to the local economy and provincial GGP and employment increases. From an economic perspective the logic of the project is that the creation of this additional 'tourism product' will increase local tourism to the area and extend the stay of existing business and leisure tourists thereby expanding the sector.



### **Location**

North-eastern Gauteng.

### **Blue IQ commitment**

R162 million



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## CONSTITUTION HILL

*The precinct will not only celebrate South Africa's constitution and create a city landmark, but that a node of heritage and constitutional-related activities will be sparked.*



The purpose of the Constitution Hill project is to preserve historically significant buildings from the Old Fort in a manner which makes them publicly and commercially useful and which catalyses the regeneration of the Braamfontein Precinct. The vision of the project is that the precinct will not only celebrate South Africa's Constitution and create a city landmark, but that a node of heritage and constitutional-related activities will be sparked, accompanied by commercial ancillary activities such that a new node of totally new economic activity is created.

### Location

A 95 000 m<sup>2</sup> precinct at the Old Fort, Braamfontein, close to Johannesburg's CBD.

### Blue IQ commitment

R357 million

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*The aim of the project is to improve the quality of life for the residents of Kliptown via the upgrading of infrastructure, the rehabilitation of the river, the upgrading of housing and improved transportation.*

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**Kliptown**

The purpose of the Kliptown project is to redevelop this traditional apartheid style buffer zone township between Johannesburg and Soweto into a desirous and prosperous residential and commercial area, utilising its historical significance, location and tourism potential as the tools for the transformation.



The aim of the project is to improve the quality of life for the residents of the area via the upgrading of infrastructure, the rehabilitation of the river, the upgrading of housing and improved transportation as well as increasing employment opportunities and economic activity in the area via the creation of the Walter Sisulu Square of Dedication.



#### Location

Kliptown is located in Soweto between Eldorado Park, Pimville, Dlamini and Klipspruit West.



#### Blue IQ commitment

R299 million

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*With the reintegration of South Africa into the world economy opportunities existed for Gauteng's cultural artists to develop their music, dance, crafts, clothing and fine art activities.*

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The purpose of this project is to regenerate the Newtown precinct in a manner which increases commercial activity in the area and specifically an increase in the contribution of cultural industries to economic growth, employment and exports.



With the reintegration of South Africa into the world economy opportunities existed for Gauteng's cultural artists to develop their music, dance, crafts, clothing and fine art activities all of which have a potentially high demand in the international market. The intention of the Newtown project was to create a locational cluster and home for these activities which provided not only infrastructure and facilities but marketing support and positioning. Given the surrounding area and improved access, developing Newtown as a true mixed-use cultural precinct was seen as possible and hence the plan to create Gauteng's own Soho or Greenwich Village was born.



#### **Location**

Johannesburg CBD

#### **Blue IQ commitment**

R300 million

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*With public private partnerships being central to the long-term success of Blue IQ, the fostering of relationships with the private sector is a priority. Blue IQ's rainmakers are a group of accomplished South African businesspeople who are provided with regular, detailed updates on Blue IQ project progress. These business leaders fulfil an ambassadorial role for the programme in addition to providing comments and suggestions relating to their areas of expertise.*

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**Cyril Ramaphosa**

*Chairman – Johnnic Holdings Limited*

“As Chairman of Johnnic, the country’s pre-eminent black empowerment company, it is my privilege to endorse the Blue IQ initiative.

Like Johnnic’s Ikageng Share Scheme, Blue IQ’s 11 mega-projects offer businesses a ticket to genuine economic empowerment and the potential to enjoy the economic fruits of democracy.”



**Nicky Oppenheimer**

*Chairman – De Beers*

“I welcome Blue IQ’s structured plan to engineer a rebirth of the country’s commercial and industrial centre here in Gauteng.

I particularly welcome the plans to create major eco-tourism facilities here in Gauteng, which is already the destination for a great many business visitors.”



**Neil van Heerden**

*Executive Director – South Africa Foundation*

“I am delighted that the Gauteng Provincial Government has taken this bold step through Blue IQ to attract local and international investment in the regional economy.

The members of the South Africa Foundation believe that Blue IQ is a committed effort by the Gauteng Government to generate domestic and foreign investment in projects that will benefit investors and the long-term future of this region’s people.”



**Vincent Maphai**

*Corporate Affairs Director – SAB Limited*

“I am very pleased that Blue IQ places a great deal of emphasis on innovation because at the end of the day, it is innovation that is going to create new opportunities for our economy to grow.”





**David Brink**

*Chairman – Murray & Roberts Holdings Limited*

“An improvement in levels of economic activity that Blue IQ promises will obviously have a positive effect on companies such as ours.

Blue IQ’s decision to concentrate on 11 major projects in key sectors in partnership with private enterprise seems to me to be an excellent way for government to create new jobs, boost local business and attract overseas investment.”



**Saki Macozoma**

*Chief Executive Officer – New Africa Investments Limited*

“The Blue IQ projects are in sectors that have tremendous potential to create jobs and earn sustainable returns.

The Innovation Hub is ideally targeted to achieve the kind of transformation and knowledge enhancement that our economy needs.”



**Barry Davison**

*Non-Executive Chairman – Anglo American Platinum Corporation Limited*

“As Chairman of Anglo Plats, the largest platinum producer in the world it is my pleasure to endorse the Blue IQ initiative. It is the kind of planned and focused programme that has the best chance of revitalising Gauteng’s economy.

I am particularly delighted that there is a clear strategy for reinstating the Johannesburg Central Business District as the continent’s premier commercial centre.”



**Christoph Köpke**

*Chairman – DaimlerChrysler SA*

“We at DaimlerChrysler South Africa are proud of the very substantial advances that the domestic automotive industry has made in penetrating international markets.

In my opinion Blue IQ’s plans will improve the industry’s global competitiveness still further.”



**Sizwe Nxasana**

*Chief Executive Officer – Telkom*

“We at Telkom know just how important it is for South Africa to upgrade its technological capability if we are to be globally competitive. The Blue IQ initiative, with its small, highly skilled, and professional taskforce undertaking defined strategic projects in partnership with the private sector, is very well suited to achieving its objectives. The Innovation Hub in particular is capable of catapulting Gauteng into the age of knowledge-based business.”

**Russell Loubser**

*Chief Executive Officer – JSE Securities Exchange*

“The JSE subscribes to the consensus of the business community that the Blue IQ programme of the Gauteng Provincial Government is based on sound strategic business principles and calculated to stimulate economic growth. A central precept, for example, is that the projects should capitalise on the competitive advantages already enjoyed by Gauteng. There is no doubt that Gauteng’s sophisticated, multi-faceted financial services infrastructure is a huge incentive to attract potential international investors in the various projects.”



**Dolly Mokgatle**

*Chief Executive Officer – Spoornet*

“Our ability to develop innovative technological platforms should place us in good stead as a province capable of delivering on its niche: being the economic nerve centre of Africa. Blue IQ will boost Gauteng’s already well developed infrastructure to attract investors expecting an efficient environment that will ensure them adequate and optional return.”



**Nolitha Fakude**

*National President – Black Management Forum*

“One of Blue IQ’s most exhilarating aims is to transform Gauteng into the “smart province”. This places a strong emphasis on progress in applied science and technology, which rests ultimately on enhanced competencies in maths and science. In this respect, Blue IQ’s far-seeing programme meshes closely with the mission of the Gauteng Department of Education, which focuses strongly on girl learners, especially African learners in township schools. I believe that the BMF also has a strong role to play in this transformative process by emphasising the need for focused skills training and further education in the workplace.”



 **FOR FURTHER INFORMATION ON BLUE IQ**

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