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REPUBLIC OF SOUTH AFRICA

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## **‘ROADMAP TOWARDS INCLUSIVE GROWTH’**

**Speech by Minister of Finance  
Malusi Gigaba**

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The Executive Mayor of the City of Ekurhuleni, Councillor Mzwandile Masina,  
Member of the Mayoral Committee for Finance and Economic Development, Councillor  
Nkosindiphile Xhakaza,  
Other Members of the Mayoral Committee of the City of Ekurhuleni,  
Investors and potential investors,  
Distinguished Guests,  
Ladies and gentlemen:

The critical task before us as leaders – government and business alike – is to realise Vision 2030, by building a South Africa in which all of its people thrive.

Realizing this vision requires us to achieve inclusive growth and economic transformation, to overcome the triple challenges of poverty, unemployment and inequality.

As we consider how to bring about inclusive growth, the economic history of late developing countries, such as the Asian Tigers, is instructive.

Their development exposed the myth that governments are incidental to development and should merely confine themselves to providing basic services and focus primarily on staying out of the way of the private sector.

On the contrary, what the history of these countries has shown is that states can accelerate economic development by working in partnership with the private sector.

Governments have always enabled economic development by using the levers at its disposal such as the fiscus to invest in social and economic programme that improve the all-round quality of life of their people.



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In our own case, our political and economic choice are borne out not only by our aspirations eventually to become a developmental state, but equally important by the experience of our country which instructs us that unless we intervene directly in the economy, not only are market failures in relation to socio-economic infrastructure going to remain an impediment to growth, development and transformation, but inequality of access, opportunity and benefit will remain daunting.

The South African state's role is in our case a deliberate political and economic choice.

That is why we have state-owned companies in critical sectors through whose investments programmes we build critical economic and social infrastructure, drive investment, transformation and pursue industrialisation among their suppliers and customers in order to develop skills and include black and women entrepreneurs.

Government is the only agent that has a vested interest in ensuring there are vast, affordable and accessible networks of electricity, rail, road, communications and other infrastructure that can serve not only the economy, but its transformative objectives as well by ensuring equitable access for those hitherto excluded from economic participation.

Governments further enable economic development by putting in place legal and regulatory regimes which are conducive to developmental economic activity, providing basic services, energy and transport infrastructure, and funding research and development.

Developmental states go further by actively partnering with the private sector to maximize productive investment.

Developmental interventions can include, among others, prioritising high growth potential sectors and sub-sectors for state support, providing incentives which crowd-in private investment, improving access to finance using state development finance institutions (DFIs) and by incentivising bank lending, and helping entrepreneurs and SMEs with market access.

Speaking of high growth potential sectors, I am happy to see that Ekurhuleni is looking to promote investment in advanced manufacturing.

After all, the City of Ekurhuleni has 30% of our country's industrial capacity.

A 2016 report by McKinsey suggested that South Africa can triple exports in high growth potential sectors and sub-sectors by 2030, by building a globally competitive manufacturing hub focused on high value-added categories such as automotive, transportation equipment, industrial machinery and equipment, and chemicals.

Let me make this point very clear: as well as the other high-growth sectors, some of which have already been the main drivers of growth in the South African economy, this country needs massive industrialisation in the secondary sectors in order to grow and create jobs and wealth



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on a sustainable basis in pursuit of the radical economic transformation we seek in order to achieve inclusive growth.

Accordingly, we need Cities like Ekurhuleni to do exactly what you are doing here: forge strategic partnerships between government and business particularly, including other social partners, to promote investment in growth industries such as advanced manufacturing which can drive economic development over the next decade or more.

South Africa needs a social contract for growth, transformation and jobs.

Government needs the private sector in order to boost the business confidence we needs to grow our economy in short-term and lay the basis for long-term sustainable inclusive growth.

But the private sector needs government too to achieve their own goals, as well as those of the country as spelt out in the NDP, bearing in mind that notwithstanding all its other challenges, the South African government has many comprehensive capacities which, if compromised, will undermine your own investment efforts and opportunities.

We need entrepreneurs and entrepreneurial companies who are eager to create and exploit opportunities to grow and who actively engage government as a partner in their efforts to grow and expand.

Ladies and Gentlemen:

Of course it is critical that the developmental state I have spoken of be manifested at all levels of government, national, provincial and local.

Cities are the engines of the South African economy and of growth.

Fifty-seven percent of the national economic product is generated within the eight metros.

Furthermore, our cities have long been growing faster than the national economy.

Information available to the National Treasury shows that over the last five years, between 2011 and 2016, the metro economies grew by 11.1%, but all other areas of South Africa combined managed to grow by only 4.6%.

Our cities are also the engines of job creation.

According to the Quarterly Labour Force Survey released by Stats-SA last Thursday 50% of all employment, formal and informal, are in the eight metros.

In the last two years, between the first quarter of 2015 and the first quarter of 2017, 448 000 jobs were created in the metros, but all other areas of South Africa combined managed to generate only 305 000 jobs.



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Inclusive economic growth means changing the structure and systems of production and ownership, and creating jobs and reducing poverty.

These are the highest priorities in government's transformative agenda.

Accordingly, our cities need to perform better.

Although cities are the engines of economic growth, they are not performing as well as they should.

City economic growth of 11 % over five years is not sufficient.

City job creation of 448,000 over two years is not sufficient.

One of the major reasons for the insufficient performance of our city economies is related to the dispersed and inside-out spatial form that was inherited from apartheid.

In the past, poor, working class, Black people were placed in townships that were far from economic and social opportunities, with poor quality services, little access to acceptable housing and very poor transport services.

Despite the massive investments in public housing, basic services and transport systems made by government since 1994, both public and private investments have tended to re-inforce apartheid urban development patterns.

**This development path is the very opposite of inclusion.**

The poorest people in our society are generally only able to find somewhere to live in distant places, forcing them to travel long distances every day, costing them both time and money.

For too long we have allowed our cities to be built on the 40x40x40 syndrome (40 m<sup>2</sup> house, 40 kilometres from jobs, with transport consuming up to 40% of household income).

To be more inclusive, our cities need to be made more compact.

**This development path is also not productive.**

The time and money that must be spent moving people and goods around the city every day is economically unproductive, cuts into incomes and profits and makes us uncompetitive.

To be more productive, our cities need to become more compact.

**This development path is also environmentally and financially unsustainable.**



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A great deal of energy is used and a great deal of carbon is emitted whilst moving people and goods around the city.

Roads, water and sanitation networks, and electricity distribution infrastructure are all required to cover a larger area than necessary, costing more to build and maintain than they would if our cities were more compact.

Cities are supposed to be meeting places of people, ideas and opportunities.

Our cities have a shape which is preventing them from fulfilling this role properly.

Accordingly our cities remain among the most unequal, unproductive and unsustainable in the world.

Ladies and Gentlemen:

We must directly tackle the challenge of spatial transformation in our cities through clear growth management strategies, plans and programmes.

Essential infrastructure and services should be provided in such a way that they encourage the agglomeration and 'connectedness' that promote inclusive economic growth and development.

We need to create high density, high-activity mixed-use nodes and spines, along public transport corridors, and we need to invest in efficient mass public transport along these spines.

I am told that Ekurhuleni has identified five integration zones to serve as the focus of your spatial restructuring.

We need to accelerate the creation of well-located multi-storey and mixed-income rental stock in these areas.

We need to prevent urban sprawl by saying no to new low density developments on the urban periphery.

And we need to recognise that the location of informal settlements is based on rational choices by poor people and help households with in-situ upgrade wherever practical.

I am also told that Ekurhuleni has 109 informal settlements and is developing a comprehensive informal settlement upgrading programme.

Against this background, I hope it is clear that metro governments have an extremely important role to play in bringing about inclusive economic growth.



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Targeted public interventions are required to catalyse new forms of integrated urban development.

Co-ordinated action is required across the three spheres of government, in partnership with communities and the private sector.

Metros need to play a leading role in coordinating and leading this inclusive growth agenda.

Ladies and Gentlemen:

According to information available to National Treasury, in 2016 the Ekurhuleni city economy generated almost R210 billion in economic product (Gross Value Added (GVA), expressed in constant 2010 values).

This was 8.3% higher than the R193.4 billion generated five years earlier in 2011.

According to Stats-SA, there were 1.26 million people with jobs in Ekurhuleni in the first quarter of this year.

This is 5.9% more than two years ago, in the first quarter of 2015.

There are now 558,000 unemployed adults in Ekurhuleni, also 5.9% higher than two years ago.

In addition, there are 77,000 discouraged work-seekers.

So although the figures show that Ekurhuleni is growing, they also show that it is not growing fast enough, and it is not creating enough jobs.

Inclusive economic growth requires that Ekurhuleni grows faster and generates jobs more quickly and on a sustainable basis.

Your Worship, I want you to feel responsibility for the 558,000 unemployed adults and 77,000 discouraged work-seekers in your metro.

Unemployment is not only a personal and social disaster; it is also a shocking waste of human capacity and often reflects the political and policy choices we make as government.

Imagine what those 635,000 adults could be doing for Ekurhuleni, if only they could be gainfully employed.

Among others, and besides the broader contribution they could be making in the national economy, they would have reduced the numbers of people and children relying on social support grants, which would have freed those resources for economic investments.



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But that does not mean that you should try to directly employ more people in your metro administration.

The metro role in city economic development starts by creating a strong foundation for inclusive economic development.

The foundation involves, among others:

- (a) Firstly, ensuring that infrastructure services are provided in the right places and that the infrastructure is both of good quality and properly maintained. Potholes in the roads, leaking pipes, failures in electricity services, and uncollected refuse are all enemies of inclusive economic growth, and
- (b) Secondly, ensuring that your administration quickly and efficiently processes building plans, requests for electricity supply, clearance certificates, and other regulatory and administrative services. Poor administration is the enemy of inclusive economic growth.
- (c) Thirdly, ensure that you strictly monitor your procurement processes, so that they directly support small and medium enterprises, respond to our call for localisation. This is one important lever we have as a government to support the growth of a locally-owned, labour intensive and vibrant manufacturing sector.

Having established the foundation, Your Worship, your next steps should be to build partnerships with every relevant role player.

It is a mistake to think that the Metro can achieve inclusive economic growth on its own, without engaging others.

For example, you will need to engage PRASA about how your Ekurhuleni public transport systems will interface with the services provided by PRASA;

You will also need to engage with the Department of Public Works about any investments they may be making, or any land holdings they are administering, which may be relevant to achieving your objectives.

Transnet, ACSA and SAA must be engaged with regard to their capital investment plans and what they can do to bolster the Aerotropolis.

It is especially important to engage the private sector and potential investors, as well as state-owned companies, on how to create a vibrant and inclusive city economy.

You will find that the private sector is keen to engage on such issues and to establish trust.

This investment conference is an encouraging step in that direction.



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I hope you will follow it up with an intensive programme of partnering engagements.

With a good foundation and effective partnering in place, it will be possible to address the most significant spatial and economic challenges facing the metro.

The problem of the township economy, for example, can best be addressed by intensive engagements with township enterprises, township residents and private companies.

In this way metros can discover the best ways of increasing job creation and enterprise development in townships.

It would be a mistake to assume that we as government have all the answers to this difficult challenge.

In this regard, the National Treasury will work with the City to promote inclusive economic growth.

The National Treasury has already programmes in place to work with metros to drive inclusive economic growth and confront the challenge of our inefficient and inequitable spatial history.

We would like to increase our collaboration with Ekurhuleni around these issues.

The Cities Support Programme is in a position to work more intensively with the metro on spatial planning, the implementation of catalytic projects, informal settlements upgrading, investment promotion, public transport, and other areas relevant to the inclusive economic growth.

I am pleased that our officials will be presenting on the Urban Development Zone (UDZ) tax incentive which seeks to encourage private sector investment in corridors and nodes identified by the city.

Hopefully we can contribute to your efforts to reshape Ekurhuleni to improve citizens' quality of life and access to opportunities.

Your Worship, I hope that under your leadership we can take our collaboration to a new level.

In the meantime I trust that our deliberations at this Investment Conference will be productive and will allow Ekurhuleni to accelerate its progress on the road to inclusive growth.

I look forward to the resolutions and practical outcomes of this conference.

I thank you.