



MINISTRY OF FINANCE  
REPUBLIC OF SOUTH AFRICA

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## **SPEAKING NOTES BY MINISTER OF FINANCE MR NHLANHLA NENE AT THE DIRECTORS EVENT**

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1. Confidence is a good start – but needs action to be sustained
  - 1.1. There is large potential in the South African economy. The rebound in confidence and the potential for replacement investment has set the stage for an improvement in growth. The 2018 Budget Review projected growth of 1.5% mainly due to improved confidence.
  - 1.2. But there can be no room for complacency. The disappointing contraction in first quarter growth of 2.2 per cent reminds us that there is much to be done – and that the risks to growth remain high. The contraction in the first quarter means that upward revisions to South Africa's growth forecast by many public and private sector economists and multilateral institutions such as the IMF, will need to be revisited.
  - 1.3. We have structural challenges which we must address. Youth unemployment in particular remains too high at 55%. Our entrepreneurship levels are worryingly low – we rank only 27th out of 54 countries in Africa in total early-entrepreneurship activity. We do not have enough small businesses in our country – in fact there are many which have declined – between 2008 and 2016, the number of manufacturing SMEs is down by 24.8%. Over the same period, the number of SMEs in the country only grew by 3.2% - over 8 years. And the cost structure of our economy remains too high, from

broadband, transportation and regulation, making it very difficult for smaller firms to enter and compete against large players.

1.4. We face challenges in upskilling our people to meet the needs of business and the 4th industrial revolution. Over 30 per cent for those who have not completed secondary education find themselves out of work. Once you have been excluded from the labour market, you find it very difficult to get back in.

1.5. And we need to manage an increasingly tumultuous global environment, with international geopolitical uncertainty, trade tensions, and a gradual tightening of monetary policy in some developed countries leading to a potentially difficult operating environment.

2. It is not all doom and gloom – we have the nascent talent and skills to resolve these challenges

2.1. For example, we know that job search costs are very high for young people. Lowest wage earners in urban areas pay up to 40 per cent of their income in transport costs. We also know that over 70 per cent of non-searching youth indicated that their location constrained them from looking for work. Harambee, supported by the Jobs Fund, has been working on the use of IT and telephony to link potential employers with job seekers. Harambee's project recently won the global CX Game Changer Award by Genesys for being a trailblazer in customer experience innovation internationally – a huge success, and the first time award for an African based company.

2.2. Transport costs can also be overcome with technology as evidenced by the A2Pay project, supported through the Jobs Fund. This allows local entrepreneurs to sell prepaid products to informal settlement, peri-urban and rural consumers, thereby

creating a community incentive for the unemployed to earn a sustainable income. This project reduces the need for rural people to travel to urban centers to buy prepaid products such as electricity. The first project created 3118 permanent jobs and 3121 persons benefitted from work related training

2.3. The use of technology to provide relatively cheap and relevant information for young people, utilising free online content, is another tool to help harness the benefits of technology. This is also a fundamental underpinning of the YES initiative, collaborating with Harambee and many other service providers such as Microsoft to try and maximise impact.

2.4. The CCI-Careerbox initiative, a skills development catalyst, uses technology to source, recruit, train, and place large groups of candidates into employment within 2 – 6 weeks. In its first 15 months of implementation the project created 1 409 new permanent jobs and placed 811 beneficiaries in vacant permanent positions with project partners. Further to this, 2 974 beneficiaries completed training, which includes both contact centre and product specific training.

2.5. And there is an encouraging shift in how we are viewing our unemployed, not as a problem, but as a resource that, with the right training and access to opportunities, can contribute to economic growth. And they are not merely potential employees but creators of businesses.

3. When we work together we multiply the effects

3.1. From Government's perspective it is critical that we leverage the strengths of all social partners to make the whole greater than the sum of the parts. In his inaugural State of the Nation Address, President Ramaphosa called on all of us to catalyse new

investment that would create employment, reduce poverty and inequality and transform the economy.

3.2. This occurs in practice too. The momentum of collaboration demonstrated by the CEO initiative, successfully averting further ratings downgrades, and the formation of the YES initiative can and must be built upon. These two examples demonstrate how effective the solutions to some of our most challenging problems can be when social partners work together.

3.3. The design of Government's Small Business and Innovation Fund, with an initial allocation of R1bn, has been intended to focus on an area in the market that is under-served – the start-up phase. This should complement the work of the CEO Initiative's SME Fund and also leverage on the strengths of the many excellent incubators to be found in universities such as Wits and Stellenbosch.

3.4. Tshepo 1 Million is an innovative collaboration between business, communities, provincial and national government to accelerate youth employment.

3.5. The YES initiative is built on this premise too. YES is intended to create new opportunities for young people by business creating work experiences over and above what they need. This is a huge stamp of social commitment, which Government has sought to recognise, both through the ETI and proposed BEE recognition. What is exciting at its heart is the focus on collaborating – pulling together not only private sector players, but also government departments such as the Public Employment Services. This informs the ambitious target of a million jobs over the next three years.

4. Government understands that it must play its part

4.1. We need to maintain fiscal sustainability to ensure a stable platform for growth. This is part of the very difficult job that Government has been involved in, trying to find

trade-offs across the many spending priorities we have. If we do not, however, contain expenditure, we are going to spend increasing amounts on interest costs, threatening service delivery.

4.2. Government recognises that strengthening good governance and acting against corruption is crucial to rebuilding both the sustainability of and trust in state owned entities that can not only lower fiscal risks but also contribute to faster growth.

4.3. Government is keenly aware of some of the key constraints to growth, and is redoubling its efforts to enact reforms that unlock productivity, increase competition and lower the cost of doing business. The National Treasury estimates that, should the global environment remain supportive, the effective implementation of reforms in areas such as agriculture, competition policy, telecoms, tourism and others could add two to three percentage points to real GDP growth over the coming decade.

4.4. We understand just how important it is to get ICT right to promote inclusive growth, improve service delivery and reduce poverty. Research by the National Treasury shows that a 50 per cent reduction in ICT costs can increase GDP growth by 0.3 percentage points per year and create over 200 000 additional jobs over the next decade. If that isn't a motivator for spectrum allocation, I am not sure what is!

4.5. The renewed focus on implementation and on delivering on promises can be demonstrated in the gains made in structural reforms since the beginning of the year, including via efforts to shore up governance in key state owned entities such as Eskom, Denel and SAA.

5. We have the opportunity to really make the change we need

5.1. The exciting thing about the Jobs Summit, YES and the other platforms the President has urged us to work with is that we have the opportunity to focus on change for the better.

5.2. We need to ensure that conversations such as the one we are having today are reflected in those solutions – we need to harness technology and our youth and we need to deliver concrete actions to the President, building on our successes, rather than just trying to fix what is not working.

5.3. South Africa's positives include: a comparatively good environment for business, relatively strong institutions, credible macroeconomic policy, and well-developed and deep capital markets.

5.4. We must work harder to mitigate the risks of an increasingly technologically driven world, but do so in manner that also allows us to reap the benefits offered by new technologies and new markets which create new and more productive jobs.

5.5. Services sectors such as ICT and financial services (including in business process outsourcing or BPO) are but a few examples exhibiting the potential for material, labour-absorbing future growth.

5.6. We need you though to make it work. The private sector accounts for nearly two thirds of total investment and nearly 80 per cent of total formal sector employment.

5.7. We cannot hope to ignite growth and employment without you. I know you are committed. I hope you are excited. I know we are.