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**ADDRESS BY JABULANI P MOLEKETI, DEPUTY MINISTER OF FINANCE
TO THE NATIONAL ASSEMBLY
ON THE OCCASION
OF THE ADOPTION OF FINANCE MINISTRY BUDGET VOTES**

24 MAY 2005

Madam Speaker
Honourable Members

The Minister has highlighted, in his address to you today, the overarching framework within which the Finance Ministry operates – that of the Constitutional commitment to "Improve the quality of life of all citizens and free the potential for each person".

Transformation of the financial sector is a key element of freeing the potential of all our people and overcoming the divide between the first and second economies in South Africa. Access to finance, in the form of appropriate savings, credit, or insurance products, holds the potential for people to empower themselves through small business development, wealth accumulation and the smoothing of income during life crises.

Financial Sector Charter

The Financial Sector Charter has added a deep social dimension to the functioning of the financial system. It goes to the core of how the financial sector will address the urgent need to make business sense of a more sustainable, inclusive and equitable future. The sector has committed to increase access to financial services to 80 per cent of people in the LSM 1 to 5 by 2008. The sector will also increase targeted lending to SMMEs, agricultural enterprises, development infrastructure and low-cost housing.

In a tangible sign of how sound partnerships can contribute towards increasing access to services, the Mzansi bank account initiative has resulted in the creation of an incredible 1 million new bank account-holders in a mere seven months since its launch at the end of October last year. Mzansi will continue to evolve as new product features are added, but already it has made a significant dent on the challenge of improving access to banking services for all.

In the coming months, we expect to see the announcement of similar initiatives in the insurance and collective investments industries.

Government's role in financial sector transformation

A key part of Government's responsibility with regard to financial sector transformation is to create a supportive environment for the sector to extend its services to low-income earners. This we are doing in a number of different ways:

- Firstly, we are addressing regulatory barriers to the entry of new players, products and services in the market – this includes the legislative reform currently underway in the form of the Co-operative Banks Bill, the Dedicated Banks Bill; as well as legislative reform in the pipeline in the form of the rewrite of the Pensions Fund Act and the introduction of a South African Deposit Insurance Scheme ("SADIS");

- Secondly, we are undertaking regulatory changes designed to protect the most vulnerable consumers of financial services – this has included recent market conduct legislation in the form of the Financial Advisory and Intermediary Services Act ("FAIS Act") and the Financial Services Ombud Schemes Act ("FSOS Act"); as well as planned changes to the Pension Funds Act and ongoing work in reviewing competition, disclosure and consumer protection in the banking and insurance industries;

- Thirdly, a volatile financial system – and by extension the macroeconomic turmoil this can cause – serves neither the aims of competitive efficiency nor empowerment. As such, transformation must continue unfolding within an environment where the integrity of our regulatory system remains paramount. We want to expand, modernise and open the halls of finance, but we also want to ensure that our financial structures continue to remain sound. As such, we continue to focus on issues of market integrity, through legislation such as the Securities Services Act and the development of measures designed to tackle the threat of money laundering and other forms of fraud in our financial system, through the Financial Intelligence Centre ("FIC"). The work of the Amnesty Unit for exchange control and related tax contraventions is part of this process of regularising the financial affairs of South Africans.

- Fourthly, beyond the regulatory environment, Government also has a role to play in terms of direct involvement in furthering the potential of our people and bridging the economic divide, through its Development Finance Institutions ("DFIs"). National Treasury continues to engage in a process of reviewing the mandates of these DFIs to ensure that their efforts are optimally aligned with national imperatives. The restructuring of the Public Investment Corporation ("PIC") forms part of this transformation.

- Fifthly, the Financial Sector Charter calls on all institutions in the financial sector to invest deeply in the development of a broader pool of young black talent that will drive the sector forward in years to come. The National Treasury is playing its part by means of an extensive learnership programme, involving 60 interns, 33 of which are female interns. These interns are exposed to training on core business skills as well as on the technical requirements of their assigned curriculum.

- Lastly, we must recognise that the South African financial system must be made to work not only for all of our own citizens, but also, increasingly, for the benefit of our brothers and sisters in the rest of Africa. The NEPAD initiative has identified the huge challenge of sourcing the capital needed to fund sufficient growth in Africa to meet the Millennium Development Goals. South Africa's future is intertwined with the destiny of our continent. So far, South Africa has failed to play as significant a role as it might in leveraging the strength of our financial markets in channeling international savings to where they are most needed for development on the continent.

Madame Speaker, allow me to touch on some of the initiatives which I have just outlined in greater detail:

Banking sector developments

As part of Government's efforts to address challenges facing the second economy, National Treasury published the draft Dedicated Banks and Cooperative Banks Bills last year, with a closing date for comments of 17 January 2005. National Treasury has also undertaken numerous road shows in various village banks in all provinces of the country. The wealth of comments that were received are currently being reviewed, with a view to hold hearings on both Bills in Parliament during October 2005.

The Cooperative Banks Bill seeks to provide community-based banks with legal standing and strengthened regulation, so as to afford its depositors the same safety and stability as enjoyed by the formal commercial bank's depositors. The Bill also provides for the creation of support organisations for the cooperative banks in order to ensure a continuous and sustainable capacity programme for the industry.

The Dedicated Banks Bill seeks to create new institutions that will provide core banking services, without having to conform to the traditional model of full-scale banks. Institutions that are envisaged to apply for these types of banking licenses would include telecommunication companies, large retail companies and micro lenders.

It is my view that the promulgation of these two Bills will introduce significant opportunities for new entrants into the banking system, with the aim of increasing competition and access to finance

In the coming year, National Treasury also intends introducing legislation to establish an explicit deposit insurance scheme in South Africa, which will serve to:

- Protect small depositors from the risk of bank failures;
- Enhance confidence in the South African banking system;
- Improve competition in the South African banking system by supporting the development of new banking institutions; and
- Clarify the role and extent of government involvement in the resolution of bank failures.

Work of the Financial Services Board

Madam Speaker, let me at this point touch on the work of the Financial Services Board in contributing to the robust foundations on which the development and transformation of the financial sector rest:

Financial Services Ombud Schemes Act

At the end of 2004, Parliament passed the Financial Services Ombud Schemes Act ("FSOS Act"). The FSOS Act aims to protect consumers of financial services by expanding and strengthening ombud scheme arrangements designed to resolve their complaints in a timely and cost-effective manner.

It does so by specifying minimum standards for voluntary ombud scheme arrangements in the financial services sector – such as the ombudsman for banking services, the long-term insurance ombudsman, and short-term insurance ombud. It furthermore ensures that all financial service consumers are protected by establishing a statutory ombud to resolve complaints in those cases where a voluntary ombud scheme arrangement does not exist.

FAIS implementation

FSOS dovetails with the Financial Advisory and Intermediary Services Act promulgated in 2002 ("FAIS Act"), which created the Ombud for Financial Services Providers – or "FAIS Ombud". Under the FSOS Act, the FAIS Ombud acts as the statutory ombud, and must deal with complaints in a similar manner as described under the FAIS Act. There can be no jurisdictional disputes under FSOS, since the Act clearly delineates which ombud has jurisdiction, given the complaint in question. The FAIS Ombud, Mr Charles Pillai, has been operating successfully since the launch of his office in September 2004.

In terms of other operational matters under the FAIS Act, licensing of service providers by the FSB's FAIS department is nearing completion. Of the approximately 14 300 applications, the FSB has to date processed just over 9 500. The completion of this process will mark the full implementation of the FAIS Act.

Securities Services Act

The Securities Services Act was also passed at the end of 2004. The Act repeals and, in effect, consolidates four pieces of legislation: the (1) Insider Trading Act, (2) Stock Exchanges Control Act, (3) Financial Markets Control Act and (4) Custody and Administration of Securities Act. The Securities Services Act seeks to ensure a fair, efficient and secure means of securities trading in South Africa's capital markets, which are regulated to international standards.

The Act also provides the Registrar of Securities Services with powers to regulate the interactions between all market participants. The FSB will have supervisory authority over trade in unlisted securities – which is a first for the South African market. This is done with the prime objective of consumer protection in mind. The Act also contains strengthened provisions against insider trading and market abuse. Penalties attached to such activities have been increased.

The Securities Services Act also created the legislative framework for the proposed demutualisation of the JSE. This is expected to result in greater flexibility for the JSE in terms of raising capital, as well as allowing a more effective market for current rights holders to realise their investment. The Bond Exchange of South Africa ("BESA") is also contemplating demutualisation. Both institutions are currently engaged in discussions with National Treasury regarding this process.

Pension fund reform

Looking into the future, a project of major significance is the review of the Pension Funds Act. National Treasury released a discussion document on retirement fund reform in December 2004. The closing date for comments was the end of March 2005.

In formulating principles on which a new Act will be based, National Treasury has taken a holistic and long-term view. Recognition was given to the fact that our retirement funding system is fundamentally sound. However, gaps and deficiencies nevertheless exist, and these are part of the challenge before us.

The discussion document therefore outlines various proposals dealing with:

- How affordable access to retirement savings vehicles can be extended to those South Africans currently outside the system;
- How trustees should govern their funds in the best interests of members; and
- Ways of ensuring that South Africans adequately provide for their retirement.

Part of this may require reforming the current architecture of our retirement funding system, ensuring that it is flexible and adaptable enough to meet the demands of a continually changing environment. Detailed comments on the discussion document were received from a wide range of parties, varying from industry participants to ordinary individuals. This is a clear indication that South Africans are rising to the challenge of actively engaging in the shaping of their retirement future.

Some recent rulings by the Pension Fund Adjudicator have also highlighted challenges for our retirement and insurance industry. The opaque nature of costs that directly impinge on the benefits of fund members and policyholders will require attention from service and product providers. This should not wait for any form of regulation or the passing of a new Pension Funds Act. Positive steps can be taken by industry now to proactively remedy the growing consumer discontent, thereby ensuring future growth and stability of the market.

Financial Intelligence Centre

Madame Speaker, let me now turn to progress achieved by two institutions tasked with upholding aspects of the integrity of our financial system, namely the Financial Intelligence Centre and the Amnesty Unit.

On 20 May 2005, the Financial Intelligence Centre announced that two new terrorist financing reporting obligations came into operation with the commencement of the Protection of Constitutional Democracy Against Terrorist and Related Activities Act (Act 33 of 2004, the “POCDATARA”). This made it obligatory, as from last Friday, for any person or business to report to the FIC if they know or suspect that a transactions by an organisation or individual may be involved in the financing of terrorism or related activities, or have knowledge of any property which may be connected to an offence relating to these activities. The FIC will endeavour to continue working closely with the business community as well as the law enforcement authorities to prevent our constitution and the democratic freedoms we fought so hard to achieve from being undermined and eroded by criminal activities, or by acts of terrorism.

While on this subject, it is my pleasure to announce that from the beginning of July, South Africa will take up the presidency of the Financial Action Task Force, which is the international standard-setting body for the prevention of money laundering and terror financing. Cabinet has appointed Professor Kader Asmal to this position. This is a position of enormous prestige and reflects the degree to which the rest of the world appreciates our efforts in introducing measures to combat money laundering, and now the financing of terrorism. It is also an opportunity for us to articulate the challenges facing developing countries, their business communities and law enforcement authorities in meeting international standards. A focus for us during this year will be for us to find ways of integrating the money laundering control measures with those that deal with good governance and corruption.

In the past year the FIC received in excess of 22 000 suspicious transaction reports and referred more than 300 to law enforcement for investigation. I wish to thank those sections of the private sector on which this obligation falls for their cooperation. We are aiming to promulgate those sections of the FIC Act that deal with the reporting of cross border transactions, and those which deal with cash threshold transactions, before the end of this year.

Several other challenges await the FIC during this forthcoming year. As it rolls out the Act, and the reporting and analytic systems operate more effectively, so the FIC will also start identifying those areas that pose a real risk in terms of laundering activities. In so doing, these gaps will be closed off, thus making it increasingly difficult for criminals to move the proceeds of their criminal activities or to profit from them. Already the FIC is liaising with other government departments in this regard. I am pleased to state that the FIC has received strong support from the law enforcement authorities, intelligence agencies and the SARS, as well as the various Supervisory Bodies. This has greatly enhanced its ability to perform its mandate.

Amnesty Unit

On 26 February 2003, an amnesty window was announced by the Minister of Finance to enable South Africans to voluntarily declare their foreign assets and to regularise such foreign assets and tax affairs without fear of prosecution. The closing date for amnesty applications was 29 February 2004.

As at 30 April 2005, of the approximately 43 000 applications that have been received, 35 198 applications had been adjudicated. It is estimated that the exchange control levies could raise approximately R2.3 billion from the 35 198 applications already adjudicated. The total rand value of assets disclosed under the processed 35 198 applications is R50.7 billion, of which R26.1 billion is leviable.

It is anticipated that the Amnesty Unit will processed all applications by the end of May 2005, with the exception of those requiring further information from the applicant. It is expected that by the end of September 2005 the Amnesty Unit will have finalised the adjudication of all applications.

Public Investment Corporation

The past year has also seen a major overhaul of the Public Investment Commissioner – and its rebirth as the Public Investment Corporation.

Last year, Parliament passed the Public Investment Corporation Bill, which came into effect on 1 April 2005 when the Public Investment Corporation was launched. The passage of the Bill into law was a significant achievement for the public entities on whose behalf the PIC manages funds. The newly corporatised PIC is set to become a professional asset management company comparable to the best in the world.

The new legislative environment governing the PIC makes the Corporation more accountable to its clients and the shareholder. The PIC has to seek and receive Financial Services Board compliant mandates from its clients to ensure that clients have a say in the investment patterns of the Corporation.

The 2003/04 audited financial statements state the PIC's assets under management at R377 billion. Unlike in the previous financial year, the statements were unqualified, a development that signalled that the PIC is moving steadily in the right direction. Another strong indication of this was the total return of 20.9% recorded during that 2003/4 year. Details on the growth of the PIC's assets under management base will be contained in the 2004 Annual Report due to be tabled in Parliament in September this year.

The Isibaya Fund – a division of the PIC tasked with the funding of socially responsible investments – funded BEE transactions worth R7.5 billion last year. These were in the Financial, Mining, Infrastructure, Telecommunications and Industrial sectors. These transactions, in combination, benefited over 221 000 people as owners in the businesses, while a further 10 255 benefited through employment.

PIC funding of BEE has resulted in better vesting for BEE ventures while at the same time netting good profits for the Corporation. This illustrates that empowerment can indeed be a win-win objective for all parties.

The PIC's property stock accounts for about R3 billion. The Corporation is currently spending just over R141 million in the refurbishing of its property portfolios in Central City, Garankuwa, Mega City and Themba City.

This investment represents a significant injection into local economies, through local job creation and infrastructure expansion.

Some of the key aims of the Corporation over the next 12 months will be the general strengthening of its capacity to manage funds entrusted to it, the retention and recruitment of qualified personnel and growing its total asset base. The PIC currently has a staff complement of 70 people and plans to grow this number to about 110 over the next three years.

Financing the development of Africa

Lastly, Madame Speaker, let me return to the point I made earlier that South Africa's development objectives stretch beyond its own borders. The future of South Africa is closely tied to the future of the African continent, and in particular the Southern African region. Current levels of domestic savings and foreign capital inflows in the region fall far short of the capital needed to achieve NEPAD goals of sustained growth of 5-6 per cent per year.

In many countries in the region, domestic savings levels are hampered by the fact that critical long-term investment institutions like pension funds, banks and life insurers are weakly developed or absent. This is compounded by thin domestic capital markets, which make it difficult for institutional investors to invest soundly.

Financial sector development on the continent can be aided through effective regional co-operation and harmonisation. Furthermore, the development of South Africa's financial sector has the potential to aid not only the domestic economy, but also the region. A strong regional financial centre can help cater to the capital needs of the region, especially if African entities are a key focus rather than a global afterthought.

Efforts to strengthen South Africa's potential in this regard have included reforms to exchange control and listing requirements so as to facilitate the use of South African capital markets by African firms and sovereigns; as well as ongoing efforts to increase liquidity and market depth.

A regional financial centre of the type envisaged for South Africa is not a substitute for sound national financial systems. Indeed, the need to mobilise and intermediate domestic savings in African nations makes the continued development of national financial systems a critical priority.

At the same time, Africa's economies cannot await the slow maturing of national systems to meet the needs of private international capital. International experience has taught that regional financial centres, with the necessary critical mass of infrastructure and skills, are critical to leveraging the flow of private capital in the short to medium term.

The National Treasury and Financial Services Board will continue to work together over the coming year on refining strategies that make the South African financial system work, not only for all of our own people, but also increasingly for the good of all of Africa's people.

Thank you