



MINISTRY: FINANCE REPUBLIC OF SOUTH AFRICA

OPENING REMARKS BY MINISTER OF FINANCE NHLANHLA NENE AT THE MEDIA BRIEFING ON THE G20 SUMMIT HELD IN BRISBANE, AUSTRALIA

President Zuma led the South African delegation to attend the G20 leaders summit in Brisbane, Australia which took place on 15-16 November 2014, concluding Australia's presidency on a very high note.

The Summit agenda included sessions on:

- The state of the global economy and G20 initiatives to strengthen growth and job creation;
- Trade as a driver of growth and strengthening the global trading system;
- Delivering global economic resilience (modernizing the international tax system, strengthening the financial system and IMF reform);
- Energy (strengthening collaboration on energy, energy efficiency and gas markets);
- Increasing investment in infrastructure; and
- Future challenges (including on strengthening the G20)

Detailed information on the outcomes of the summit is contained in the communique and the Brisbane Action Plan, in which Leaders pledged to fully implement their growth strategies in order to address the lack of global demand and supply side constraints. Both of these documents are available from the G20 website (www.g20.org).

I am not going to deal with all the items on the summit's agenda, but only on the economic growth initiative, tax issues, IMF reform, financial sector reform and infrastructure. I will link each of these summit decisions to the various initiatives already underway in South Africa, or initiatives in which our country is involved. I will also provide you with an update on BRICS initiatives, specifically the New Development Bank (NDB).

Global economy

Leaders noted that the world economy is not growing fast enough due to lack of global demand and supply constraints.

They agreed that while there might be scope in some countries to still use macroeconomic policies to stimulate and support the economy, a bigger boost to growth will have to come from country specific structural reforms.

Accordingly, discussion centered on strategies by each member country that would contribute to the objective of adding a further 2 percentage points to baseline growth estimates over the next 5 years.

In South Africa's case, a peer review mechanism facilitated by the IMF, World Bank, the International Labour Organisation (ILO) and the OECD found the National Development Plan (NDP) to be well aligned with the strategies agreed to by G20 members, particularly when it comes to the following key areas:

- Accelerating infrastructure delivery;
- Expanding and improving basic education and post-school training;
- Expanding and improving labour participation, particularly amongst women and the youth;
- Improving the effectiveness of competition policy; and
- Broadening trade and regional integration

The peer review and accountability processes agreed to will help us to ensure that G20 countries share experiences and continue to monitor individual or collective efforts towards accelerating global growth. South Africa and other member countries welcomed the improved communication amongst G20 members, as this provides the forward guidance necessary to help countries manage the volatility that comes with actions of globally systemic economies such as the USA.

Reform of the IMF

There was a robust discussion during the Summit on the reform of the international financial architecture. It was agreed that the International Financial Institutions needed to be reformed to reflect the fact that emerging markets and developing economies now account for the largest share of global growth. This shift in the structure of the global economy must be reflected in the governance structures of multilateral institutions such as the International Monetary Fund (IMF) and World Trade Organisation (WTO).

International Tax Agenda

There was general agreement that taxes must be paid where businesses generate profits and that every business must pay its fair share of taxes. The principles agreed to by the G20 on Base Erosion and Profit Shifting (BEPS) move us closer towards tackling this challenge.

Further, on the back of technical work undertaken by the OECD, we have made very good progress in the area of transfer pricing. Multinationals will increasingly find it harder to manage down their tax liabilities through illicit measures.

Infrastructure

As you know our continent has an infrastructure funding gap of about US\$93 billion per annum. We are therefore happy that issues of accelerated infrastructure investment through designing appropriate funding instruments, carefully structured public private sector partnerships (PPPs), and project development facilities received a lot of attention at the Summit.

Under the leadership of the Australian Presidency, the G20 announced the establishment of the Global Infrastructure Hub, an initiative that complements on-going efforts to reduce barriers to infrastructure development in most G20 countries. The Hub will be open to all member countries as well as to non-G20 members. It is intended to also attract private sector

financing, to complement efforts by the public sector. Further details on the operations of the hub will be finalised soon, and it will be ready to operate in the early parts of 2015.

The G20 initiative on infrastructure will complement a number of other initiatives in which South Africa is involved. This includes the Infrastructure Consortium for Africa (ICA) which was launched at the G8 summit in Gleneagles in 2005.

Background on the ICA

ICA is aimed at accelerating efforts to meet the urgent infrastructure needs of Africa in order to support economic growth and development. It addresses both national and regional constraints to infrastructure development with an emphasis on regional infrastructure.

Membership of the ICA comprises the G8 countries, the World Bank Group (WB), the African Development Bank (AfDB) Group, the European Commission (EC), the European Investment Bank (EIB), South Africa (which joined the ICA in 2013) and the Development Bank of Southern Africa (DBSA). The ICA is not a financing agency but acts as a platform for brokering more financing for infrastructure projects and programmes in Africa.

In support of the priority that South Africa places on infrastructure development both nationally and on the continent, South Africa will be hosting the 10th Annual meeting of the ICA in Cape Town from 25-27 November 2014. The meeting's theme is: "Effective Project Preparation for Africa's Infrastructure Development".

The lack of a pipeline of well-prepared, bankable projects has been widely recognised as one of the key constraints to infrastructure development on the continent. Although more than 52 Project Preparation Facilities operate in Africa, these facilities are not effectively unlocking infrastructure development across the continent. Project preparation and the financing thereof remain key stumbling blocks to Africa's infrastructure development.

The ICA is another important avenue through which South Africa seeks practical strategies to implement the commitments made in institutions like the G20 and BRICS, in pursuit of Africa's infrastructure development objectives.

Task Team on private Sector Financing of Infrastructure

Domestically, the Task Team on Private Sector Financing of Infrastructure, which is made up of government, business and labour representatives, has been able to narrow its focus to areas that will have the greatest impact. Of these, the possibly the two that actionable immediately are:

- Encouraging private sector financing and participation in infrastructure; and
- The steering of development finance institutions to focus more on "crowding in" private sector investment and to avoid activities that may lead to the crowding out of the private sector.

BRICS AND THE NEW DEVELOPMENT BANK

The leaders of Brazil, Russia, India, China and South Africa (BRICS) also took the opportunity of being in Brisbane to take stock of the progress made with regards to the New Development Bank and the Contingent Reserve Arrangements.

BRICS leaders also exchanged views on the G20 Summit Agenda, as well as how to support additional measures addressing the Ebola epidemic.

Leaders expressed their joint ambition for the swift ratification of the New Development Bank (NDB) and Contingent Reserve Arrangement agreements (CRA). Furthermore, they announced the formation of an Interim Board of Directors, that will lead the next phase establishing the NDB, and, tasked Ministers of Finance to designate a President and Vice-Presidents of the NDB; “well before” the next BRICS Summit.

South Africa’s work on the NDB and Contingent Reserve Arrangement falls under the purview of the Inter-Ministerial Committee on BRICS, and a technical Local Steering Committee chaired by National Treasury’s Director General Lungisa Fuzile. Since returning from the BRICS Summit in Fortaleza earlier this year, both the technical and Ministerial committees have been engaged in the operationalisation of the BRICS initiatives, including:

- the ratification of the agreements establishing the Bank and the CRA;
- participation in BRICS working groups; and
- making preparations for the African Regional Centre which is expected to open concurrently with the Head Quarters in Shanghai.

We anticipate that a significant number of the New Development Bank clients will come from Sub-Saharan Africa. There are a number of projects in Africa, including transformational infrastructure projects, which face the challenges associated with conversion into the bankable stage. This results in the pace of Africa’s development agenda being constrained. The project preparation facility that will be embedded in the business of the NDB will help to bridge the gap in addressing this challenge, amongst others.

In this way the New Development Bank is consistent with our other efforts in the financing and mobilisation of resources for infrastructure.

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