



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

INVENTING AFRICA'S VENTURE CAPITALIST COMMUNITIES AND CONSTRUCTING THE CAPITAL BRIDGE TO AFRICA'S DEAL PIPELINE

**Speech by Minister of Finance
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Good morning ladies and gentlemen

It is a pleasure to be with black business this morning, as we host the World Economic Forum on Africa, in Durban.

Having just lead media on an inclusive growth tour yesterday, we are enormously excited about the developmental possibilities of KwaZulu-Natal as a logistics and industrial hub, connecting South Africa with Southern Africa and Africa, and Africa with the world.

I've been asked to say a few opening remarks on constructing the capital bridge to Africa's deal pipeline.

I am going to focus on economic infrastructure, as from government's perspective, we see it as our responsibility to put enabling infrastructure in place, so that the private sector can have the basic services, electricity and transport networks to produce and transport world class goods and services.

Let me begin by stating that South Africa's National Development Plan provides a long-term vision for the structure of the economy, investment in capacity through infrastructure and further emphasizes on the importance of regional economic integration amongst others.

From a continental perspective poor infrastructure continues to undermine intra-continental trade.

While Africa's infrastructure backlog is estimated at around US\$100 billion per year, regrettably, available financing covers only half of this.



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The combination of years of underinvestment and exploitation has meant that African roads and railways were mainly designed and built to facilitate transportation of raw minerals and resources to markets outside the continent.

We need infrastructure which supports industrialization, the beneficiation of minerals and the delivery of basic services to our people.

We need social infrastructure to support a globally competitive education system, such as schools, universities and housing for students.

The consequences of poor infrastructure have been devastating; intra-African trade is shockingly low at approximately 11% whereas intra-Asian and North American trade is both 40%. Intra-continental trade in Europe sits at an impressive 60%, thus mobilizing capital to build economic infrastructure. Unlocking industrial activity, intra-Africa trade, and growing Africa's share of global trade, is crucial for Africa's development.

I would like to offer a few points then, on constructing this capital bridge.

First, Africans must not expect others to invest in what we ourselves, are not ready to invest in.

Our capital resources may be limited, but they are not insignificant.

We need to mobilize our domestic savings and capital markets to invest in deals on the continent.

These include pension funds, sovereign wealth funds, especially from the proceeds of commodity exports.

Resources can also be obtained by stemming the outflow of illicit financial flows, which rob our continent of resources.

Second, in many cases, it is not funding that is missing, but projects which are well structured and bankable.

South Africa has over R4 trillion worth of projects in our pipeline, the National Infrastructure Plan.

Government is spending R1 trillion over the next 3 years in funding and delivering the most strategic and urgent of these.

Many of these are attracting private investment as well.



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What often holds us back, are projects which have not been rigorously packaged through the various feasibility stages, such that they are ready to be funded with a clear path to repayment.

Thirdly, we need to put in place policy and regulatory regimes which attract investment.

The Africa infrastructure report pointed out that weak policy in sectors like electricity and transport can hold back investment.

These investments involve huge initial outlays and long repayment horizons and therefore investors require certainty and stability.

We have to balance political pressure for low user charges, with the need to establish user pay funding models which are needed to provide funding in a scarce resource context.

Fourthly, we must use state procurement strategically.

Obviously the state plays a leading role in capital investment, due to the resources it can mobilize.

Those resources must be deployed strategically.

The state should develop an integrated view of procurement across implementing agencies.

How much cement, steel, and machine components are we procuring over the next five years across energy, transport and social infrastructure?

With an integrated view, can we funnel this spend to domestic manufacturers to help them produce items which we currently import?

From an African perspective, how do we work with other African countries to develop more infrastructure projects using African, rather than foreign companies?

Our state owned companies need to build relations on the continent, as there are many projects which they can co-deliver with our African partners, rather than these being delivered by foreign companies.

So in conclusion, I want to applaud the Black Business Council for the leading role you are playing in the economic transformation of South Africa.



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I encourage you to continue to play that role.

You must be the patriotic bourgeoisie called for by African developmental economists throughout the post-colonial period.

By patriotic bourgeoisie I mean that your business activity must not undermine national development but must enhance it.

Make profits as you produce value added goods and services, and reinvest in productive capacity which helps us industrialize.

Push government to use procurement strategically, but do not focus only on state procurement.

Push yourselves to the forefront of the growth agenda, leverage government initiatives to grow priority sectors.

Invest in thought leadership, research, lobbying and policy advocacy.

Help frame key debates and contribute to policymaking in a solution-oriented way.

Invest in capabilities.

Develop leaders, managers and skilled professionals who are world class, and who can build and manage the great African startups, companies and giants of the near future.

Let me conclude by saying that government must show decisive leadership with regards to inclusive growth and economic transformation.

We must sustain the political will to drive it such that growth results are achieved, with real benefits for our people.

We must be bold and creative, and not limit ourselves conceptually from imagining new approaches appropriate for our national circumstances.

I thank you.