



MINISTRY OF FINANCE  
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**Speech by Minister of Finance  
Malusi Gigaba**

**Black Business Council engagement dinner  
Rosebank, 15 May 2017**

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Good evening ladies and gentlemen

Leadership bears the burden of responsibility:

The responsibility

- To help society respond to the challenges of our time,
- To help solve our most difficult problems,
- To help realize our most promising opportunities.

The most challenge of our time, one towards which our leadership is most urgently summonsed, is to transform the South African economy – to grow it in an inclusive manner.

Our economy must reduce inequalities, significantly decrease the scourge of unemployment and eliminate poverty. The economy we have today is still largely informed by, and still reflects, our colonial and apartheid past.

It is highly carbon intensive, based on the extraction and export of raw minerals while importing of finished goods, and it is de-industrialising.

It consists largely of oligopolistic industries, with low competition and high barriers to entry. It is highly unequal, with huge concentrations of wealth among a tiny portion of the population.

It is highly exclusive on the basis of race, gender and class.

Oxfam estimates that just 3 South African billionaires, own wealth equivalent to the bottom half of our population. Three citizens, own more wealth than 28 million other citizens combined.

They further estimate that the richest 1% of our population owns 42% of the wealth. The top 10% of our population own 95% of the wealth. That is not the basis for a stable society, a united, prosperous and democratic society.



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There are currently 5.7 million South Africans who want to work and are not able to. A further 2.4 million are discouraged from joining the labour force. And 40% of the unemployed have been unemployed for more than three years.

Our inability to transform the economy has left the poor particularly vulnerable to shocks to economic growth. It is this fundamental exclusion from the dignity, stability and opportunity of decent, well-paying work, of ownership of homes, land and other assets that is at the root of the national grievance in our country and of our society's instability.

In fact, it is only because black dispossession has been normalized in our society, that some are shocked or even offended by the call for radical economic transformation.

There are none so blind as those who will not see. When you know the lived realities of our people in the townships, in informal settlements or in rural areas, one is not shocked at the call for radical economic transformation.

It is correct and logical for our people to demand that we act with urgency to deliver socio-economic change that is fundamental rather than superficial.

It is correct and logical for our people to demand that we be bold and creative in formulating policies and programmes which respond to our context and development needs.

This is why the NDP Vision 2030 commits us not only to growing this economy, but more so to transforming it to be more equitable, competitive and sustainable.

We must move to a diversified industrial and knowledge-based economy, which is regionally integrated with Southern Africa and Africa as a whole, and integrated globally as a significant exporter of high value-added goods.

This is absolutely critical.

Accordingly, my first message tonight is that **we should critically and creatively appropriate lessons from the fast-growing emerging market economies.**

Our manufacturing sector has been in decline relative to other sectors. In 1994 manufacturing contributed 20% to national output. It now comprises a relatively small share of the economy, at around 12% of GDP.

Turkey's share stands at around 13%. Brazil's manufacturing share is 17%. The fast-growing economies, with low levels of unemployment, are characterised by dynamic manufacturing activities.

For example, China's share of manufacturing is 32%, South Korea's share is 31% and Thailand's share is 33%. It is especially in the high technology exports that the real differences are exposed.



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As a percentage of manufactured exports, high technology goods make up only 4.5% in South Africa and 2% in Turkey compared to 43% in Malaysia and 26% in both China and South Korea.

This is directly attributed to government support in areas of finance, research and development, technology development, industrial policy, export incentives and logistics efficiencies.

We are faced with a challenge of undertaking economic transformation under difficult conditions not of our choosing. The global political economy that prevailed when the late industrializing countries underwent great transformations is no longer in existence.

Despite this challenge, we must industrialize, if we are to diversify our economy, grow it on a sustainable basis, sustainably employ our young and growing workforce, and position ourselves to compete in the next industrial revolution.

My second message is that **we must integrate with the African continent**. The challenge to industrialize is not only a South African problem.

It is imperative for African countries to embark on a broad-based industrialization programme, build economies of scale in production and mobilize domestic resources and the resources in the Diaspora.

This is important because it will go a long way in addressing the problem of economic refugees.

Africans must freely choose to migrate across countries and to the rest of the world, and not be forced by economic circumstances.

A critical policy intervention to support industrialization is to develop and deepen African capital markets, so that our people have a broad range of financial instruments through which they can store their savings.

One factor that will help in this regard is to support on-going efforts to build robust institutions and to uphold the rule of law.

Compatriots, our people in South Africa and across the continent are yearning for fundamental transformation.

They seek job opportunities; young people want opportunities to place their talents to the service of our country and continent.

Professionals want opportunities to put their skills to develop our countries. Our people also yearn for ownership and control of their economies. They want to be at the centre of decision-making to drive investment and competitiveness.

Placing our people at the centre of development is the key task of economic transformation. This is the task before us as the political and business leadership of South Africa. It is a



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daunting one, requiring all of our leadership capacity, our ingenuity and innovation, our time and our effort and, above all, our united endeavour.

There is no time to waste.

Which brings me to my third message to you tonight: **leaders across society need to find common cause, to advance our national development.**

As government, business, labour and civil society, we need to work together.

We may have our differences, but need to find areas where we can work together to get things done.

We have plans – the NDP, the medium-term strategic framework, the 9-point plan – spelling out what we are trying to do.

They are not perfect, and we can refine and iterate as we go along, but we need to get on with it.

Let us work together to implement programmes and initiatives. Our people do not judge us by what we say; they judge us by our deeds. Nothing worth doing is ever easy, and the circumstances are never perfect.

If we focus single-mindedly on leveraging our competitive advantages and we consistently implement our transformation programmes in a predictable way, we will be in a position to build the necessary confidence in our economy.

We will start and grow businesses and industries in an inclusive way. I am convinced that we can achieve our developmental objectives and more.

We have made tremendous progress in recent years, resolving energy constraints, improving labour relations, ease of doing business and support for small business and labour intensive sectors.

We now need to continue to modernize our public procurement, sharpen our preferential procurement regulations, drive infrastructure investment and reform of state owned companies, among other interventions.

We have much to do. So let us avoid distractions, and find common cause. History will judge us on the contributions we made to real and lasting change.

The fourth message I want to emphasize tonight is that **we need to adopt the mind-set that growing black business is good for South Africa in general and for South African business in particular.**



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We need to move beyond justifying the need for economic transformation. The NDP says that we need inclusive growth and economic transformation. Transformation without growth becomes a struggle for current resources, which fuels fear, discontent and resistance; this leads to destabilizing and counterproductive social conflict.

Growth, however rapid, without sufficient transformation has led to enormous social discontent and has failed to uplift the majority of our people.

We need both.

Economic transformation means involving black people, youth and women in ownership, top and senior management and skilled work and employment generally, in proportions comparable to their representation in the population.

Economic transformation also involves changes in the structure of the economy and the institutions which governs it.

It also means empowering communities through cooperatives and building small, medium and micro enterprises (SMMEs).

Twenty-three years after the advent of democracy, transformation must up its tempo and be more than share-ownership schemes; it must be about creating black industrialists and entrepreneurs and deliberately creating support networks in the value chains for them to thrive.

This is self-evidently right and just.

It is the only way to make our society more equitable, and more stable.

Just as established business has benefitted handsomely from our 23 years of democracy, and the increased stability, openness and investment, so will they benefit from further and far-reaching transformation, from having more investors to draw on, and more partners and suppliers to add value to their businesses.

They will benefit from having more happy and loyal employees and customers. From the point of view of the fiscus, we would do well to grow the revenue base.

So, we really need to internalize the mind-set that growing black business is good for South Africa. A first step in this regard is that we need to stop talking about black economic empowerment and corruption in the same breath.

They are not two sides of the same coin. A black person engaging in corruption does not and should not taint the reputation of black business people generally.

The reputation of white business people generally is not tainted by the construction collusion scandals, the currency manipulation scandal, or any other of the many instances of corruption and fraud with roots in the business sector that have taken place over the years.



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Black business must maintain a high standard, lest the few errant fellows among us undermine the noble cause of transformation for all of us.

This is a message I will take to established business in my engagements with them, that we need white business to champion transformation.

We need white business to embrace the transformation project and step forward in all aspects of broad-based black economic empowerment, including employment equity.

We are starting to see awareness among stakeholders that established business must create sustainable partnerships with black, women-owned, youth-owned and small businesses in their supply chains.

The SME Fund is a positive example of collaboration between black and white businesses. We need more collaboration like this, at a large scale, sustained over time.

In addition to this, we need more strategic or developmental coalitions between the state, state-owned companies and the private sector in a manner that accelerates infrastructure rollout, develops infrastructure networks to support local manufacturing, trade in manufactured goods and regional trade, and develops local suppliers for state-owned companies' infrastructure programmes. This will crowd investments in and grow the economy.

This brings me to the fifth area that I would like to focus on tonight: that is, **the strategic use of state procurement is an important lever to grow black business, though not the only one.**

It is important to note that we cannot and should not think state procurement as the primary or sole lever to develop black business.

We are also looking at how established business also procures privately along their value chains. The state's R500 billion in annual procurement spend is a substantial amount, but still only 13% of GDP.

But it is a critical lever nonetheless, as it allows us to lead by example, and allows us to give resources and experience to emerging businesses which they can use to compete more successfully in the private sector.

One of the most exciting developments in government policy to advance economic transformation therefore, is the strategic use of state procurement.

The transformative impact of state procurement to date has been limited by the fact that government procurement has been fragmented, decentralized and poorly designed.

We have also not focused on using the procurement lever to transform ownership and include more black people in the economy.



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There are as many as 709 state entities procuring goods and services, which until recently prospective suppliers had to engage individually.

The PPPFA had also overly prioritized price in evaluating bids to the exclusion of economic development and transformation considerations.

The state getting value for money is important, but this aim should be considered in conjunction with our economic history and national development imperatives.

So let me talk about what we have done and what we are doing.

As you know, we have identified the need to institute a centre-led procurement reform in order to manage it strategically, and increase our ability to target designated groups.

We have established the Office of the Chief Procurement Officer at National Treasury to provide strategic leadership, oversight and a focal point to government procurement.

We have also established a central supplier database where all current and prospective suppliers must register, and in addition, a tender portal where all government tenders are listed.

This makes life easier for suppliers, eliminating the need to register at each entity they seek to supply, and ensuring easy access to all advertised tenders.

To complete this reform and modernization of state procurement, we will soon introduce the Public Procurement Bill.

It has been in development for 18 months, and I instructed National Treasury on Friday to prepare a memo requesting Cabinet to authorize its release for public consultation.

The Black Business Council will have seen it already, because in recognition of your importance as a stakeholder, we have already sought your input for the draft bill.

Amongst other things, this bill:

- 1) provides for supplier development for procurement;
- 2) provides for targeting designated groups, allowing us to call for tenders only from businesses owned by black people, women, youth, and people living in particular areas;
- 3) considers price as *an* element, but not the defining element, alongside economic transformation imperatives;
- 4) breaks down barriers to entry by lessening the administrative burden on prospective suppliers, leveraging the central suppliers' database. We want suppliers to be able to focus as much as possible on demonstrating a compelling value proposition, not navigating endless paperwork;





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Some of these objectives are already being advanced in the changes to the PPPFA regulations.

We intend to really undertake a major advance in the state's ability to use procurement strategically to support economic transformation.

We invite black business to meet with us to discuss state procurement growth areas so that you pursue opportunities in growing rather than declining sectors.

I am of the view that to truly support black and small business, we need to provide end to end support and help provide a market for your goods and services, access to support resources and affordable development finance.

In this regard, I think we really need to link initiatives like the black industrialist programme to strategic state procurement and the procurement plans of our SOCs.

The last message I want to communicate is that **the creation of decent work remains the most potent way to deal decisively with poverty and inequality.**

We should not lose sight of the fact that the vast majority of our people rely on selling their labour in order to support their families.

It is through stable and secure employment, as well as fair labour practices that we can uplift the majority of our people from poverty.

We must ensure that as we grow our businesses, we also contribute to the national effort to continuously train our labour force.

We need to create opportunities to provide practical training to our young people, so that we actively link the education system to industry, thereby improving the functioning of the labour market.

We need to observe labour laws, transform our workplaces and build collegial relationships so as to minimise workplace conflict.

We need to ensure that employees get a fair share and that the principles of fairness are observed all the time.

This is the message that I will carry to all businesspeople, white and black.

Democracy will be meaningless if it does not empower the vast majority of our people to take care of themselves and their families.

However, as black business, we need to lead by example: we need to transform the colonial and apartheid labour market.





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In conclusion, I wish to reiterate that the most urgent challenge before us is to grow the South African economy and, at the same time, transform it to involve and meet the aspirations of all South Africans.

This task is both urgent and unavoidable.

It requires all of our leadership, ingenuity, collaboration and energy.

It requires us to find common cause with one another, to find areas where we can work together, where we can contribute, where we can do things that will benefit others.

Even as we consider the challenges in our immediate context, we must maintain a global outlook.

Our future requires that we deepen trade and economic integration with our region and continent.

It requires that we be globally competitive and be creative and rigorous in finding sectors where we can retain or develop comparative advantage.

Working together we have begun to make progress on addressing binding constraints to inclusive growth.

We need to build on this, to continue to collaborate, to do faster and greater scale.

We must transform this economy to build the South Africa we want, a South Africa where all citizens enjoy dignity, opportunity and prosperity.

This is a South Africa where extreme inequality is eliminated, poverty is no more and unemployment is no longer of major social concern.

We need to be bold, imaginative, responsible and unapologetic about using all levers available to us to realize this vision.

I thank you.