



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

**SPEECH BY MINISTER OF FINANCE
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**“THE NATIONAL DEVELOPMENT PLAN: A PARTNERSHIP BETWEEN
GOVERNMENT AND BUSINESS”**

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In recent years, I have been inspired by a seemingly modest but profound quote from Uncle Jack Simons’ lecture to MK combatants in Angola, where he drew the conclusion that “independence from colonial rule is not enough to bring about a revolutionary change which will transfer power to the great mass of people.”

He proceeded to argue that:

“The tendency in many African countries has been to maintain the old economic as well as political system. There has been continuity but not revolution.”

The correctness of these observations has been borne out by the liberation experience all over our continent as well as in our country.

From 1969, we had known it that once the political victory was achieved, we would need to hasten to implement a programme of radical economic change bearing in mind that political freedom is a necessary but not sufficient condition for the attainment of the total emancipation of our people and it therefore constitutes only a beach-head, albeit an important one, to pursue socio-economic emancipation.

The draft Strategy and Tactics to be discussed during this very National Policy Conference acknowledges the important fact that unlike in situations where the change in social relations developed within the womb of the old system, where political revolution thus came about as a culmination of economic processes that had been under way and hence under new political managers, a new socio-economic system would evolve with time, in our case in South Africa as well as the entire colonial experience, as different from this experience, the emergence of the new system, a National Democratic Society, starts with the attainment of political power and is consequently a conscious act of construction.

Different from the experience of Afrikaner nationalism in 1948, political liberation for the black majority was not preceded by a defined economic movement that had set a clear tone and agenda for economic dominance and political rule and thus had a distinct though still



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embryonic middle class with a clear political and economic agenda, and tentacles in critical productive sectors.

This has been the general trend of all post-colonial societies which has served to impose impediments on the post-colonial struggles for total emancipation.

In this scenario, as Uncle Jack Simons correctly stated it, what was required was both a clear revolutionary theory for social change and a revolutionary party to implement this theory.

I do not intend in these brief remarks I have to make this morning to elaborate a theory of post-colonial societies and the dilemmas and contradictions they face, but what I want unequivocally to emphasise is that post-colonial states are faced with an historical mission from birth to become states of fundamental socio-economic transformation.

Accordingly, the talk of a radical economic transformation is basically in essence a call to the return to basics by the movement; an attempt to steer the national movement back towards its revolutionary roots and perspectives, to recapture the fundamental essence of the historical mandate of the new post-apartheid government.

This is a call to remind ourselves of the fact that this, the post-apartheid government in South Africa, was established in order to end the colonialism-of-a-special type and thus radically to transform the South African society in line with the vision articulated in the Freedom Charter.

The society we inherited in 1994 reflected both the political oppression as well as the total socio-economic exploitation and marginalisation of the indigenous majority.

The freedom we achieved, whilst without the economic freedom, was an expression of the hope that we would, in due course realise the social justice that was the very foundation of our struggle for freedom.

It articulated the hope that the new government would use its power and the levers it controls to carve both the role and stake for the black majority in the economy.

For us, an inclusive economy will be an outcome of radical socio-economic transformation policies that would change the structure, systems, institutions and patterns of ownership, management and control of the economy in favour of especially the poor, the majority of whom are African and female.

The credibility and sustainability of the political transition is critically dependent on the transformation of the economy in ways that recognise, as the late Walter Sisulu stated it in 1976, that ultimately, the struggle for freedom in South Africa resolved itself to the pursuit of the national liberation of the Africans as the most oppressed group during apartheid.



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Quite often, we tend to forget that the new government established in 1994 had, as its primary mandate, the fundamental socio-economic transformation of this society to end the legacy of white supremacy and create a modern economy in terms of which the role and stake of the black majority would be centrally recognised.

This government was never expected to become the bastion of the status quo inherited from apartheid-colonialism, the guardian and gate-keeper of exclusive white economic domination, as well as the enforcer of the gender dynamics of the apartheid-colonial economic relations.

There are three elements to this transformation:

The first relates to the need to ensure that the ownership, management and worker profile at all levels reflects the racial composition of the broader society.

The second relates to the need to transform the sectoral composition of the economy to reflect a post-apartheid industrial economy built on a large, stable and skilled middle class, rather than a capital intensive economy based on a “minerals energy complex”.

The third is to end the apartheid-colonial dual economy by developing productive economic activity in the townships and rural areas, addressing incomes, assets and creating an enabling environment in which the second economy could become integrated into the mainstream and develops links with the regional and global economy.

Furthermore, an essential element of the radical economic transformation is addressing the issue of skills development and access to higher education that has been raised by the youth and students.

We must find a permanent and sustainable solution to this issue.

In the National Development Plan Vision 2030 we have set ourselves the task of overcoming the triple challenges of unemployment, inequality and poverty, by 2030.

These challenges are a painful legacy of apartheid; they are the obstacle both to the full enjoyment of freedom and dignity for the majority of our people as well as our nation's progression to a 'normal' society.

To achieve this, the NDP tasks us to grow our economy, while transforming it.

Some of the negative features of our economy which must be transformed include:

- It is highly unequal, with huge concentrations of wealth among a tiny portion of the population.



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- 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 monopolies and oligopolistic industries, with low competition and high barriers to entry, where a handful of companies dominate, controlling more than 80-90% of the market, with negative consequences for consumers, who face limited choices, exorbitant prices for services, and poor quality. Prospective market entrants, mostly black, find it extremely difficult to break in, as dominant companies enjoy seemingly insurmountable advantages in terms of scale, and relationships with customers, often with laws and regulations to back their dominance.

These are among the main features of the economy that we must change.

At the same time we need to grow the economy.

It is far easier to advance transformation and create opportunities at all levels in society in a growing pie than a shrinking one.

In a growing economy, the transformation state can use government revenues to invest in human capabilities through education and training as well as social and economic infrastructure, which further improves growth capacity and economic competitiveness.

To overcome the triple challenges and achieve our development objectives, we need to achieve GDP growth in excess of 5% annually on a sustainable basis.

Over the last 5 years, we have been growing at under 2%.

This level of growth is clearly insufficient.

We are underperforming and barely scratching the surface of our economic potential.

We simply have to do better to get the economy growing faster, big, sustainably and inclusively.

Unless we take drastic measures now and harness all our domestic resources, we will not escape the low growth trap and, should the main indicators continue to disappoint any further, we may have to seek assistance from quarters we have thus far avoided.

In this regard, and given the difficult economic situation we are currently in, the government will soon unveil a 13-point action plan to enhance growth, outlining structural reform issues that have been lingering for some time now and attaching an implementation plan.

In unveiling this action, we know fully well that we will be judged by it and so we must comply by the timeframes we will have outlined.



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Both the NDP and the ANC's discussion document on economic transformation emphasize the need to build a developmental state to guide the transformation of social and economic relations in South Africa.

In calling for a developmental state, neither the state nor the market forces working on their own will be able to achieve the desirable outcomes associated with economic growth.

The state, representing all of the people, is needed to ensure historical redress, social justice and promote development in the national, rather than narrow, interest.

A dynamic private sector mobilizes investment, employs people and penetrates export markets, creating wealth and opportunity.

By forging a partnership between the state and the private sector, as well as other social partners, we can be greater than the sum of our parts.

The history of both advanced and late developing countries has shown that states have an important role to play in guiding development and working in close partnership with the private sector.

A look at some of our key opportunities illustrates this point.

A 2016 report by McKinsey suggested that South Africa can triple exports in advanced manufacturing by 2030, by building a globally competitive manufacturing hub focused on high value-added categories such as automotive, transportation equipment, industrial machinery and equipment, and chemicals.

For our private sector to capture this opportunity, they need the state.

This then highlights the need for developmental coalitions involving government, business and labour around specific growth sectors in order to drive a common and focused agenda, pulling all resources towards the same end.

One of the distinguishing characteristics of the Asian developmental states was precisely these developmental coalitions, as well as strong leadership at state level.

Furthermore, our foreign policy of regional integration and deepening intra-African trade becomes crucial, but that too must be driven by the exports of value-added goods.

Deepening trade with our fast-growing continent is thus an important opportunity.

Exploiting it requires the state to work with regional counterparts to, among other measures, advance the formation of free trade areas such as the proposed Tripartite Free Trade Area, improve regional transport infrastructure, and reduce border delays.



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This can unlock significant growth opportunities.

Similarly, tourism is a growth industry with huge developmental impact due to its employment impact along with other economic benefits.

It has grown impressively over the last several years, but taking it to the next level requires a joined up strategy between ACSA, capitalizing on and expanding OR Tambo International Airport's status as a regional hub, leveraging SAA, and further modernising and liberalising our visa regime to double or even triple our tourist arrival numbers over the medium term.

The same strategic collaboration is required to ensure we retain our status as the preferred location for African corporate headquarters.

Whilst the absence of developmental coalitions robs the entire country of the possibility and advantage of harnessing all our resources together for inclusive growth, the silo mentality in government cheats the country of a collective effort at government level to effect innovative solutions for socio-economic benefit.

A capable and developmental state must lead in economic management by developing and implementing clear, effective and appropriate economic policies.

The test for our economic policies needs to be whether and to what extent they positively impact growth and transformation to the greatest extent possible.

We need better relations with business in order to boost confidence, provide certainty and together coordinate our effort for growth and transformation.

Sometimes we in government are suspicious of business and become defensive when business calls for greater certainty and good governance, especially of State-Owned Companies (SOCs), as if bad governance is revolutionary.

To the contrary, China, a Communist Party led society, proves that good governance of SOCs is to the urgent and long-term, sustainable benefit of the country as a whole and economy.

We should do these things not because we fear ratings downgrades and lower business confidence, but because they are correct things to do.

We also need to improve coordination between the different arms of government, which I will come back to when I speak to the strategic use of state procurement.

The Finance family institutions are critical institutions in our economic management framework I think we cannot overstate the importance of macroeconomic and financial sector stability, as well as the alignment of these policies as instruments to drive inclusive growth.



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They are the enablers of a sound and dynamic economy.

I think we should appreciate that we have built a sophisticated, stable and resilient financial system, and our development benefits from the insulation this provides from the shocks and crises which occasionally beset countries, particularly developing ones.

In this regard, I should say here that my office is engaging with the Public Protector to understand her recent recommendations with regard to the South African Reserve Bank.

My view is that the Public Protector does not have the power to direct Parliament to amend the Constitution and to the extent that changes are necessary as to the mandate of the Central Bank, those recommendations should have been directed at the Finance Minister for action.

Obviously legal processes relating to the Public Protector's Report are in progress and will unfold.

I hope for a speedy outcome in order to provide certainty as to this area.

This is important because the Constitution has before ruled that the Public Protector's Reports are binding and must be implemented unless set aside through judicial review.

The proposal to review the mandate of the Reserve Bank has alarmed the markets, who are concerned about the independence of the Reserve Bank.

Of course, I do not think anyone should panic.

Our law and our institutional framework on monetary policy are stable and robust.

No one should fear a debate, however.

Meanwhile, we should all insist on the independence of the Reserve Bank to set monetary policy within the framework defined both in the Constitution and the law

With respect to transformation, there are several current initiatives which are relevant.

We are working with the financial sector and our colleagues at dti to adopt and implement a new Financial Services Charter.

We want to ensure that the new charter will advance transformation in the ownership and management of companies in the financial services sector.

The Black Business Growth Fund proposed in the Charter – a potential R100bn fund dedicated to funding black businesses – is a potential game-changer.



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We encourage black finance sector stakeholders to continue to shape the Charter as it nears finalisation.

We are working to develop proposals to increase the amount of assets the Public Investment Corporation and other state entities give to black asset managers to manage.

Currently black asset managers manage only about 5% of the estimated R9 trillion of assets under management in the country.

State entities and pension funds account for a sizeable portion of this R9 trillion and should be using their mass more strategically to transform the asset management industry.

Asset managers play a major role in the economy, in influencing corporate strategy, the character and pace of transformation, and the scale and nature of investments.

Despite their small market share, black asset managers have deep investment experience gained at established firms, domestically and internationally, as well as their own firms.

Several have been in business for a decade or more.

Their capabilities and track records are proven.

We must therefore grow the share of assets under management of black asset managers without delay.

Quite clearly, the PIC has a big role to play in this regard, and we need to review its role towards driving transformation instead of it being seen narrowly as an instrument for the empowerment of few elites.

The PIC must enforce fundamental transformation both directly and indirectly, among its suppliers and customers, within the JSE companies and carve a space for black fund managers, audit and legal professionals and others.

Furthermore, we will fast track public consultation and the finalization of the Public Procurement Bill.

It must enable a modernized public procurement regime which will have economic transformation as its core mandate, and maximize the developmental impact of public spending, by targeting and increasing access for black, women and youth owned businesses, township entrepreneurs and others.

Public entities spend more than R800bn annually on procurement of goods and services, and capital investment.



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This is a huge investment – as much as 20% of GDP – which has not been tracked and deployed strategically, due to fragmentation.

This is what the Public Procurement Bill must address.

Economic transformation must not be an afterthought, but at the centre of procurement strategy, reporting and performance management.

In this regard, black auditing firms are a low hanging fruit in terms of black excellence.

They should be given the majority of auditing work at our state owned companies.

It is a decision that is in our power.

Where they are expected to be content with 5% of overall market share, we should take the bold decision to give them 60% or more of all auditing work at state owned enterprises within the year.

Companies like Sizwe Ntsaluba Gobodo, Sakela Xabiso, Nkonki, and others, rose to the occasion when they were given significant work by SOCs such as Transnet, Eskom, Denel, SAA and others.

They have performed well, and on the back of the opportunities they have been given, they have built capacity, broadened their expertise and gained global accreditation.

We need to use our SOCs strategically to drive transformation by prioritising black auditing firms, and other black professional services firms generally.

I spoke earlier about coordination.

We know that emerging business – black, women, youth owned and small business, township and rural entrepreneurs – struggle to access markets, customers, supply chains and finance.

The state's R800bn in annual procurement spend represents a sizeable market.

We should be moving to multi-year contracts which will allow emerging businesses to build productive capacity, rather than spend their time and energy chasing piecemeal projects and struggling to grow as a result.

We need to coordinate the entire government value chain.

We must give emerging business a market for their goods and services through public procurement; help them deliver and build sustainable capacity through entrepreneurship and



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business support services; and help them access to affordable, flexible and tailored finance through our development finance institutions.

Let me conclude by saying a couple of things about the leadership we need from business.

The NDP emphasizes that the challenge belongs to all of us, and all of us must provide the leadership required to meet this challenge.

Much as government needs to raise its game to respond to the extraordinary challenge before us to grow and transform the South African economy, so too does business.

Vision 2030 is not going to work, if government has to push an unwilling private sector to transform through legislation and regulation.

These tools are effective when the private sector embraces their spirit; they are ineffective when the private sector does the bare minimum, focusing only on narrow compliance with the letter of the law, or undermining it by finding loopholes.

We understand that the role of the private sector is to create wealth, but we need wealth creation with a social conscience, and with historical perspective.

We need businesspeople who understand the social impact of their businesses, on their suppliers, customers, employees, and communities.

We need businesspeople who seek profit while producing innovative goods and services, investing in their employees, and giving back to the communities that sustain them.

We need businesspeople who understand that transforming South Africa is in everyone's interest.

A more equitable and inclusive economy will be a bigger economy.

It will mean more potential employees, partners and suppliers to choose from.

It will mean more customers with more disposable income.

It will mean a safer and more peaceful environment as everyone feels they have a stake.

Finally, we need businesspeople who are willing to forge ahead.

We need risk-takers.

From where I sit, South Africa is brimming with opportunity for businesspeople who are willing to innovate, who see opportunities where others see obstacles.



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We have advantages that would be the envy of many countries: our institutions, mineral resources, infrastructure, climate, natural beauty, and our young and dynamic population.

Growing and transforming the South African economy rapidly to advance our national development, and overcome the triple challenges of unemployment, inequality and poverty, is the challenge of our time.

It is an extraordinary challenge.

Meeting it requires extraordinary leadership from a capable and developmental state, and a progressive business sector.

We must all rise to the occasion.

I thank you.