



**MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA**

Keynote Address

**TRANSFORMING THE SOUTH AFRICAN ECONOMY TO INCREASE
COMPETITIVENESS AND INNOVATION**

**MINISTER OF FINANCE
NHLANHLA NENE
PIETERMARITZBURG
18 JULY 2014**

The MECs for Finance and Social Development, Mrs Belinda Scott and Mrs Weziwe Thusi, respectively

The Mayor of Msunduzi, Councillor Chris Ndlela

The President of the Pietermaritzburg Chamber of Business, Mr Paris Dlamini

The National Chair of the Progressive Professional Forum, Mr Comfort Ngidi

Ladies and gentlemen

It is my honour and privilege to share a few thoughts with you this evening. In my remarks I will touch on:

- The bold decisions that are required to increase the competitiveness and innovation of the South African economy;
- Outcomes of the Sixth BRICS Summit which concluded this week;
- How the NDP provides us a strong platform for collaboration between business and government; and
- Why entrepreneurship and business development are important building blocks for a growing and sustainable economy.

Uncharacteristic of a politician, I will be as brief as possible.

BRICS and African growth

The South African economy is performing below its potential and certainly below the level of growth that is required to deal with the country's triple challenges of unemployment, poverty and inequality. The low growth is explained by a combination of domestic and global factors.

Over the period ahead, however, new power plants and transport infrastructure will lift constraints to output, a stronger global recovery will support exports, and growth in sub-Saharan Africa will promote expanded trade and investment.

Indeed, the sustained growth of the African continent is key to our prosperity. So key is the African continent to our growth and prosperity that the launch of the New Development Bank by the five nations that have come to be known as BRICS will play an important role in stitching together sub-Saharan African countries into one economic community.

The World Bank estimates that sub-Saharan Africa requires US\$93 billion per annum to meet its infrastructure needs. The region, however, only manages to raise half of this. Therefore there is a large funding gap that provides the space for the New Development Bank to add value; by meeting this need and putting Africa on a sustainable growth trajectory. We believe that the significant number of the Bank's clients will come from sub-Saharan Africa.

There are a number of projects in Africa that could unlock the growth potential of the region, but the challenges faced with converting these into bankable projects has frustrated the pace of Africa's development agenda, the project preparation facility that will be embedded in the business of this bank will bridge the gap in addressing this challenge. And with this mind, this institution is well placed to provide complementary support to address the infrastructure deficiency, unlock development and economic growth potential.

Increasing competitiveness and innovation

But for us to take advantage of these opportunities in our neighbourhood, grow our economy at a rate that can rapidly reduce unemployment and poverty, would require bold decisions to increase competitiveness and innovation in a fast-changing world.

We have a plan that will guide us as we transform the South African economy to increase competitiveness and innovation. The National Development Plan (NDP) provides us with a menu of options to boost our development and growth prospects. The business before us now relates to the prioritization of options and working through some tough tradeoffs.

A competitive, diversified and more inclusive economy is essential to improved trade performance, the expansion and sustaining of job creation, the strengthening of revenue generation. While the global economic outlook has improved moderately, South Africa cannot rely on external developments to alleviate domestic growth constraints. Progress will require more collaborative partnerships across our society. The next phase of growth is about the dynamism and agility of the private sector and the synergies between the private sector and government.

The NDP provides a strong platform for such collaboration and the transition to a faster-growing, more inclusive economy. The plan promotes enhanced competitiveness, expanded infrastructure, greater spatial efficiency in growing cities and accelerated rural development. It also prioritises measures to build a capable and effective state.

Government initiatives announced in the 2014/15 Budget, and reiterated by President Jacob Zuma in his recent State of the Nations demonstrate government's commitment to working with the private sector to remove obstacles to investment, create jobs and achieve inclusive growth.

Indeed, government and business are working together, under the leadership of the Presidency. One such collaboration relates to the cutting of cut red tape. The Director General of the National Treasury and Mr Bobby Godsell co-chair a process that has yielded results in terms of addressing blockages to the issuing of water licenses. This process is also dealing with environmental regulations relating to mining as well as bottlenecks relating to business registrations.

Government has also been working with the financial sector to identify and clear blockages to the private sector playing a role in the financing of infrastructure. As you know, South Africa has a potential pipeline of more than R3 trillion worth of infrastructure projects, only a portion of which can be funded by the fiscus. The bulk of this will require external funding.

In addition, during the State of the Nations address in June President Jacob Zuma reiterated some of the initiatives government will undertake to boost private sector investment, support small businesses and create jobs.

A stable macroeconomic environment remains essential in providing an environment where the private businesses can thrive. In addition, there are a wide range of initiatives aimed at reducing the cost of doing business through accelerating infrastructure investment, reduction in regulatory burdens, and more generally making it easier for firms to do business in South Africa.

Let me cite a few of these measures:

- The 2014/15 budget commits R847 billion over the next three years for infrastructure investment as National Infrastructure Plan, the bulk of which will be for power generation and freight logistics;
- We have simplified further the trade and investment regime for firms that do business with the rest of the continent. Africa presents great opportunities for South Africa's private sector. Approximately 25 per cent of our manufactured exports are destined for Sub-Saharan market. The stock of South African direct investment in the rest of Africa equals approximately 5 per cent of our country's GDP. So, the simplified tax and foreign exchange framework for companies with operations on the continent and elsewhere has been extended to unlisted companies, and the cap of such benefits for listed companies will be increased.
- The suite of industrial incentives has also been increased and adapted to cater for the varying needs of businesses, including process improvements, machinery upgrades, industrial finance and export promotion.
- Government understands the importance of small and medium-sized firms for economic growth and job creation and has allocated R6.5 billion to fund small and medium-sized enterprises. Further to this, the Budget accepted two recommendations from the Judge Davis Tax Committee that will ease the compliance burden of small business, namely: the turnover tax regime will be amended to further reduce the tax burden on micro-enterprises; and, replacing the graduated tax structure for small business corporations with a refundable tax compliance credit is under consideration. Amendments will be made to the venture capital company tax regime and the rules related to accessing foreign capital will be eased to enhance support for entrepreneurial development. SARS is also taking further steps to lower the cost of tax compliance.

- To overcome the spatial fragmentation of South Africa's built environment and to improve the utilization of cities as economic hubs, an integrated city development grant has been introduced to strengthen long-term city planning and encourage private investment in urban development. In addition, an employment tax incentive has been introduced as a cost sharing measure to incentivise firms to provide work opportunities for young people.

Government is committed to supporting the private sector through maintaining macroeconomic stability, addressing the country's infrastructure deficits, and improving the competitiveness of labour-absorbing industries. The launch of the Currency Reserve Arrangement (CRA) by BRICS nations forms part of our continued efforts to create a stable operating environment.

The CRA increases the ability of the five member nations to absorb the shocks associated with the volatility in global financial markets and resultant capital movements. Among the recent example of volatility and capital flight were those relating to the Asian Crisis, Global Financial Crisis, European crisis, and the normalisation of unconventional monetary policy.

The aftermath of these events and crises have, to varying degrees, resulted in our countries experiencing pressures on their balance of payments, meaning they had insufficient foreign reserves (liquidity) to meet current claims. This most common results is depreciation of the domestic currency (which may result in inflation) and the depletion of the countries' foreign reserves.

As the global economy recovers, our opportunities to grow will increase. Let's work together to reclaim our place in the world.

Entrepreneurship: an important building block

Entrepreneurship and business development are important building blocks for a growing, sustainable economy. The creation of the new Ministry for Small Business signals government's resolve to grow this sector of the economy. Up to now support to small businesses has been provided by entities that fall under the Department of Trade and Industry and the Department of Economic Development. These, including the Small Enterprise Development Agency and the Small Enterprise Finance Agency, will continue to support small businesses.

Most developing economies have strong informal sectors that draw people into economic activity. South Africa's informal sector is underdeveloped given the country's size and level of development. Moreover, the broader business environment is characterised by market concentration and relatively high profit margins.

Government aims to create an environment that supports both informal traders and entrepreneurs who seek to develop small businesses into larger enterprises. Policies will be designed to promote the development of basic entrepreneurial skills and facilitate a greater degree of self-determination for those lacking formal opportunities. Government aims to streamline the regulatory regime so that it is easy for businesses to be established and to comply with the regulations. Proposed reforms would reduce compliance costs and facilitate access to equity finance.

The tax system is continually being adjusted in favour of SMMEs. As announced in the Budget in February this year, government has accepted two recommendations of the Judge Davis Tax Committee which will ease the compliance burden of small businesses.

In conclusion, one of the central instruments for reducing inequality is to ensure that the economy grows and creates jobs. Accordingly, partnerships are needed to overcome entrenched structural unemployment. Broader economic opportunity, more effective social services and rapid job creation are required to overcome severe inequality of income and opportunity. The quality of learning and teaching in poor communities must be transformed. To overcome apartheid's spatial legacy, the provision of housing and social infrastructure needs to be improved, and planning frameworks across government strengthened.

All of this is being guided by the National Development Plan (NDP) which is the country's framework for economic and social transformation. The plan aims to accelerate growth to eliminate poverty and reduce inequality by 2030. The NDP lays the basis for economic transformation, stressing that change is required on many fronts to modernise the economy, address development challenges and improve the lives of South Africans.

I thank you