



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

ADDRESS TO THE OLD MUTUAL BOARD DINNER

JOHANNESBURG, 31 JULY 2014

**THE ROLE OF THE PRIVATE SECTOR IN IMPLEMENTING THE NATIONAL
DEVELOPMENT PLAN**

NHLANHLA NENE

MINISTER OF FINANCE

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The Chairman of the Nedbank Group, Reuel Khoza

Senior executives of Old Mutual, its subsidiaries and associates

Honoured guests

Ladies and gentlemen

Thank you for the opportunity to share a few thoughts with you on the role of the private sector in making sure the objectives of the National Development Plan (NDP) are achieved.

One of the most-used words in the 400-odd pages of the NDP document is partnership. This reflects the fact that it is only through effective partnerships across society that we can achieve a virtuous cycle of rising confidence, rising levels of investment, higher employment, rising productivity and growing incomes.

The NDP provides a strong platform for such collaboration and the transition to a faster-growing and more inclusive economy. The plan promotes, among others, enhanced competitiveness, expanded infrastructure, greater spatial efficiency in growing cities and accelerated rural development.

And the business sector is the key partner in ensuring that the NDP becomes a reality. Businesses drive economic growth through, among other things, investment, innovation, and knowledge transfer. In South Africa's case, the private sector employs about three-quarters of workers and accounts for more than two thirds of investment and research and development expenditure. So, if we are to achieve the NDP goals, we need a thriving private sector that is investing in the country's productive capacity.

But the private sector cannot do it alone. It needs an enabling environment, which can only be created by a strong public sector. And that is why the NDP also prioritises measures to build a capable and effective state. A capable and effective state is also key in ensuring that all South Africans share in the benefits of economic growth.

Against that background, let me deal with three points which talk directly to the brief I was given for this evening. The NDP spells out many roles for the private sector in achieving our socio-economic objectives. I would like to focus on three of these roles.

The first relates to the role of the private sector in the building of infrastructure, including bulk infrastructure. In recognition of this, government has been engaging the private sector on its potential participation in the financing of infrastructure.

The Task Team on Private Sector Financing of Infrastructure has been focusing on identifying blockages to the private sector financing of infrastructure and making recommendation on to remove these blockages.

Among the blockages are those of a regulatory nature, for example, those relating to the impact of Basel III requirements on the appetite of banks for infrastructure financing.

The Task Team was initiated by National Treasury and its membership today includes the Department of Public Enterprises (DPE), the Presidential Infrastructure Coordinating Committee (PICC), the Development Bank of Southern Africa (DBSA), the Financial Sector Trade Union, and SASBO.

Private sector representatives include the Association for Savings and Investment for South Africa (ASISA), the Banking Association of South Africa (BASA), the South African Venture Capital and Private Equity Association (SAVCA), and more recently, the South African Insurance Association (SAIA). More partners will be brought in as the work gains momentum.

In summary, we have learnt from these interactions that there is significant appetite among private sector for financing infrastructure and that as long as the public sector offers appropriately packaged infrastructure projects, the private sector will invest.

The second role assigned by the NDP to the private sector relates to its partnership with government. In return for the treatment of the private sector as a partner in policy design and implementation, the private sector must respond to and facilitate the realisation of national objectives.

Government and business are already working together to address legislative and policy bottlenecks. This work is being led by the Presidency. One such collaboration relates to the cutting of cut red tape. The Director General of the National Treasury Lungisa Fuzile and Mr Bobby Godsell co-chair a process that has already 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.

While the profit motive drives business, companies cannot grow unless they operate in an environment where employment and income levels are rising. In this complex context, it is in the long-term interests of all businesses for our economy to grow faster and for more people to be employed.

At the same time, there are national objectives, including employment equity, black economic empowerment, protecting the environment, skills development, local content, small-business development, community social responsibility and several location-specific imperatives, such as mining area development strategies. Businesses must give effect to these as they go about making money.

The third role relates to the determination of wages in the private sector. The determination of wages must: a) be conducive to employment and equity objectives; b) ensure a fair division of earnings in a context of extreme inequality; c) recognise need to ensure a social floor, including social wage

(free basic services and transport costs) and measures to reduce inflation of basic commodities and that of administered prices.

The NDP cautions us that rapidly rising wages do not usually precede growth acceleration – they are more likely to follow the onset of a sustained acceleration by two to five years. This is particularly the case if the urgent focus is on access to employment opportunities for large numbers of workers, on the back of which qualitative improvements can be attained. This is a trade-off that the South African society has to address.

For such a trade-off to have the support of all relevant partners, two qualifications should be attached to it: expanding access to new entrants should not be undertaken in a manner that lowers the working and remuneration conditions of existing employees; and the overall dispensation should include some sacrifices by management. In structuring the employment tax incentive (ETI) we have ensured, for example, that the incentive does not lead to the lowering of working and remuneration conditions of existing workers. In addition, an employer who replaces an existing worker with one who qualifies for the ETI will be severely penalized.

It is also in the interest of business that the level of inequality is reduced. Inequality raises the cost of doing business, skews market structure and ultimately limits growth opportunities. It also breeds mistrust and tension. Excessive executive remuneration does little to build a more inclusive society where everyone feels that they share in the fruits of development. While legislating salaries is impractical, leadership is required to ensure that businesses act more responsibly.

In conclusion, ladies and gentlemen, if we want to make meaningful, rapid and sustained progress in reducing poverty and inequality over the next two decades, we must fix the future, starting today. Only a combination of increased private sector activity and good public policies as well as robust institutions will lead to successful implementation of the NDP.

Let me end with the words of William Butler Yeats, the Irish poet, who once wrote: “In dreams begins responsibility.” We have a dream and a road map. It is now our collective responsibility to make sure that our dream, the NDP, does become a reality.

Thank you.