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REPUBLIC OF SOUTH AFRICA

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# SPEECH BY DEPUTY MINISTER OF FINANCE

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## REMARKS AT THE OLD MUTUAL THOUGHT LEADERS FORUM

### DR DAVID MASONDO DEPUTY MINISTER OF FINANCE

13 August 2024

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Good morning, ladies and gentlemen,

It gives me great pleasure to join you today for this Old Mutual Thought Leaders Forum.

Since our peaceful 2024 general elections, two significant positive events have occurred.

Firstly, we have successfully constituted the Government of National Unity (GNU) through the collaboration between parties from across the political spectrum to advance the interests of the South African people.

Secondly, during the Opening of Parliament Address, President Ramaphosa on the 18th of July, outlined the following as the GNU priorities:

- a. drive inclusive growth and job creation;
- b. reduce poverty, and tackle the high cost of living; and
- c. build a capable, ethical, and developmental state.

This event comes at a critical moment for the South African retirement industry.

In less than three weeks, retirement funds across the country will implement the Two-Pot Retirement System.



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This system aims to support long-term retirement savings while providing flexibility to assist fund members in financial crises. In many cases, retirement funds are the only savings that fund members have.

And in times of real financial distress, members of pension or provident funds tend to terminate their employment to access those retirement savings.

With the new reforms, members will now be able to withdraw a portion – up to a third – of their retirement savings before retirement, while still preserving funds.

It is advisable for fund members to use the savings component sparingly, and only when there is an urgent and dire need.

They should seek trustworthy financial advice to consider the implications of withdrawing from their savings component.

It is important to note that administration costs and tax at marginal rates will be deducted from such withdrawals.

In addition, members will also lose out on all related future growth and the retirement benefit originally intended for those funds.

Financial literacy, financial education, and financial advice are crucial in this context.

Ladies and gentlemen,

The Two-Pot Retirement System is the latest in a series of comprehensive reforms implemented by the South African government to simplify and harmonize the pension system, incentivize pension savings, and increase the fairness of the retirement system.



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Our country has made significant progress in our 30-year journey of freedom and democracy. Many people who were historically excluded are now active participants in the economy.

However, our journey is far from over. There are still too many unemployed South Africans and too many who live in poverty. Income and wealth inequality persists, and millions of South Africans cannot retire with dignity, while millions more cannot save for retirement at all.

We have to grow the economy to address these problems.

To accelerate economic growth, we have been undertaking structural reforms through Operation Vulindlela to make the South African economy competitive by reducing the cost of doing business in the country.

We have been working hard to reduce the cost of energy, telecommunication, and freight logistics and make it easy to source skilled labor all over the work through VISA reforms.

The logic of these reforms is straightforward- greater efficiency in energy and logistics decreases the cost of doing business, which in turn enables local production to expand and jobs to be created.

This increased production and job creation leads to higher consumer spending and boosted tax revenues. As confidence in the economy grows, so does investment, creating jobs and supporting demand – a virtuous cycle that leads to higher growth on a sustained basis.

We have seen positive results of the implementation of the reforms. Perhaps the best example of this success is in the energy sector. It has been almost 140 days without load-shedding, and the regulatory changes have resulted in a significant increase in private investment in electricity generation, with a pipeline of more than 22,500 MW of confirmed



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projects in development. These projects will result in over R390 billion of new investment once implemented while accelerating our transition to renewable energy sources.

In the logistics sector, the adoption of the Freight Logistics Roadmap by the Cabinet will accelerate the reform of the rail and ports system, enabling open access to the freight rail network and introducing private sector participation in container terminals, for the first time.

The first phase of Operation Vulindlela focused primarily on modernizing network industries to address the underlying causes of low economic growth and improve the competitiveness of the economy.

Ending load shedding and improving the efficiency of our logistics system is necessary for economic growth but is not enough on its own to build a dynamic, fast-growing, and inclusive economy.

President Ramaphosa, in his Opening of Parliament Address last month, outlined several new areas of reform that Operation Vulindlela will be pursuing in its second phase.

The first task in the second phase will be to stabilize the performance of local government to address the immediate challenges in electricity, water, and other basic services. Without these services, businesses cannot function, and investors cannot invest.

In the long term, the institutional structure and funding model for local government will be reviewed to ensure that municipalities are financially and operationally sustainable. The ultimate objective should be to balance the need for truly local government that is responsive to the needs of a community, with the need for economies of scale in the delivery of services such as water and electricity.

However, none of the challenges facing local government will be addressed, if we do not ensure that capable and qualified people are appointed to municipal administrations. The



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number of people employed in local government has significantly grown since 2006, without a corresponding improvement in outcomes.

Instances of corruption and patronage in the appointment of senior managers, as well as political interference, have contributed to instability and a loss of technical skills.

To rebuild capability in local government, we will strengthen the regulation and oversight of the appointment process for senior managers and protect the administration from undue political interference.

The second new frontier of reform is to address spatial inequality through housing, transport, and urban policy that turns our cities into dynamic centers of economic activity. South Africa's spatial structure reflects the legacy of apartheid, which deliberately sought to segregate the population along racial and ethnic lines.

The high cost of transport shuts out millions of South Africans from employment opportunities, creating labour market frictions and preventing job creation. The lowest quintile of households per capita spends more than 37% of their after-tax income on direct transport costs.

While we do not often think of spatial inequality in similar terms to the energy supply shortfall or the challenges in the logistics system, it is in reality an enormous economic cost, one that has held back growth for many decades.

To promote spatial integration, we will use our housing programs to enable people to live closer to areas of economic opportunity, rather than building houses on the urban periphery. This will require the release of well-located public land for social housing, as well as a review of regulations to unlock investment in low-income housing in our cities.

In addition, we must shift our expenditure on housing from a supply-driven model, through which the government constructs fully complete houses and hands them over to beneficiaries, to a more demand-driven model that provides people with the means to find



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housing in areas where they want to live. This will also allow us to leverage private sector capital beyond our fiscal resources.

Finally, we will work to restore the passenger rail system to operation and invest in integrated public transport systems that are affordable, reliable, and safe.

The last new area of reform that Operation Vulindlela will prioritize over the coming years is digital transformation.

Many countries, including India, Brazil, and many others, have invested significantly in digital public infrastructure such as digital identity and digital payments to promote economic growth while at the same time enhancing the delivery of public services. In the absence of a clear, focused, and effective digital transformation strategy, South Africa is lagging behind our peers.

To address this, Operation Vulindlela will work closely with the responsible departments to put in place a comprehensive roadmap for digital transformation focused on digital payments, system inter-operability, and data integration, as the basis for the digitization of services. This roadmap will support innovation, bring millions of South Africans into the digital economy, and improve access to services.

These reforms, in addition to those already completed or underway, will fundamentally transform South Africa's economy.

It is through economic growth that we will increase retirement savings since more people will be employed and contribute towards the retirement funds.

The retirement industry reforms aim to change that by enabling more South Africans to save towards their retirement, and by improving the retirement outcomes of those whom the retirement system serves.

But the government cannot achieve this alone. All stakeholders have a critical role to play. Interventions are needed at every point along the industry value chain. These include:



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- a. the trustees who should perform their fiduciary duties, act in the best interest of the asset owners in line with the Pension Fund Act,
- b. the asset managers who should make prudent investment selections that enhance portfolio
- c. the funds that administer retirement savings should be efficient with their administrative services
- d. the employers who select the funds should prioritize the safeness of the retirement savings
- e. the regulators should ensure everybody plays by the rules,
- f. and – ultimately – the fund members themselves whose retirement outcomes are ultimately at stake, should be retired comfortably.

Let me stress that fund members convert their working years into financial savings during their working life as workers.

Inevitably, our working capacity diminishes as we approach the end of our working life. It is our collective responsibility to defend and protect the hard-earned financial savings accumulation.

Ladies and gentlemen,

By working together as industry stakeholders, we can do more to transform South Africa's retirement system.

Initiatives like the Old Mutual Thought Leaders Forum are an important step in bringing about the improvements in access and outcomes that all in this industry wish to see.

Whether you are a regulator, asset owner, asset manager, or policymaker, we all want to see a better, stable, and secure retirement industry future for all.

We all want asset owners to retire comfortably.



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We want to ensure certainty of retirement in the future. That their retirement savings will be available when they retire.

As a responsible government, we will always set and promote a policy environment that enhances pension portfolio returns, promotes market stability, and avoids compromising both the pre and post-retirement lives of citizens.

It is the government's commitment to respect the investment mandates of pension plans, the fiduciary duties of trustees, and their desire to maximize portfolio returns within acceptable risk tolerance levels.

Regulatory instruments such as Regulation 28 provide prudential guidelines and an enabling framework to facilitate the long-term investment nature of retirement funds. It is our view that investments in infrastructure complement the long-term investment horizons of retirement funds.

Together we must drive this sector forward through responsible governance and a continued focus on inclusive economic growth, employment creation, and poverty alleviation.

We are on the cusp of a significant shift in our economic trajectory, and of a higher rate of growth that has eluded us for more than a decade.

Over the next five years, South Africa has an opportunity to accelerate growth through massive new investment in the energy sector, leveraging its unique solar and wind resources to reduce energy costs and power green manufacturing.

In addition, given our advanced infrastructure and other key advantages, we can position ourselves as a major player in the digital economy, creating jobs in business process outsourcing and digital services while encouraging a dynamic ecosystem for high-growth start-ups.





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Thank you, Old Mutual, for facilitating today's conversation. You are a proudly South African corporate citizen.

I wish you fruitful deliberations during today's discussions.

Thank you.