BMF Gauteng Policy Conference

Pathways to Economic Growth and Transformation in South Africa

Speaking Notes for Jabu Mabuza

19 May 2017

20 minute address, followed by panel discussion, including

- Jorge Maia, Chief Economist at IDC
- Enoch Godongwana, ANC Economic Transformation Sub- Committee
- Dr Pali Lehohla, Statistician-General

Good afternoon ladies and gentlemen

A sincere thank you to the BMF for this opportunity to address you. I've been invited to share my reflections on what we, as the business community, together with our partners in government and civil society, can do to improve business and investor confidence in South Africa. It's a burning issue for all of us, and I'm sure many of us here today have very strong, and perhaps rather divergent, views on what needs to be done. I'm going to use the next 20 minutes or so to sketch my thoughts and suggestions.

I look forward to a robust debate with our panel members and audience thereafter.

I argue that there are seven critical areas we need to address:

First, we need to strengthen the quality of policy making. South Africans used to be justifiably proud of our policy making process
– it was transparent, it involved a high degree of public participation and accountability, and it was quite clearly informed by logical cost-benefit analysis aimed at supporting economic growth, tackling social and economic inequality, and creating a more prosperous and inclusive society. But over the past few years, we've seen these strengths being steadily eroded. On issues like the regulatory framework governing the mining sector, the long delays associated with the sector specific BEE codes, the set- top boxes debacle, the nuclear procurement programme, and indeed various other major procurement processes, government policy making has seemed to ignore evidence and good practice, often in favour of particular political agendas.

I believe business has an important role to play in reversing this pattern.
We need to strengthen our voice, by committing time and resources to participate constructively and meaningfully in our country's democratic institutions.

This means diligently sending representatives of the appropriate seniority and with the appropriate expertise to participate in policy-making processes, in Parliament, at NEDLAC, and in engagements with Ministers, Departments, labour and civil society. It means allocating appropriate resources to provide effective research and secretarial capacity for our business associations – if we insist on evidence based decision making, we need to ensure our own evidence is objective and compelling. And it means being willing to speak up clearly when we're uncomfortable with the direction a process is taking – in bilateral discussions in the first instance, and in public when necessary.

Second, we need to improve the quality of relations between business and labour. We need to work together establish a strong foundation of trust, on which we can negotiate the kind of reforms needed to support employment creation and business growth, while protecting the rights and interests of employees. This is particularly crucial in the context of the rapid global acceleration toward a 4th industrial revolution – which will mean more automation, fewer jobs, and a massive shift toward a high-tech, knowledge-driven employment market.

Adversarial labour relations, in which trade unions attempt to force concessions through strike action, in which government lambasts ‘monopoly capital,’ and in which business responds by cutting jobs and mechanising processes, create terrible outcomes for everyone. We need all three social partners to work honestly and constructively together to improve the quality of our country’s labour relations, to support appropriate regulatory change to ease rigidities within our labour market, and to promote modernisation of collective bargaining processes and human capital management to enable a fairer deal for everyone – including those desperately seeking employment.

Third is the problem of monopolies – and here we need to look at the public as much as the private sector. Our state owned enterprises are, in far too many cases, inefficient, poorly governed, deeply indebted, and unaccountable to the tax payers who have to repeatedly bail them out. Far too many of these institutions have acting executives, interim boards, and face unresolved allegations about improper conduct and corruption. The problems at Eskom, SAA, Denel and the SABC are particularly severe. Everyone is well aware of the issues.

Last year the business sector made a number of proposals to support the strengthening of streamlining of the SOEs – proposals which seemed at the time to be positively received within government.

Yet we've seen no sign of action. In fact, certain current events would even suggest a complete disregard for the basics of corporate governance.

Within the private sector, many of our industries are dominated by a handful of powerful players, with high barriers to entry for newcomers. The narrative of white monopoly capital – as problematic, politicised and populist as it is – has traction precisely because so many aspiring black businesses find it so difficult to compete in an economy dominated by big, long- established corporates with deep pockets and extensive business networks. We're seeing some tough action from the Competition Commission to tackle some of these issues – but it's not always clear that this is the most effective or appropriate route to take. I'd argue that we need to look at issues like the easing of regulatory barriers to entry, availability and accessibility of government incentives, the role of special economic zones, government-private sector risk sharing arrangements to enable new ventures to get off the ground, and the opening up of corporate supply chains to facilitate the entry of black-owned firms.

Fourth, and closely related to the above, is the critical challenge of weak public administration and corruption.

I think we're all well aware of the issues here – there's no need for me to detail examples. Speaking out and acting against corruption is not a political act, it's not about pinning one's colours to one faction or another, and it is not anti-government. It is about preserving our constitutional democracy for the benefit of all South Africans. But public outrage, as important as it is, is not enough – something that's been made perfectly clear, time and again. So what do we do? *All* of us have a role to play in insisting on greater transparency and efficiency. All of us have the capacity to support the organs of civil society that promote stronger public administration, transparency and accountability. All of us must be vigilant in ensuring that our own business dealings are untainted by the stain of malfeasance, inappropriate influence, nepotism or collusion. And as members of business associations, all of us must act to impose appropriate sanctions against fellow members when we find prima facie evidence of corruption.

Fifth is the perennial, heart-breaking issue of our weak education system. We cannot continue to fail our young people. For two decades, we have been wasting our demographic dividend – allowing inequality, unemployment and disillusionment to fester and multiply.

This has to stop. It's a huge challenge, and one in which government unquestionably needs to take the lead. But business can assist in lobbying for urgent regulatory reform to permit the expansion of the low-cost educational private sector, and to enable partnerships between government and the private sector in this regard. There are some excellent models, in South Africa and other African countries - let's learn from and replicate them. Further, as I've just alluded to, education doesn't end after school. As business, we have a need to, and an interest in, investing in our employees and empowering them through skills development. Yes, it's expensive and time-consuming to take on new people and train them – but none of us would be here today if someone at some point hadn't taken a chance and invested in us – it's up to us to invest in the next generation.

This is critical to address our sixth, and greatest, challenge – persistent income and asset inequality.

We *have* to radically transform our economy – there's no question about that. The challenge is to do so in a way that is fair to everyone, that promotes rather than erodes investment, and that chooses sustainable transformation over short-term populism – in other words, in a way that supports *inclusive* growth. Government is of course driving various initiatives in this regard, but we as business people need to look to getting our own houses in order – ensuring meaningful transformation of our management teams, our board structures, and our supply chains, looking at ways to diversify ownership, finding ways to support the Black Industrialists programme, and – I'll say it again - ensuring that our we're providing the kind of training and skills development that will enable our employees to adapt to a rapidly evolving global economy.

Finally, we need to restore the confidence of business and civil society in our country's future. Among affluent South Africans, people who wouldn't have considered having an offshore account a couple of years ago are finding ways to move their savings out of the country. Lower middle income and poor people don't have this option – and in many cases are opting for immediate consumption rather than saving for an uncertain future.

This creates a looming disaster – shrinking investment by domestic businesses, shrinking savings pools to fund public investment, and uncertainty among foreign investors as we teeter on the edge of a further ratings downgrade.

As business people, we need to balance our responsibility to speak out against poor policy decisions and hold our leaders to account, with our responsibility to speak up for rational optimism. We are patriots, we are committed to this country. We need to work with government to attract investment, and invest in a manner that demonstrates confidence in the country's long-term future. We need to support the implementation of rational, evidence-based and workable government programmes. But we need government to take decisive action on the issues I've raised here if we are to do so.

The CE Initiative, which was formed early last year, continues to work with the Minister of Finance to try to prevent the third downgrade, to attract investment, and to persuade the ratings agencies to upgrade South Africa again as soon as possible.

We continue to roll-out the business-led R1.5 billion SME support programme, and to implement business' Youth Employment Scheme commitment to employ one million young people in internships in the private sector over the next three years.

We continue to identify opportunities for interventions to attract new investment in manufacturing in the Vaal Triangle.

We remain fully committed to doing everything in our power to rebuild trust and continue the partnership with Government to drive structural economic reforms aimed at a faster and deeper pace of inclusive economic growth – and we hope, for the sake of all South Africans, that government remains committed to the same.

Ladies and gentlemen, I thank you for your attention, and I look forward to a rigorous and productive debate.

[End]