Investment for Economic Development

There are **two workstreams** within this sub-programme:

- *Development Finance Institutions*
- *Investment and Development*

## Development Finance Institutions

Development Finance Institutions can potentially play a critical role in marshalling large volumes of development finance to achieve economic development goals. Key state DFIs and investment bodies between them control assets and investments worth hundreds of billions of rand. These resources need to be deliberately harnessed as part of an overall development strategy, rather than operating in an uncoordinated way, or simply as commercial operations. A strategic development framework for these institutions will ensure a far greater impact in achieving the goals of our developmental state.

Through its co-ordinating role with other institutions, EDD will help to leverage the resources and expertise of these organizations to economic development outcomes. Secondly, government needs to have a department which co-ordinates certain major DFIs whose mandates substantially intersect, which sometimes results, for example, in separate decisions to finance the same organisations by different DFIs, without the knowledge of the other.

The purpose of this workstream is to provide oversight and strategic direction to the Industrial Development Corporation (IDC), the Khula Enterprise Finance Limited (Khula) and the South African Micro-Finance Apex Fund (SAMAF).
The relevant functions have been transferred to EDD which will become the reporting authority for the IDC, Khula and SAMAF.

Because these institutions provide services relevant to the work of the dti, EDD will work in close collaboration with the dti in co-ordinating its responsibility for these institutions, and providing oversight and strategic direction.

EDD will also review the appropriateness of these institutions’ governing structures and operations and align and build coherence between the institutions’ policies and strategic plans with those of the state.

(a) **The Industrial Development Corporation (IDC)**

The IDC, as a publicly-owned development finance institution, is a key lever available to government in promoting sustainable economic development. The IDC, as a major financier of industrial development, has a critical role to play in implementing a broad-based industrialisation strategy. Based on its extensive investments and involvement in various sectors, the IDC has detailed knowledge of the real economy, capacity to assist in promoting appropriate sector development strategies, and considerable research and technical ability, which are invaluable in promoting our economic development agenda. The IDC can give critical impetus to government’s efforts to realign and restructure the real economy, if these capacities are harnessed in concert with other DFIs and state entities, which are actors in the productive sector of our economy.

Given EDD’s specific mandate, both in economic planning and economic policy development, the capacity and expertise of the IDC will constitute a key resource base for the Department. On the other hand, EDD will ensure that investment decisions of the IDC reflect more clearly the new economic mandate. These realigned economic activities will constitute an important part of economic development planning.

The IDC will also be an important institution in promoting regional and African economic development, its mandate and activities having been extended to the rest of the African continent.

The EDD will play an oversight role over the IDC, to ensure that its activities and programmes are aligned to these developmental objectives, as outlined in Government’s mandate.

(b) **The Khula Enterprise Finance Limited (“Khula”)**
The marginalisation of small and medium business from the mainstream economy is a function of, amongst others, apartheid economic structures, excessive economic concentration, and the unavailability of affordable finance from the private financial sector. Government’s goal of broad-based and inclusive economic development, therefore, has as a key element the provision of affordable finance to small and medium business and co-operatives. Economic interventions to promote competitiveness, by combating monopolistic conduct, and to ensure availability of finance from the private financial sector, are two legs of government’s strategy. The third leg is to provide affordable public sector finance for SMME and co-operative development.

Khula Enterprise Finance, through providing such finance, is a key institution to promote economic development in this sector of the economy. However, serious obstacles have been experienced in achieving the targets previously set by government. Building on recent work done to reposition the institution, EDD will harness Khula’s capacity and expertise, to ensure a major scaling up of developmental interventions in this area, given its importance in promoting development in marginalised and rural communities.

EDD’s oversight role will seek to build on those elements of Khula’s programmes which have delivered positive results, and to ensure that its activities and programmes are aligned to the state’s development objectives.

(c) The South African Micro-finance Apex Fund (SAMAF)
SAMAF is a wholesale funding institution formally established in April 2006. Its mandate is to facilitate the provision of affordable access to finance by micro small and survivalist businesses for purpose of growing their income and asset base. It also has to act as a catalyst in the development of a vibrant micro-finance industry in South Africa. The primary purpose is the reduction of poverty and unemployment, the primary goal is to extend financial services to reach deeper and broader into the rural areas, informal settlement and peri-urban settlement of South Africa. The second goal is to build a network of self-sufficient and sustainable micro-finance institutions.

EDD will exercise oversight over SAMAF’s strategy and operations, in order to ensure that it builds a stronger financial services sector for the poor, enhances the skills in the sector, builds self-sufficient institutions to ensure effective financial intermediation, creates a sustainable and vibrant micro financial industry in South Africa and ensures its activities and programmes are aligned to the state’s strategic objectives.

Investment and Development

This workstream will ensure that government is able, through its institutions and entities, policies, legal instruments, budgets and other mechanisms at its disposal, to channel and direct public investment and, where feasible and appropriate, private investment, into economic development to support decent work outcomes. These outcomes include employment creation
and broad economic transformation. Investment will in particular be encouraged into activities which have high employment effects.

This programme of promoting investment for development needs systematic and careful coordination. Building on government’s mandate, an overall programme and framework to promote appropriate public and private sector investment will be developed together with relevant departments, state entities, and private sector organisations.

This will include:

- a focus on investment for development by the public sector that includes the national government, provincial governments, municipalities and State-owned enterprises
- the promotion of investment by the local and global private sector into strategic areas and areas of job creation
- a focus on investment for development by private sector retirement funds and the Public Investment Corporation.

EDD will undertake work in the following areas:

(a) **Public sector investments**, taken together represent a significant portion of national investments. Government seeks to promote greater co-ordination of such investments within a coherent framework. EDD will seek to formulate such a framework, in close consultation with the DPE, line function departments dealing with SOEs, as well as the relevant state entities.

(b) **Private sector investment** for economic development: the promotion of investment by both local and foreign-based companies, into productive investments, green-field investments and in activities that will employ large numbers of South Africans is vital for economic development. The department will work with agencies and functions in government to secure these objectives.

(c) **Retirement Funds**: private sector retirement funds control a vast asset base and investments in all sectors of the economy. There is scope to improve the level of development funding that is attracted from this asset and investment base. During the 2003 Growth Summit, it was agreed to target investment of 5% of investible funds into developmental areas and
activities. Various options are available to ensure that such investment is promoted, while improving security of members’ funds particularly in a period where the value of investments has fallen. Options available include the creation of a government development bond; and other mechanisms that result in a portion of investments being directed to development. EDD will identify appropriate mechanisms for responsibly leveraging such investments, and ensuring greater security for members of retirement funds.

(d) The Public Investment Corporation (PIC): The PIC is effectively the investment arm of public sector retirement funds and certain public institutions such as the Unemployment Insurance Fund, and manages assets on their behalf. The PIC is wholly owned by the South African government, and was established as a corporation on 1 April 2005 in accordance with the Public Investment Corporation Act, 2004. The PIC is the biggest single institutional investor in South Africa, and in 2009, despite the depreciation of assets after the market crash, manages around R700 billion in assets.

EDD will work with National Treasury to help achieve the developmental goals through the investment policy of the PIC.