

## **Speech by Minister of Economic Development, Ebrahim Patel, at the Budget Vote on Economic Development, 12 May 2015.**

Chairperson

Honourable Members and Cabinet Colleagues

Agency heads and Invited guests.

In the past 12 months, Deputy Minister Masuku and I visited factories, construction sites, energy plants, communities and investment conferences across the country.

We spoke to working and unemployed South Africans, local leaders, managers and investors, to see the impact of our policies and to identify what more we need to do.

It has been a valuable pulse-take of development that we can be proud of; and of urgent challenges.

The scale of the challenges we face was very clear:

- Many young people full of energy but without jobs.
- broken infrastructure that had not been maintained.
- investors who faced problems getting their businesses to run properly.

But I also saw much to celebrate, quiet but solid efforts at local level to transform lives, South Africans who are making us proud.

I want to share their experiences today.

Stories of jobs, innovation, social infrastructure.

- Andries Motseke a worker whose towel-making factory has expanded and now employs 81 more people than a year ago.
- Rachmat Thomas, a black woman who co-owns a shoe factory that doubled its employment in the past six years and now employs 300 people.
- Bongwiwe Gumede, a lab technician from a packaging plant in KZN that expanded by 17% using an IDC loan
- Jiff Van Zyl an entrepreneur experimenting with new technologies making it more difficult to steal cables from our electricity network.
- Solomon Masango, a black maize and soya farmer who benefitted from the agreement government reached with Afgri
- Avril Johnson, a worker whose bed-linen factory is expanding jobs, bringing in new machinery, with a loan and competitiveness enhancement grant from government
- 56-year old Victoria Gumede who now uses the new clinic 10 minutes walk from her home in Kwa Mahleka, her life transformed and healed from the medical ailment that kept her in bed.
- 15-year old Joice Mokoena in Freedom Park attending a new school built through the infrastructure programme.
- Francois Kapp an engineer who works for the Square Kilometer Array site located in Carnarvon, where South Africa is building the most advanced radio-telescope system in the world.

I met community members and foreign investors in Pofadder in the Northern Cape to launch an R8 billion SOLAR plant that will produce

enough electricity for at least 80 000 households or 400 000 consumers, one of 39 completed renewable energy plants.

These stories of South Africans working are confirmed by the statistics collected nationally.

In the Budget Vote speech in July last year, I noted there were 15,1 million employed people in SA . Today that figure is 15,3 million, a quarter-million additional jobs over the nine-month period. Most of this growth has been in construction, the public sector and retail.

However, the rate of growth, investment and job-creation remain well below what is required and we are confronted by weaknesses in global growth and domestic factors such as energy constraints and industrial relations conflict.

The economy grew by 1,5% and GDP is now more than R3,8 trillion.

Public investment in the economy grew to R280 billion last year but private investment remains weak.

The Budget I table today will strengthen efforts to focus on jobs, investment and industrialisation, using the combined capacity EDD and its agencies together with the Economic Cluster of government.

I want to highlight a few examples of what we have done and plan to do on the six areas identified in the last Budget Vote, namely infrastructure, industrialisation, investment, innovation, inclusion, and integration.

Over the past five years, the IDC dramatically increased its level of industrial funding to R61 billion.

Last year, the IDC approved R1,6 billion for black industrialists, including to

- a company owned by Mr Paseka Lesolang which makes an innovative valve to reduce water leaks
- a foundry in Benoni with major black ownership
- a new packaging paper mill to be built with 51% black ownership
- a gas pipeline owned by black South Africans
- a manufacturer of compressed briquettes owned by Ms Lorraine Masipa and
- a large black-owned and managed shoe-factory.

We must scale this up to support industrialisation, investment and inclusion.

A commitment to **real broad-based empowerment** must underlie our efforts to create a more equitable society and to ensure the benefits of transformation accrue to millions of South Africans.

We need more worker and producer cooperatives to harness the entrepreneurial energy of the nation and address high levels of inequality and economic exclusion. China, Spain, India and Brazil all have examples of strong and effective cooperatives. We must also nurture individual black industrialists who run and own their businesses in the productive sectors of the economy, who create decent work opportunities and bring innovation, entrepreneurship and strong partnerships with their workforce.

I am pleased therefore to announce that the R100 billion committed for industrial development over the next five years by the IDC will include **R23 billion set aside to support and facilitate the growth of black**

**industrialists in the productive sectors and R4,5 billion each for women and youth empowered businesses.**

The IDC will give a discount of 150 basis points on its pricing to black industrialists who own and control their operations, with additional discounted pricing for meeting jobs, localisation and regional development targets. This will be done in partnership with other government programmes including with the DTI.

To complement this, **the state is looking at various set-asides in infrastructure and other products to support black industrialists so that we address their need for markets.**

To generate viable projects to productively absorb these levels of funding, I have directed the IDC to develop internal capacity to identify market opportunities and potential co-investment technology and funding partners.

We will **convene investment roundtables with private investors in different provinces** in the next six months to identify new opportunities to make products locally *that we are currently importing or produce goods that we can export.*

We are working with local companies to weather various global headwinds, particularly in the steel industry, which has been affected by the sharp slowdown in demand globally.

In addition, the Competition Commission has completed its investigation into collusion by the biggest steel-maker. We are looking at ways to **enable a more competitive steel price for downstream users** so that we

stimulate local demand for steel. I have appointed an independent panel of steel-industry experts to offer advice on options and modalities.

Honourable Members

We welcome the jobs stability in the clothing and textile industry for the past three years as a result of a number of government-industry initiatives. Government will step up efforts to strengthen the industry. The partnership with Minister Davies in this regard has been invaluable. I invite members of parliament to see examples from this and other industries in the old assembly area after the budget vote.

Our efforts on economic integration with the rest of the continent are yielding successes. During last year, we exported R300 billion worth of goods to the rest of Africa, an increase of R36 billion.

Aside from the damage xenophobic attacks do to our humanity, we cannot unscramble ourselves from Africa, our continent, without serious economic damage.

Our total manufacturing, mining and agriculture **exports to the rest of Africa sustain 244 000 direct jobs in South Africa.**

*Of these, 169 000 are manufacturing jobs.*

Africa is now more important for growth in manufacturing exports than Europe, the United States or China.

The gas that powers South Africa's largest industrial company, SASOL, comes from Mozambique. Every second glass of water consumed in Gauteng every day, comes from Lesotho. This biggest export market for

South African plastic products is Zimbabwe, for televisions it is Zambia and for clothing it is Mozambique.

On Africa Day on 25 May, the Department will convene a symposium at the University of Johannesburg of investors, workers, intellectuals and public officials to look at the economic impact of our relationship with the rest of the continent. We will take this as a road-show to different provinces, to engage our people in deeper discussion about being African, and to communicate one simple truth: our prosperity is intimately tied with our economic relations with the rest of the continent.

To promote inclusive growth and industrialisation, our trade policies have supported domestic manufacturers. Over the past year, thirteen products received stronger trade protection or rebates, from paper and batteries to barbed wire and chicken.

Yet if we simply rely on tariffs without improved investment and productivity, we will not become competitive. I will, within six weeks, issue a trade directive to ITAC to ensure tariff changes at the request of industry are accompanied by reciprocal commitments by manufacturers to invest more, create more jobs and improve their products and productivity. We will monitor the impact of these measures consistently.

The Small Enterprise Finance Agency – sefa - maintained an important milestone last year, approving R1 billion worth of funding projects for the second year in succession. Operational responsibility of sefa is now being transferred to Minister Zulu. We are working together to integrate small business as a focus in all our economic programmes.

Honourable Members

The growth of the small retail sector is a critical economic entry point for black South Africans.

I wish to advise that **the Competition Commission will launch a market enquiry into parts of the retail sector** *in this financial year*, involving large supermarket chains, grocery stores and small retail outlets like spaza shops.

It will consider the structure of the industry including retail outlets in townships, the tenancy arrangements in shopping malls that seem to squeeze smaller players out and the impact of the growth of large retail chains on competition, jobs and small business development.

The Competition Commission will announce the terms of the market enquiry within the next four weeks.

The healthcare enquiry, chaired by ex Chief Justice Sandile Ngcobo has done considerable work *to collated detailed initial submissions, will analyse these* and will commence public hearings into the cost of medical care in this year.

The Commission uncovered evidence of a cartel in the furniture removal industry targeted at the SA National Defence Force and is investigating price-fixing in the auto components sector.

The message is clear: we will act against practices that undermine the economy's dynamism, the entry of small businesses and youth into industries and South Africa's ability to create jobs and drive industrialisation.

This year marks the 15<sup>th</sup> anniversary of the competition authorities, who have made remarkable progress with transforming the economy.

I am pleased to announce that in November, South Africa will host a major conference of competition authorities from the BRICS countries, where representatives from Brazil, China, India, Russia and South Africa will share experiences to ensure competition policies relevant to developing country realities.

Infrastructure development has boosted the economy and is one of the key reasons why we avoided another recession.

The PICC projects under construction, with dust, bricks, cement and workers on site, is worth roughly R1 trillion. It employs about 220 000 workers, building roads, dams, power stations, schools, rail lines, university facilities, hospitals, clinics, fuel pipelines and fibre-optic systems.

Since the enactment of the Infrastructure Development Act last year, we made solid progress with facilitating regulatory approvals. Working closely with Ministers Mokonyane and Molewa, 16 water use licenses and 4 environmental authorisations for infrastructure were approved.

Over the past year, a number of schools, clinics, renewable energy plants and other infrastructure facilities have been completed and local skills generated. *For example, more than half a million solar water heaters have been installed.* More details on these achievements will be made in various budget votes in the next few weeks.

Government is now focusing on the big-build programmes of Medupi, Kusile and Ingula power stations, where delays are severely constraining

the electricity grid. Other key areas of infrastructure focus will be broadband-build, transport, water and sanitation and health facilities.

Honourable Members

The IDC invested R3,7 billion in infrastructure in 10 African countries to strengthen regional growth. These range from cement-making in Ethiopia and Namibia, gas and hydro energy in Mozambique, power generation in Ghana, Zimbabwe and Nigeria, a ferry and road in Uganda, a port and airport in Senegal, a biofuels plant in Sierra Leone and a water treatment plant in Sudan.

The infrastructure programme boosted South African manufacturing. From importing public transport vehicles previously, we now have factories that have built more than 670 buses locally and assembled more than 32 000 taxis locally.

I am pleased to say that two weeks ago, Toyota produced the first taxi that uses almost double the levels of locally-manufactured components and materials than before, a big step-up for government's programme.

I am working closely with colleagues, Ministers Nkwinti and Nxesi, to strengthen capacity in the state and have directed the IDC to play a stronger role in developing the infrastructure pipeline and technical capacity in the state.

I am pleased to note that in January this year, the African Union Heads of State Summit designated South Africa as the champion to develop the manufacturing of train engines, coaches and wagons on the continent. We

will build on this very welcome decision to deepen our industrialisation efforts.

In December last year the PICC *Council* resolved that the state must crack down on theft of cable and metal from our infrastructure programme that causes serious economic and social disruption. Trains have been unable to operate, water was cut, and electricity-blackouts ensued. Working closely with the Minister of Justice, amendments to various pieces of legislation have been drafted and will be tabled in parliament shortly. They will expand the powers of the state to act against cable and metal theft. We cannot and will not accept the effective sabotage of our infrastructure systems for the profit of syndicates.

To support innovation, the PICC will identify areas in infrastructure where we can draw on South African inventiveness.

This year, the Department will partner with Wits University and the University of Johannesburg, to bring their talent pool into the work of the state.

The most critical partnership that we need to get right is between business, labour and government so that we can turn the recent conflict-driven industrial relations into greater cooperation in creating and sharing wealth. The Deputy President has initiated a dialogue with social partners to identify the basis for stronger workplace partnerships. Social tensions as a result of high inequalities will undermine the democratic gains of the past 21 years if we do not address it with urgency. We must do so.

Honourable Members

Our successes are a collaborative effort.

I wish therefore to thank Deputy Minister Masuku, my Cabinet colleagues, the portfolio committee members, the IDC, competition authorities, ITAC and EDD as well as social partners in trade unions and business associations for their work over the past year.

I now table the Economic Development Department Budget for consideration by this august House.