Minister Ebrahim Patel: Economic Development Dept Budget Vote 2018/19

Budget Vote Speech: Minister of Economic Development, Ebrahim Patel, National Assembly

Honourable Chairperson and members
Guests in the gallery, from business, union representatives from Sactwu and COSATU,
Regulators and agency representatives
Fellow South Africans at home in at their workplaces

One hundred years ago a boy was born in a village along the banks of the Mbhashe River, who as he grew up was a shepherd and a stick fighter and later a lawyer and a fighter for freedom. On this day – the 10th of May – 24 years ago, that same individual took his oath of office as the first democratically elected President of South Africa.

As he took office on that day he spoke about justice, peace and the triumph of the human spirit. But he also spoke to the very practical needs of the people when he said:
“Let there be work, bread, water and salt for all.”

These words of Madiba sum up the focus of economic development.

It is my pleasure to present to parliament a Budget of R1.07 billion for the new financial year. The Budget will be distributed as follows:

- R282m for the Competition Commission, to do its work to open up the economy for all;
- R240m raised from the construction industry, for the new Tirisano Fund, to finance transformation, including support for black artisans and engineers, small builders and infrastructure;
- R229m for the small enterprise finance agency to make loans available to small and micro enterprises;
- R140m for the Department to unblock investment, provide oversight of agencies and support the alignment of policy

- R102m for the International Trade Administration Commission to pay for the trade investigations and systems that we need for import and export controls;
- R35m for the Competition Tribunal;
- R30m for a Steel Competitiveness Fund1 to rejuvenate the steel industry, which lies at the foundation of any nation's industrialisation; and
- R15m for the PICC to monitor the spending and construction in the state's infrastructure plan2.

One year ago, during the previous Economic Development Budget, the country's growth rate was 0.3%, only 51 000 new jobs had been created, and our development prospects looked bleak. The country faced a series of ratings agency downgrades, Stats SA data suggested we were in a technical recession, concerns about state-capture and corruption were high, with credible evidence of public resources diverted to the pockets of corrupt individuals.

Today we see a new optimism, spirit and confidence in the economy, what President Ramaphosa called "a year of change, a year of renewal, a year of hope". Growth last year was better than had been projected, with GDP growing by 1.3%. Stats SA revised their growth figures for first half of last year, showing that the economy did not in fact contract and a technical recession was avoided. The economy created 102 000 new jobs over the year. The international ratings agency Moody's affirmed our investment grade rating, and upgraded their outlook on the state of our economy and the fiscus. Business confidence is at its highest in three years, and consumer confidence, as measured by the Bureau of Economic Research, is at its highest. There is a Judicial Commission on state capture and law-enforcement agencies are beginning to prosecute persons implicated.

The output of the South African economy is now R4.7 trillion and it employs nearly 16.2 million people. However, unemployment remains very high, with about 6 million mainly young South Africans needing jobs.

In this context, I want to provide the House with a report on work done by the Economic Development entities over the past year and since this is the last Economic Development Budget to be presented to Parliament in this Administration - the next Budget will be tabled after the General Election - I will also cite some examples of progress over the past four years, and I will set out additional steps we will take to address economic inclusion in the year ahead.

In the limited time, we will not be able to cover all our work in the past year. I will focus on a few areas:

- the big agreements we reached in merger proceedings with Old Mutual and Chevron;
- the practical ways we helped empower small and black businesses;
- the development ideas we contributed on inclusive growth, the 4th
- industrial revolution and the fight against corruption;
- efforts to deepen African integration, and new investment that created
- jobs and opportunities;
- the work done to support the country's infrastructure programme; and
- steps taken to deal with cartels and abuse by dominant firms and the
- coordination of trade and other measures.

Ideas matter enormously in a country's development: last year, we hosted two key conferences and commissioned research to quantify the potential costs of corruption on the economy.

The first Conference was on inclusive development and industrialization, in which Professor Joseph Stiglitz, the Nobel Laureate, engaged a group of South Africans to identify strategies to grow more jobs in the economy. The second was a Symposium on the 4th Industrial Revolution, looking at the challenges and the opportunities, which is now shaping our focus and thinking.

We publicly released the results of the economic modeling exercise that quantified the damage that corruption and state-capture can do to the economy, we provided parliament with research on trade links with other African countries, including Kenya, Mozambique and Zimbabwe and the results of a survey on the waste or circular economy, detailing its potential to create jobs and of successful projects that our entities were involved in. We devoted a big part of our resources to competition matters, so that we can open up and strengthen the economy.

The Competition authorities and the Department engaged firms during mergers on protecting jobs, supporting small businesses and the growth of black farmers, promoting local industries, opening up fridge space in spaza shops to small bottlers and locating company headquarters in South Africa. In the last four years more than 65 000 jobs were protected through merger conditions or agreements with government. Commitments were made to create a further 7 400 new jobs.

The Ministry and Commission have been involved in a number of competition matters, from mergers to cartel settlements, and since 2010, about R11.6 billion has been mobilized either for government revenue or development funds committed to help small, black or local business in transactions involving Old Mutual, Walmart, Afgri, Pioneer, Coca-Cola, ABInBev, Chevron and the construction industry; and fines levied on Arcelor Mittal, food and construction firms.

A further R11bn was committed by three companies for new investment in their operations as a result of agreements with EDD reached during competition proceedings, one of which will see R6 billion invested to upgrade the Milnerton oil refinery here in Cape Town to make fuels environmentally safer.

Let me give a few examples of what the agreements mean.

Ntombi Khathwane who produces Afrobotanics hair products and Sbu Msomi, a mosaic stone producer, have expanded their businesses and now sell their products in Game and Builders Warehouse.

Shakiel Parker, a black industrialist now sells noodles in Game and Makro and is expanding his factory from 25 people working part-time to 175 people working full-time, and, according to the company, it now has the single biggest noodle line capacity on the African continent.

Eugene Havenga of Umlilo Charcoal in North West, is now exporting to Walmart stores in Chile, New Zealand, the UAE and Zambia.

All of them are beneficiaries of the Massmart Local Supplier Fund set up after government secured a localization condition in the Walmart merger. Over the past few years, Massmart has sourced R800 million worth of goods from these SMMEs and black South Africans, and they expect to grow these suppliers to about R1 billion per annum within the next 5 years.

Kethiwe Mhlaba and Barathi Naidoo are two young workers from KZN who both started as sewing machinists this year at the Celrose factory in Tongaat. They are part of 500 new jobs created when Edcon, South Africa's largest fashion retailer, increased its sourcing of local clothing for their Summer Wear, from 42% in 2016 to 53%, a result of an agreement made during merger proceedings with the Department.

Coca-Cola South Africa last year bought more local grapes for its Grapetiser drinks and more local glass bottles for its beverages, creating jobs in supplier industries.

Two rival buyers emerged to buy the Caltex business from Chevron. They both agreed to expand black ownership of the company and ensure that the majority of service-stations are owned and operated by local entrepreneurs. If the Chinese company, Sinopec, wins the bid, they will also sell South African goods in the shops across the Sinopec garages in China.

Last year, we engaged Old Mutual on a proposed transaction that, subject to full shareholder approval, will see the company 'come back home' from London, use the JSE for its primary stock exchange listing, and make Joburg the global headquarters for its biggest businesses, and through the engagement, they agreed to bring high-level finance jobs from London to SA, commit to a new fund of R500 million for developing small businesses, ensure no jobs are lost as a result of this homecoming and take its BEE shareholding levels to best-in-class in the industry

In each one of these cases, the effort of these companies to increase local procurement and invest in South African entrants to their supply chain, has resulted in new jobs, and an opportunity for young, small, local businesses to grow, showing the transformative power we are bringing into the economy through the operation of the Competition Act.

The Competition Commission also undertook investigations into abuse of dominance in a number of sectors, including pharmaceuticals, port and rail and school uniforms and market inquiries into various sectors.

I want to report on the work of the IDC, which does not receive money from the Treasury for its basic mandate but uses the income from its investment portfolio to finance new investments and make loans to companies. The Ministry appoints the Board and CEO, sets the investment, development and jobs targets and evaluate the IDC'S performance on a regular basis.

Over the past four years, the IDC facilitated roughly R130 billion3 of fresh investment, of which R58 billion4 is from its own funds and the rest from its private sector partners. This helped to boost the country's GDP, strengthen our industrial capacity and, over the last four years, create or save 85 000 jobs. For the past 12 months, the provisional results show IDC investment approvals of R16.9 billion with 29 000 jobs created or saved.

At the same time, we have refined the IDC mandate to ensure that the growth is transformative and inclusive, drawing in more black South Africans, young people and women.

IDC-approvals to black-empowered companies amounted to R35bn over the last four years, but we have since 2015 focused more on black industrialists who run their own businesses rather than simply black investors getting say a 10% stake in an existing business.

Three years ago I set special investment targets for the IDC which would focus on black industrialists, and women- and youth empowered businesses, and we are on track to meet or beat those targets.

Last year, the IDC approved R7.7bn in funding to 108 black industrialists. This investment helped Mr Phillip Mulungo who employs more than 100 people, to expand production of charcoal for the European export market, using alien invasive species cleared in the Boland area.

Martha Letsoalo is co-founder of the Heartfelt Project in Marabastad in North West, which uses traditional hand craft skills to create products designed predominantly out of felt and beads, providing employment for 30 other women in the area. She benefited from the Women-empowered programme of the IDC that approved R2,2bn last year.

Menzi Thabede of Fearless Film in Gauteng and Bianca Isaac of 3Days To Go in KZN are youth entrepreneurs in the film industry, supported by the IDC. Last year the IDC approved R1,1 billion of funding for youth entrepreneurs.

The best tribute we can pay the extraordinary life of uMama Nontsikelelo Albertina Sisulu is to provide opportunities for young women in the economy.

There were challenges with two major IDC investments last year, namely Foskor which makes fertilizer feedstock, and Scaw Metals which makes steel products. While the IDC is still working on turning Foskor around, it has now sold the majority stake in one of the three Scaw businesses to private investors.

The efforts of the Department has led to significant empowerment of black South Africans.

Let me give a few examples. Through our agreements:

- black shareholding in Appletiser went up from zero to 21%, with new
- shareholders Stephen Dondolo and Excellent Madlala
- black shareholding in Coca-Cola SA will go up from 11%. to 30%, including
- provision for shares to workers in the company
- black shareholding in Chevron SA will go up to at least 29%
- black shareholding in the construction business of Murray & Roberts is now 100% through the sale of the business to a black-owned consortium.

Three of South Africa's largest construction companies with nearly R30 billion in local annual turnover will now work with seven black construction firms to up their own turnover by billions of rands, like that of Dr Thandi Ndlovu, who owns and manages her own construction company.

ITAC worked closely with EDD and the dti to support the steel industry, a matter I referred to in last year's Budget Vote. I am pleased to advise Honourable Members that one outcome of these interventions has been the reopening of Highveld Steel as a new industrial hub in Mpumalanga, with steel-making, training, mining equipment repairs and coal-storage all taking place on the premises and hundreds of workers back at work. In fact, the industrial complex is now Africa's only producer of railway lines.

In the infrastructure space, EDD provides the technical backbone for the work of the Presidential Infrastructure Coordinating Commission. It collects data on what the state is doing, it unblocks obstacles to rolling out new infrastructure like helping Eskom, in getting servitudes for transmission lines over property belonging to Ekurhuleni Municipality. EDD also identifies opportunities for industrialization – like the Highveld Steel railway lines and also the 87 000 new minibus taxis that will have been produced by the end of this Administration.

In the past year, government invested more than R1 billion each working day in new infrastructure such as schools, clinics, power-stations, roads and new universities.

The country moved from an electricity shortage just two years ago, to a surplus today, which provides an excellent base to bring energy to the homes of more South Africans and attract investors who need energy for their production processes. We are now working on a longer-term project pipeline and Budget processes are being reviewed to address the multi-year cycles of spending in infrastructure.

For the year ahead, we will focus on four major programmes.

- First, to deepen economic inclusion through the Competition Act, youth measures, social partner agreements and worker empowerment advocacy.
- Second, to boost investment in infrastructure and industrial development
- Third, to support South African jobs by increasing localization in the economy; and
- Fourth, to prepare our economy for the new technology wave that is called the 4th industrial revolution.

In December last year, we gazetted a draft Competition Amendment Bill for public comment.

We provided information on high levels of economic concentration in different sectors of the economy and noted the damaging effects of economic concentration when it leads to economic exclusion. The Bill provides clear and practical mechanisms to address high levels of concentration that excludes small business and black South Africans from the mainstream economy. It gives the Competition Authorities powers to impose remedies to address problems in the structure of the economy and to promote economic inclusion.

The Bill also deals also with practices by dominant firms which leads to excessive prices, price discrimination against smaller players and other abusive and anticompetitive practices.

This is a major reform of our 20-year old Competition Act. We received more than 60 submissions on the proposed changes. I wish to thank all organisations who took the time to write to us. We have also engaged Nedlac parties – business and labour – over the past few months. We will, during this year, finalise a revised Bill through Cabinet for submission to Parliament for consideration.

In the year ahead, the competition authorities will investigate 100 cases of cartel conduct; consider a projected 400 mergers; and take on an additional two cases of abuse by dominant firms in the economy. I expect to receive and table in parliament this year, the outcome of three very significant Market Inquiries: into private healthcare, grocery retail (which includes shopping malls and spaza shops) and communication data costs. Market Inquiry hearings will be held on public passenger transport and cost of communication data.

To promote inclusion, the IDC has committed funding of at least R1 billion a year to youth-empowered enterprises and at least R1,5 billion to womenempowered firms, and if the off-take is strong, youth and women entrepreneurs can draw on the IDC's general funds too. While I will be working with the IDC to increase these targets in future years, money alone is not sufficient. The IDC has therefore introduced a Youth Pipeline Development Programme offering preand post-investment support to ensure more young South Africans succeed in their entrepreneurial efforts.

The Department will monitor progress against commitments in the Youth Employment Accord, with a focus on education and training, work exposure and employment, Youth entrepreneurship, and private sector measures, like the YES Initiative.

In the year ahead, to address deep levels of inequality, government will engage business and labour and the IDC on measures to promote greater worker ownership of shares in enterprises and inclusion of workers on the boards of companies, so that we build our own inclusive South African economic model and deepen the partnership in the economy. To boost investment, President Ramaphosa announced a target of US$100 billion of investment commitments that government should achieve over the next five years.

I wish to welcome Mcebisi Jonas here today, one of the investment envoys of the President and previously Deputy Minister of Finance, with who we will work closely.

To improve investment in infrastructure, we plan to conclude an infrastructure investment agreement with South African banks and insurance companies in the next 12 months. We will also finalise discussions with the BRICS New Development Bank and other foreign-banks with a presence in the local market, to bring their resources into the building of South African infrastructure.

We will focus on the efforts to transform the construction industry, with a further three large construction companies finalizing their transformation plans and we will also bat for South African firms on the African continent. The Tirisano Fund will begin its first project approvals this year, to bring development to the sector.

The PICC technical unit will provide support and assistance to infrastructure departments to help increase our supply of water and support the expansion of transport links, both road and rail.

To improve investment in industrial development, the IDC will, over the next five years, target R110 billion of new investment, with significant sums going to black industrialists, youth-empowered enterprises and firms with large womenownership. We must do more to promote economic inclusion and township enterprises. 5 I will work with the IDC and colleagues in Cabinet to bring a package of support which will go to township enterprises, to bring funds to entrepreneurs in townships.

To illustrate our practical plans on investment, I want to point to factory expansions financed or supported by EDD-agencies:

- In this month, we will officially open the new CISCO steel plant in Cape Town, which uses scrap-metal procured through the Price Preference System administered by ITAC;
- In June, construction of an ice cream manufacturing facility in Polokwane will begin;
- In July, the Beijing Auto Industrial Group (BAIC) expects to produce its first semi locally assembled vehicles6 from its new auto-plant in Nelson Mandela Bay;
- In August construction will start on a facility to manufacture building insulation;
- In September BAW will produce its fully locally assembled7 taxis from its expanded plant in Gauteng;
- In October production will begin of specialized tubing for the auto industry from the KAPELA factory;
- In November Brewster Craft will commence brewing products from their facility west of Johannesburg;
- In December expansion of the 2Ten Hotel in Sibasa, Limpopo Province will support tourism infrastructure;
- In January, Rietfontein Agri Partners are expected to begin milling of maize at their new mill in the Free State;
- In February, construction of a fresh water aquaculture and processing operation for Karoo Catch in Graaf Reinet will be completed;
- In March next year, BAIC expects to produce its first fully locally assembled vehicles and
- In April next year, construction of the vanadium-based battery factory for Bushveld Energy will begin.

To support local procurement, we have engaged a number of retailers including Shoprite-Checkers, Edgars and Jet through Edcon and Game, Dion, Makro and Builders Warehouse through Massmart, and will conclude a procurement agreements with other retailers shortly.

Last year, H&M, the world's second largest clothing retailer marketed a sweatshirt with offensive language. When we engaged H&M in the weeks that followed we noted that they imported everything in store. Following their apology and as part of reorienting the H&M worldview of Africa, we have proposed that they atone very practically by sourcing goods from South Africa. They will have a procurement team in the country within the next few weeks to visit potential local suppliers.

We are working with Ministers Gordhan and Nzimande to ensure that Transnet and PRASA implement policies towards local procurement of rail-lines and trains.

The Department made a number of positive contributions to localization, including:

- Linking up black-owned Naledi Foundries, whose CEO Sibusiso Maphatiane is here today, and Transnet, resulting in a local order for 6 000 forged wheels which were previously imported from China.
- An EDD initiative displaced imported transformers in the Coega IDZ, with local product
- Facilitation of discussions within government led to a new production line for non-alcoholic beer
- Eskom and SAPS procured locally-produced textiles from an Eastern Cape factory

This year, we have a request by sugar growers to increase the import tariffs on the sweet substance. We will convene meetings with the industry drawing in black and white farmers as well as industrial users of sugar, to identify ways of supporting local farming whilst keeping prices paid by consumers as low as possible. In this, we will work with Ministers Zokwana and Davies. The Price Preference System on scrap metal had some positive effect on South African metal manufacturing firm and a decision on its future will be made in the year ahead.

The 4th Industrial Revolution is reshaping the economic storyline of the future and as South Africans, we need to prepare for it and help to shape the technology wave to ensure it promotes development. It will change many parts of our economy, from retail and banking, to how goods are produced in factories, distance learning that will change the classroom, medical treatments and diagnosis that will be delivered through new ways, driverless cars and drones that will change modern transport and logistics. At the base of this is the developments in artificial intelligence and the use of big data.

The December 2017 Symposium on the 4th Industrial revolution mapped out a way to address this challenge.

We should not focus on building a 20th century economy when competitors arebuil ding the economy of the future. The digital economy will be a key driver of the 4th Industrial Revolution and thus bringing data costs down will be a priority in the year ahead, as will be skills frameworks and investment in R&D, using the Digital Industrial Revolution Commission announced by the President.

Conclusion
Honourable Members

The Economic Development Budget of almost R1.1 billion can support our efforts at greater economic inclusion if we use it to leverage wider partnerships in the economy with business and labour; and open up economic opportunity for the restless but productive energy and passion of young entrepreneurs and those excluded. It can help to achieve Madiba's the demand that there be work, bread, water and salt; and that we achieve, step-by-step, the vision of the Freedom Charter that the wealth shall be shared by all.

In the year ahead, we will work closely with colleagues in the economic cluster, to improve the lives of our people and to ensure deep and meaningful economic transformation.

I wish to end by thanking Deputy Minister Masuku, heads of agencies Chairman Manoim and Commissioners Bonakele and Nzimande, Dr Tom and the EDD staff, Anita Loots and the PICC staff, and Honourable Coleman and Members of the Portfolio Committee, for the work done and the support they have given.
It is now my pleasure to table the Economic Development Budget before this august house.