**NATIONAL ASSEMBLY**

**WRITTEN REPLY**

**PARLIAMENTARY QUESTION: 662**

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**Dr M J Cardo (DA) to ask the Minister of Economic Development:**

(a) What is his department’s working definition of radical economic transformation and (b) how does his department plan to translate radical economic transformation into programmes and projects in the 2017-18 financial year?

 NW721E

**REPLY**

Radical economic transformation has been defined in the State of the Nation Address. Policy-specific elaborations at the level of economic development for the 201718 financial year would normally be done during the Economic Development Budget Vote.

Subject to the above, the following additional details are provided.

In the context of our challenges, radical economic transformation is about ensuring growth that directly, sustainably and expeditiously promotes national development goals. These goals are focussed on addressing the high levels of poverty, inequality and unemployment in South Africa. To achieve this, the country needs faster growth, more inclusive growth and job-rich growth so that the economy can generate the resources to meet these defining challenges of our times.

‘Transformation’ includes two key components.

The first is to grow the size and resilience of the economy, including through promoting entrepreneurship on scale, increasing the level of investment in the economy, promoting beneficiation of raw materials into finished goods; strengthening economic links with the rest of the African continent and promoting higher levels of industrial innovation as well as addressing the other key structural constraints identified in the New Growth Path and the National Development Plan. The ratings downgrade is bad news for our efforts to grow the economy at a faster and more inclusive level and thus we need to take steps to ensure that we regain investment-grade status from lenders and pursue a credible, bold inclusive growth strategy in the interest our people. In the medium to long term, the levels of domestic savings need to be increased to enable us to finance more of our growth efforts from internal resources, with the resultant returns helping to increase the levels of national wealth. Foreign investment will remain an important source of innovation, new technology and market access and must be encouraged, particularly in sectors where domestic capabilities are limited.

The second is to improve the participation by and benefits of black South Africans in the economy, including through increased equity by black investors in the economy; worker-participation in company boards and as shareholders in the firms concerned; job creation that can draw in and benefit large numbers of unemployed persons; promotion of small businesses and township and rural enterprises; and improvements in skills, wages and productivity of workers. Young people are a major resource for a fast-growing economy and we need to step up efforts to draw in the talents and energy of youth, as entrepreneurs and creators of new wealth and as skilled workers, artisans and technicians that competitive economies depend on. A programme that is aimed at enriching only a small number of persons will not address the gaping levels of inequalities, provide social stability and or be sustainable. The high levels of wealth and economic concentration act to deter and at times inhibit new entrants from securing space in the economy. Pervasive exclusionary conduct, many examples of which the competition authorities have begun to uncover over the past few years, aggravates this situation. This means we need to address both the structural and corporate behaviour challenges in the economy to enable a more open, competitive and dynamic economy to develop. Corruption, maladministration by public institutions and state capture by narrow vested interests will profoundly undermine economic transformation. Any programme that will see the majority of citizens benefitting from economic transformation must therefore also entail fighting corruption and attempts at state capture.

‘Radical’ in the above context of economic transformation refers to ensuring that transformation is bold, extensive and implemented expeditiously.

At an operational level, the Department has implemented or supported policies and measures to promote inclusive economic growth, which includes addressing transformation of ownership, management, staffing and conditions of employment in the economy. I wish to highlight a few examples of these.

The IDC introduced a special programme to support black industrialists, with a capital allocation of R23 billion. This programme was announced in parliament during my Budget Vote previously and has been widely welcomed by Members of Parliament and stakeholders. This is a significant pool of capital that is available at concessionary rates to black South Africans who seek to invest in sustainable businesses in productive sectors of the economy. I will provide further details of progress we have made in the Department’s Budget Vote in due course.

The competition authorities and the Department pursued black economic empowerment, small business and employment protection and job-creation objectives through a number of mergers and acquisitions, including more recently in respect of Coca-Cola, AB InBev and Edcon. For example, a portion of the equity in Appletiser has been set aside for black South Africans in the Coca-Cola transaction. The Edcon transaction has a significant employment commitment that will affect tens of thousands of black workers. The AB InBev transaction specifically targets the development of a class of small-scale farmers, most of who are black, with a commitment to integrate them into the commercial value-chain of the company.

In settlements of cartel cases, such as in the construction and metal industries, the settlement agreements covered bold economic transformation goals. In the case of three major listed companies in construction, they intend to sell more than 50% of their shares to black shareholders and open up a sector that had been characterised by high levels of concentration. The primary steel-maker agreed last year to revise its shareholding and it agreed to certain employment commitments that can benefit previously-excluded South Africans.

Details of the work of the Department on infrastructure development, job creation and the promotion of investment in South Africa has previously been highlighted in the Economic Development Budget Vote and presentations to the Portfolio Committee and will therefore not be repeated here.

In order to ensure that transformation is sustainable, it is important to

* build a wide social consensus on the modalities that are put in place and ensure they are transparent, effective and not used misused through fronting; and
* avoid transformation being used as a smokescreen to pursue narrow agendas including the empowerment of a favourite few. If we want to ensure real transformation, then the resources of the state and commitments by private capital must be applied with integrity and be free of corruption.

We must work hard therefore to ensure that millions of South Africans benefit from transformation. It requires a new, bolder approach by the business community, working in partnership with the state and labour. The worker empowerment model has great promise in that it ensures that key stakeholders in the economy can benefit from empowerment and have the twin benefits of performance gains in the companies concerned (and therefore benefit the economy as a whole), as well as equity gains that reduces the levels of inequality in South Africa. Job creation must be a central pillar and the more than 2 million new jobs created since the adoption of the New Growth Path must be further stepped up. The youth investment programmes should be strengthened and in addition, complemented where warranted, by stronger mentoring support by existing successful businesses and inclusion of youth-owned enterprises in major supply-chains. Funding for innovation-driven businesses need to be a priority in the work of development finance institutions and private capital markets. Actions against economic exclusion should be pursued firmly, including measures to deal with cartels and monopolies and with corruption and attempts at state capture. Finally, a broader social partnership should underpin our joint efforts so that we are able to draw in the resources and capacities across the society to address poverty, inequality, unemployment and economic exclusion.

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