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BUILDING SOCIAL COHESION AND
AN INCLUSIVE ECONOMY:
A CONVERSATION WITH SOUTH AFRICAN
FINANCE MINISTER PRAVIN GORDHAN

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PARTICIPANTS:

Featured Speaker:

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P R O C E E D I N G S

MR. SY: Good morning, everybody. Can you hear me well?

SPEAKER: No.

MR. SY: No? Okay. I'll wait for the -- Failed the first test. Okay. All right. Good morning, and thank you for being here today. We know it's a very busy week, and there are lots of events, so we are delighted that you chose this one, but we are not surprised that you chose it because we are having Minister Gordhan who does not need any introduction, you have his bio as a handout though.

He's minister of finance for the second time, for South Africa. And thank you very much Minister Gordhan. We know it's a busy week, and we really appreciate that, you're taking the time to come here. I will start with a few Q&A with the Minister, and then just open it to the floor, and hopefully we can finish on time at 9:00 o'clock, to leave the Minister some time to go to his next meeting. So, Mr. Minister, if you look at the news these days --

MR. GORDHAN: I try and avoid it if I can.

MR. SY: (Laughter) So, if you look at the IMF revisions of growth forecast for Africa, which just got out in the World Economic Outlook, you know, of course growth forecast for the whole Sub-Saharan African region have been revised downward, but for South Africa in particular growth is expected to be half, to 0.6 percent. I know in the budget we had this figure of 0.9 percent and the IMF is mentioning a couple of factors to explain its revision of growth forecast; of course external factors like low export prices, but also policy uncertainty and tighter monetary and fiscal policy.

At the same time, if you look at the news like we do, you see that the rand has reached a four-month high and, quote "as confidence returns" in the news, and also South Africa just raised, in the international debt market, \$1.25 billion bond for 19

years, at a spread of 335 basis points, which is about a little bit less than 5 percent, compared to the Ghana's and which are around 10 percent or more.

So, how should we read those two types of signals that we are getting? On the one hand the growth forecast is being revised downward; on the other hand, we are seeing that there is some positive sentiment coming back.

MR. GORDHAN: Good morning, to all of you. And also on behalf of my South African colleagues, thank you for being here at 8:00 o'clock in the morning. I see some bleary eyes as well. I suppose we need to start by saying that South Africa is very different from most, if not all the African countries, and indeed many developing countries as well.

Since the democratic government came into office in 1994, we've had, on the one hand, had to pay off our national balance sheet, which ensured that debt came under control, deficits were managed properly, and by the late 1990s, we were on a very secure fiscal footing for a start, together with the independence that the Reserve Bank or Central Bank enjoyed in terms of our new Constitution which was adopted in 1996.

Since then, and up to 2008, as I said yesterday to another audience, as some of you might have been there, we've actually, as I say to South Africans, never broken a fiscal promise. In other words, if we said that we would meet a particular deficit target, unless something extraordinary happens, we will meet that deficit target, which is what we've been doing since 2009 and 2010.

Our disruption post 2008 comes from, as I pointed out yesterday, from your shores, because we were growing at 4 percent growth, our debt to GDP ratio was well below 25 percent, we had a fiscal surplus in the '08, '09 years in South Africa. All of which post-2009 and the great recession coming to our shores, was utilized to ensure we

borrow more, we do not impact negatively on the social spending in South Africa which, by and large, we've been able to sustain up to now.

And whilst we've cut expenditure in many different forms, we have not resorted to what the Europeans would call austerity. Nobody's pensions have been cut, social assistance has not been cut, major social programs, education, health, housing, et cetera, have not suffered negatively at all and in the most budget we had to take a bit of money and push it back in expenditure terms into outer years, but that does not negatively impact upon our delivery by any means.

But what is unique about our country amongst emerging markets is that post the great recession, although there was a slight peak in growth in 2010, we haven't recovered, as many others did. But many others, who did recover, today find themselves in negative territory as well. Brazil is an excellent example, of a country that's grappling with the same issues as well.

So, as we said today, we recognize that whilst we are managing the macroeconomic side, both fiscal and monetary fairly adequately, the big issue confronting South Africa is growth, and in particular, inclusive growth. If you want to talk about social cohesion or economic inclusion or exclusion, South Africa is a classic example given the kind of history that we've had about marginalization of the majority of South Africans.

And whilst we've made tremendous progress in the last 20 years, that marginalization is still one that is deeply felt. And secondly we have, let's call it, first level, structural problems and deeper structural problems. So, the first level of problems is, how do we get better electricity supply, which we will in the next five years. Secondly, how do we manage our labor relations environment, and reconstruct it in a way in which we have more harmonious relationships, less lengthy strikes within our own country, which begin to negatively impact on growth?

And then we come to the more structural, deep structural reforms that we need to undertake, related to our past. So, we still have a very oligopolistic economy, has huge concentration in many important sectors of the economy, in the hands of very few companies. So, the IMF and the OECD will regularly say we need to reform our product market, or deconcentrate our product market.

Very nice euphemisms, but in essence what they are saying is get more small businesses and medium size businesses to start competing with big businesses, and get some space for themselves. So, in sum, the growth challenge is one that, in some ways, the IMF figures begin to reflect. Our response to that is to, certainly in recent months, build confidence amongst the private sector which has capital that we don't have at this point in time, in the quantities that are actually required.

Secondly, encourage them to become partners with us, and ensuring to the best of our ability that we don't get downgraded to junk status in the coming weeks. Thirdly, to look at co-investment projects between the private sector and government; whether it is in respect of renewable energy, IPPs in relation to coal and gas, coal-generation of energy by mining firms, for example, through small plants being created, or in infrastructure, and other ventures which will give us greater competitiveness.

We are also exploring new areas of the economy, one, utilizing the weaker exchange rate, so there's been a significant rise in tourists coming to South Africa, we have some application forms in the front here, if you want to join the queue. And the second area, for example, is what we call the ocean's economy, where both servicing of ships, repairs to ships on the one hand, but exploring the long shoreline that we have, has become quite a priority project within our government as well.

And the raising of the bond, and the optimism, if one can call it that, that has been shown by bond investors, in a sense reflects some of these dynamics that I

play within the country, and there can't be any doubt in the minds of either ratings agencies, or those that we owe somewhere between 1.7 and 2 trillion rands to, that we have both the willingness and the ability to pay when that is necessary. And that's been our record, over the years.

So, for many industrial sectors, we still remain a very attractive destination for FDI, what we require is FDI on a much larger scale and investment by South Africa companies on a larger scale, so scale is the issue, not the trend that we are actually seeing. And we need to resolve some of these constraints that I've outlined in a more sort of, an urgent way.

MR. SY: Thank you. I would like to come back to this issue of social cohesion that you mentioned, but before that, please allow me to go a little bit into the details of the budget, which we read with great attention. So we feel that the budget sets a middle course when it comes to fiscal consolidation, which leaves structural measures as a very important policy tool.

But there are some questions about the implementation, and the pace of implementation of those structural measures, so it would be great if you could elaborate, on, you know, the plan regarding state-owned companies, and their reform, and also the structural reforms regarding infrastructure. And especially about the pace, so at one hand we need growth, the course is set, structural reforms are an important lever, but will they deliver in time for the country to grow faster?

MR. GORDHAN: Well, there are no guarantees as you know in this regard, nor are there textbook chapters that you could open and say if you do 1, 2, 3 you will get that outcome. But in both those respects we have firstly, a realization, take the state-owned companies, that their current forms of governance, management skills and financial capability and stability, is not as a collective the way it actually should be. Some

do very well, some not so well.

So over the last six to eight weeks, we've had a process championed by our deputy president. In fact, I met him on Tuesday before leaving for Washington, and a group of ministers, whose task it is in the next few weeks, is to propose a different way in which, as a state, and as a shareholder, we manage state-owned companies: selection of boards of directors, the way in which management is chosen to ensure that they have the right kind of skills, a review of the financial stability and capabilities of each of those institutions, and where necessary, certainly amongst the smaller state-owned companies or enterprises to either merge them or close them down over the period of time where there's duplication. One example that we've announced that work will now begin on, is South African Express which is a smaller company that belongs to the same stable as South African Airways, broadly speaking, and South African Airways itself, in making it a single company, and rationalizing the capabilities that they have so that we pull both of them, hopefully, out of trouble.

On infrastructure, we've been doing very well over the last five or six years, spending approximately ZAR900 billion over three-year periods over the past, and some ZAR850 billion in the coming three-year period. And the coming three-year period is quite different in composition of spend compared to the past. In the past a large percentage of the spend was concentrated in Eskom and Transnet. Transnet is a logistics company, Eskom is the energy company.

In the coming three years you'll have a much more diverse portfolio of spending, water and sanitation, housing, roads, including then, energy and logistics as well. What we are certainly exploring at this stage, as you pointed out, a more accelerated way of implementing these projects, but ensuring at the same time, that the proper project cycles are actually gone through so that we don't take unnecessary risks in

this regard. And we will be looking at new ways of financing some of these projects, and in particular looking at possibilities for co-investment by the private sector in some of them.

MR. SY: Great. Thank you very much. Now in addition to fiscal consolidation and structural reforms, it seems that, at least in the budget speech, there is a third policy tool that is suggested, and I read, you mentioned the need to act together, to address decline in confidence and the retreat of capital and so on, and you mentioned these partnerships among role player. What do you really mean?

MR. GORDHAN: Well, as I indicated that we still have quite intense political debates about the role of different role players. So if we are talking the business sector, there will be a section of a political family, and outside that would say, yes, the business sector is a friend, let's get involved. Others will say, no, we don't trust these guys, let's not get them involved. Similarly, business and labor will have particular views of each other, and the call that we've been making and intensifying, is that what we need to achieve as a country can't be done by any one role player on their own.

Secondly, that we do require to create some kind of platform for a social compact, or the social contract, that at least can take us through the next three to five years, and beyond, ideally as well. And thirdly, that we need to intensify our efforts to build an element of operational cooperation and minimal trust amongst these role players, and so that we can move and not be paralyzed as we have appeared to be.

And there is very intense efforts in each of these regards, both in respect of the business sector, for example, the president and deputy president met a group 120 business leaders just before the State of the Nation Address on the 9th of February, and a further meeting will take place sometime early in May. I think this Friday, there's a meeting between the senior leaders in our government, and the labor constituency as

well.

And at the same time business and labor have been talking as well, and they are getting fairly close to resolving issues such as balloting before a strike actually takes place, narrowing the gap between them on what should be, and how should the minimum wage operate within the South African context. How do we introduce the number of days that are lost to strikes as well; so I'm optimistic that we are moving in the right direction, and that we could deliver some results.

MR. SY: Okay. Thank you. And now moving to social cohesion, given the unemployment rate, and the inequality in the country, there is this need to create jobs, remove regulatory constraints in some sectors. So the budget mentioned less energy intensive, but also more labor intensive jobs such as tourism, the ocean economy which you referred to, agriculture and agro-processing. But again, could you tell us more about the implementation of those policies, what do you have in mind doing?

MR. GORDHAN: Politicians must only talk about what they want to achieve, not what they are going to do. Now, implementation is usually a major challenge for both businesses and governments in many respects. And in each of those areas that's a challenge that we both are trying to overcome and intend to overcome.

We have adopted the methodology that has its origins in Malaysia, the quick, fast, something, something, but we've given it our own South African name, called Operation Phakisa, which means that you get all of the stakeholders in one room, so to speak, over the six-week period, and have a very directed set of conversations about how a particular objective is to be achieved, or a problem is to be solved.

And that is what has happened in relation to the ocean's economy. And an intellectual foundation has been created, if you like, in a city called Port Elizabeth, or Nelson Mandela Bay municipality. Where we have a municipality -- I beg your pardon --

a university, and that university is now beginning to become a center of excellence, in relation the ocean's economy.

And I think there's a lot more confidence that we are using this kind of approach, where there's very clear role definition of each of the players, we will get the implementation processes moving faster. On the infrastructure side, some things work well, and others don't, and that clearly is an area that we need to do more work on.

MR. SY: Thank you. So my last question will be on urbanization.

MR. GORDHAN: It had better the last one, or they are going to fall asleep.

MR. SY: (Laughter) And urbanization is something that we feel here at Brookings is very important for the continent, so some of our colleagues from the metro -- we have a metro department, made a trip to the Gauteng City region, and came back very excited, but when we look at other countries, in the region, we find it very difficult to emulate a little example of this Gauteng City region. And we are looking for leadership and urbanization basically.

So can you tell us a little bit more about the experience, for example, how your ministry deals with this Gauteng City region? In some other countries we very difficult relationship between the central government and the municipalities and so on, so that will be something we'd appreciate.

MR. GORDHAN: Urbanization is a phenomenon that none of us can either deny or stop. And in the South Africa context I think by 2020 some 60 percent or more of our population is going to be urbanized in one form or another. Secondly, it's the metropolitan municipalities, but other major cities as well, that act as magnets, for opportunity, both for South Africans and for people from within the region as well.

So, South Africa is the host to many million people, millions of people

from neighboring countries, who both contribute to our economy, but become part of the dependents on the social wage in the South African context as well. The Gauteng City region, Gauteng is a province, I'm not sure -- How many of you have heard of Gauteng, in the room? Okay. So let me explain.

Gauteng is one of nine provinces in South Africa, but it produces about 60 percent of South Africa's GDP. So that's where Johannesburg is, where Pretoria is, where the major international airport is, and as it is a financial center of Africa in many ways at this point in time, and perhaps over the long period of time as well. And it has three metropolitan municipalities, one near the airport called Ekurhuleni, one where the executive seat of government is, Pretoria, and the other is Johannesburg, which is well-known to all of you, probably.

And the idea there is that these three metro municipalities, if you put them together, cover 90 percent of the geographic area of the province of Gauteng. And for planning purposes, for example, you can't have three metro municipalities planning, for example, housing development, or even spatial planning within that region, and the province is doing its own planning as well.

So the city region is an important project to understand all of these entities and create a basis for collective planning, collective action and collective envisioning of the kind of future that that could -- the sort of region we could actually move into. At some stage we might talk and there is, let's call it speculation, but nothing in real terms at the moment, where the three metro municipalities could disappear and Gauteng could be the equivalent of one of your big regions in the U.S. or other parts of the world as well.

Managing urbanization is a difficult one, given the kind of, again, spatial legacy that would come from our past. So, South Africa, still, has the majority of its black

population, living approximately where they live 30 years ago. Nothing major has changed. Some of you have been involved in housing projects and so on, which are intended to better, and to spatially integrate our cities and create more economic possibilities, better transport systems, but transport remains a big weakness, public transport in particular, in compensating for the spatial disparities that we have in our country as well.

The National Treasury is involved in providing support together with The World Bank to these metropolitan municipalities to see how we could assist them with better planning in some of these regards, and developing the skills that the metropolitan municipalities will require to manage the urbanization process as we go forward.

We also have a separate ministry which is where I was before I turned to this job, which is also responsible for municipalities and the other processes that that department also gets engaged with the metropolitan municipalities. I think a big topic, globally and in South Africa now, is the role of cities in economic development. The Doing Business report, focused on eight of these metro municipalities by The World Bank which was published late last year, is a very useful platform for us to start engaging the governance structures in metro municipalities, about what they do well, and what they don't do well, and what they need to do better, if they are to provide the right kind of support for economic development and investment in their cities as well.

And again, city region project in the Province of Gauteng is doing some excellent work in that regard to create fora where these governmental agents constantly interact with businesses, understand what their needs are, and find the ways of actually responding to those needs in both a proactive way, but also through greater responsiveness as well.

So, in sum, remember our structures of government are sometimes less

than 20 years old. And whereas the metro municipality boundaries are approximately around for 10, 15 years, many of the other municipalities are going through boundary changes each time we have elections, because we want to reduce the number of municipalities that we have in South Africa.

We also have a group of municipalities in peri-urban -- peri-rural and rural areas that don't have the fiscal capacity that the more developed municipalities have, and in the coming years we need to develop alternate ways of supporting them also.

MR. SY: Mm-hmm. Thank you very much. Now is the time that we've all have been waiting for. There's coffee in the back, too, for those who have bored about what we've been talking about, but I'm going to open the floor to Q&A --

MR. GORDHAN: Or comments.

MR. SY: -- comments too. Please keep your comments brief, and identify yourself. And we have about 20 minutes for that, and yeah. So I think there's one hand there, and one hand here.

MR. MARSH: Thank you. Yes. Good morning. My name is David Marsh from OMFIF, that's a think tank in London. I'd like ask a question, if I may, on the external front, regarding monetary reserves. Two things, we've had this BRICS Bank set up with great fanfare about a year ago with this famous contingency reserve agreement. Could you tell us under what circumstances that could be used? Because there are quite a number of countries in that group, not so much you, but some of the previous high fliers, like Brazil are in a bit of trouble on the external front. Could we foresee that being used?

And then you've had a bit of a fill up from the gold price increase, and your monetary reserves are actually not looking too bad compared with, say, Nigeria.

Could you tell us a bit about what that means for South Africa as an economy; the fact that the gold price has gone up now, after those years in the doldrums?

MR. SY: And we'll take a second question here?

SPEAKER: Hi. Good morning. I'm Ahmed (inaudible) from Bloomberg News. I'm sorry, I can stand up. So, a local magazine cited S&P saying that downgrade is a real possibility. So how do you see that risk, and what would be the consequence if that happens, if South Africa is indeed downgraded by S&P? Thanks.

MR. SY: Maybe we can take a third?

MR. GORDHAN: Yes.

MR. SY: From this side, this time. We'll come back to this side, but I just -- we need some balance.

MR. OPALO: Hi. I'm Ken Opalo, an assistant professor at Georgetown. I have a question on political risk. It's sort of similar to the debt situation. So, given the murmurings that we've been hearing about a potential downgrade, what do you expect to happen on the political front? Do you see the political situation at the national level in South Africa stabilizing? Or should we now expect more turbulence on that front, especially in anticipation of the municipal elections that are coming up.

MR. SY: Will it be okay, if I take two more. Okay, we'll take two more. So I have the gentleman there, raising his hand.

MR. WOOD: Thank you.

MR. SY: Then we need this side of the floor to be a little bit more dynamic.

MR. WOOD: Barry Wood, Moneyweb. I would like to ask you, Minister, in terms of -- First of all, congratulations on the rebound in the rand, and rebuilding confidence. How much further do you have --

MR. GORDHAN: Yes I have a lot of influence -- (Laughter).

MR. WOOD: How much further do you have to go in your talks this week? I know you'd like to avoid the downgrade, but would you say you are halfway there of rebuilding confidence in South Africa, or is it a harder task than that?

MR. SY: Okay. I really need one question from this side. Okay. At the back there.

SPEAKER: Thank you. I'd like to hear some good news. So, if you could talk about maybe some celebratory activities, or maybe there's a great sporting event that's coming up, something that you could promote that would provoke an interest in visiting South Africa, that would be like the ultimate sales pitch. You need to come and see this right now.

MR. SY: Okay. I think we have the minister of finance but --

MR. GORDHAN: Well, the good news is that we have a new rugby coach, so hopefully we do better at rugby, but we do reasonably well there. The second is last week there were the -- Or this week, there's a swimming championship in Durban, that's the city I come from, to see who will qualify for the Olympics, and that's, many of the leading swimmers were there and qualified.

Thirdly, even though the rand is about 14.50, coming to South Africa to spend your dollars is still a worthwhile proposition. So join the other 16 percent increase in tourists that are coming to our country, and come and see all the wonders of South Africa, which has a great deal of diversity in what you can enjoy from mountains to the seaside.

And ultimately South Africans are hopeful, are optimistic and resilient. That we know, we've been through lots of difficulties in the past. If we are not hopeful and optimistic on the one hand, and resilient on the other, we wouldn't have coped with

everything we had to cope with under the Apartheid Regime. And notwithstanding what is going on, I think we have the wherewithal in our DNA, if you like, to overcome some of the difficulties that we confront now, and go beyond.

I mean whenever you are in the middle of a storm it looks like the worst thing possible. But storms don't last forever. And I think the question is, one level of resilience, and optimism can you share with your population, but importantly what kind of wisdom pervades ordinary people in the street, in South Africa in order to understand where we are as a country, and the kind of expectations people still have of a better life which I think we can achieve in due course, if we solve some of our problems.

Which brings me to the downgrade issue; I mean we can't tell ratings agencies what to do, but we can say to them that remember the recession had nothing to do with South Africa, and sometimes, you know, we have very short memories, it actually was imported, if you like, or exported to South Africa. Secondly, that we do have a very significantly stable approach to fiscal management, and monetary management in South Africa.

Thirdly, our fault lines in terms of what our legacy has given us, some of which I described earlier on, are also well known. Fourth, where we intend to building confidence? I'm amazed at the amount of positive cooperation we are getting at the moment, because South Africans, whichever -- whether you are an ordinary person in the street, who is going to suffer from increased inflation at the moment because of the drought we are experiencing that in potential increases in food prices.

Or whether you are a bank that has to worry about additional borrowing costs, as a result of the downgrade, all of us are united in our intents to make sure that we put our best foot forward, and don't move in that particular direction. And I think we have a case. I think we have a case, and in the next couple of weeks, we'll be able to

demonstrate why we have a case, for none of the ratings agencies to do anything drastic which would harm South Africa in the medium term.

But, if in their view, or in the view of some of the ratings agencies, a downgrade is necessary to junk status, I'm not sure whether all of them will move in the same direction at the same time, and it means that another battle has to be fought, in order to recover investment grade status for South Africa if that actually has to happen.

So, we will continue with our work, and we have a lot of work that we've done both within government and in the private -- with private sector and labor, which we'll be able to talk about shortly, and indicate that we are not sitting on our haunches, and that we are actively trying to overcome some of the challenges that we have and that we have plans that we are intent upon implementing, not just talking about them, which is a requirement that many have actually put to us.

So, we are on our way and, you know, as South Africans we try our best until the last moment, so we are going to give it our best shot, and hopefully achieve the kind of objective that many would like us to actually achieve. The consequences of a downgrade, technically speaking, are well known. You know, you get some capital leaving, you will get inflation increasing, and that then could set into motion a number of other factors as well.

Whether that actually happens or not, will depend on the kind of optimism that we can maintain both within the South African body politic and more generally in society, and the way we are perceived. Now, remember we are living in a world today, the IMF didn't only downgrade South Africa's numbers, it downgraded virtually the whole world's numbers --

SPEAKER: Yes.

MR. GORDHAN: -- in the last couple of days. And the fascinating thing

in the 24 hours of conversations in Washington is that nobody can quite tell us categorically, what is this ailment that the global economy is suffering from? What exactly do we pinpoint as the three causes of this gloominess on the one hand, the continuous downgrade of growth prospects on the other hand, and the inability of the institutions that exist to use some kind of diagnostic to spur the world into action as we did in 2008, 2009, when we did save the banking system of the world, particularly in the developed countries; the United States, one in particular, but others as well.

There are still remnants of the impact on the banking system that we can feel in Europe, for example, that haven't quite been resolved yet. So we are living in a global context where demand is low, productivity is low, growth is low, investment is low, the experiment with negative interest rates is raising more concerns and debates, rather than the categorical answer that we thought it would actually produce. Trade is low as well. So, all of these factors are moving in the wrong direction, and surely they will then impact upon Africa more generally, and the most developed economy, within the continent as well.

But our approach is not to keep pointing outside our borders and say, that's where the problem is, we've got our own challenges and difficulties, and potential and opportunities. And it's important to focus on those, and rally South Africans behind that set of initiatives so that we could go wherever we can in terms improving the situation.

The new Development Bank, you know, it's very much alive and well. I have a colleague here who can give you a blow-by-blow account of the fact that, (a) it is established, (b) it's got its key personnel in place, (c) it's actually advertised for more personnel, and that process will be concluded in the next few months. The first batches of capital have actually been paid in. The request for projects has gone out, the five

countries have responded to the request for projects.

A screening process has been completed and decisions will be announced shortly by the BRICS leaders, in terms of which of the projects are to be supported; so, the BRICS Bank is working, and working faster than, perhaps, any other institution of a similar sort in our history. The South African reserves have been always around \$50 billion, plus/minus, and depending on the exchange rate and other considerations, they are swaying between 46 and 50, in terms of the numbers that we have seen.

The increase in gold price hopefully helps the industry. Gold mining now is 3 or 4 kilometers down below the surface of the earth, costs are high, and any increase in gold prices makes marginal mines more productive, and helps the industry to keep people at work over a period of time. So I think I've answered all of the questions.

MR. SY: Yes. Sure.

MR. GORDHAN: Thank you.

MR. SY: So, before I open. We are having an event on the global economy with Jason Furman in the Council of Economic Advisors, I think on Friday?

SPEAKER: On Friday.

MR. SY: On Friday, so we will also continue this conversation, so if you are interested please join us. Yes; one question here, then another there.

MR. GETMAN: Thank you Amadou. My name is Tom Getman, and I'm a consultant and board member in South Africa. Mr. Minister, you spoke quite eloquently yesterday about the land distribution issue, but could we hear a little bit more about the best practice process that's being sought, especially in the Eastern Cape, which has vast land areas that can be very productive. And then a question that's in a lot of people's minds here is, since you make good sense, any chance you could stand for President in

the next round? (Laughter)

MR. SY: I have that gentleman there, but let's go to the left here, to the lady in the front, and then we'll come back to that gentleman there.

MS. MCGRAW: Hi. I'm Clare McGraw, I'm a graduate student here. I think no discussion about the South African economy is really complete without some attention being paid to the recent constitutional court case, and I'm wondering really if you could speak to that. I think we are all aware of the important advances that were made towards protecting democracy in the constitution of '96, and one of those being the public protector.

And I think the President's recent disregard for her recommendations have caused a lot of concern about the future of South African leadership. So perhaps you could just speak to how the outcome or the president responding to the result of the Concord case. Will it influence the market, if at all?

MR. SY: I believe a third question there on the, next to the wall?

MR. MCGILL: Good morning, Minister Gordhan; Amadou Sy. David McGill of Endsight Consulting. Minister Gordhan, when you mentioned -- when you were speaking of infrastructure you mentioned that, you mentioned of looking at new ways of financing and co-investment with the private sector. A lot of people talk about PPPs, you know, not in terms of simply financial obligations, but allocation of risks, and the government and private sector being positioned to exploit a particular competency. When you mentioned co-investment is it the same as the PPP, or was there a different sort of arrangement that was unique that you were envisioning for infrastructure financing in South Africa?

MR. SY: We have 10 minutes left, so if --

MR. GORDHAN: I will take these as the last questions.

MR. SY: These are the last set of questions.

MR. GORDHAN: Going, going, gone. There's one there.

MR. SY: So there is one.

SPEAKER: Hi. My name is Rachel and I work with Talent Beyond Boundaries. And Adcorp did a recent study that realized that there's 800,000 unfilled skilled positions in South Africa, and I imagine that stunts the economic growth, and so I was wondering if there are programs or how that's being addressed? Thank you.

MR. SY: Thank you. All right. So I think five questions.

MR. GORDHAN: On the land issue, I grew up in the middle of a city, so all I knew was tar, bricks and mortar. So me and agriculture don't quite get along too well. But if I had our director general here, he'll wax lyrical because he comes from the Eastern Cape. But broadly speaking the potential is still huge on the agriculture side. There are, I think, very good examples, of established farmers, assisting new entrants to farming and creating very viable enterprises whether it's the wine farming or grape farming, in the Western Cape, or similar.

I know that sugar cane farming in KwaZulu-Natal and Mpumalanga have fascinating experiments where a leg up, so to speak, has been provided to new and small farmers in order that they could fit into the production process, fit into the supply chain, get access to markets, and begin to operate on a much more sophisticated basis, as a commercial enterprise.

So, those best practices are there, again, as I said yesterday, I might have said it earlier, the issue for us is skill. If you could magnify some of these best practices by 10,000, literally overnight, and I think we have the potential to do it, it will make a huge difference to people in the kind of way, in which they see life prospects and develop both commercial and farming skills as well. And if you get the value chain right,

and access to markets in particular, it could become a very viable way of earning a living and bringing up a family in our own environment.

Co-investment and PPPs; let me put it differently. What we are saying is, there's a whole range of possibilities for financing infrastructure projects. So we have excellent PPPs in the roads network, that SANRAL has put together over the last what, 15 years or so. And those mainly are different forms of PPPs. But PPPs take time to put together, they require skills on both ends, both the private sector and the public sector, in terms of ensuring, as you said, that the spread of risk is done in the right kind of way.

And often, when inexperienced people get involved, you get risk loaded onto the government side, and the private sector walks away with all of the benefits. But the whole idea here is to leverage all of the resources that are available, so we have an organization ASISA, that brings together asset managers, insurance companies and the financial sector more generally. And they are looking at new ways of investing within South African infrastructure projects as well.

If you have time, there's a lady sitting in front here, who has got a lot of experience in housing projects South Africa, so our colleague here, could decide whether you want a two-minute advert from here, about how well things can work in this kind of wave. But those are real-life examples of what we are actually talking about. Skills and unfilled jobs, there is a mismatch. There is no doubt, in the South African context that we are looking at.

What we are doing though the higher education department at the moment, is increasing and strengthening existing skills development and vocational training institutions. They exist but their quality needs to be improved, and their output needs to be improved as well, the quality of people emerging. The link between those processes and the private sector which some countries do very well, broke down

somewhere along the line, in the last 10, 15 years, and we need to now rebuild, and are in the process of rebuilding so that we get artisans and young people who have opportunities to actually train while they are being educated. The third is, we need to educate our young people a little better, and not everybody is either going to get a university degree or needs a university degree.

And northern Europe in many ways provides excellent example as do some parts of the United States as well. I was in an event last night, where we were talking about this. So, that's the one set of problems. The second is information asymmetry, the information of sitting in urban areas, and those living in peri-urban or quasi-rural areas just don't have access.

The third is transport costs, so a young person might have some idea of where to go, but the ability to pay ZAR50 or ZAR100 to get to that place, and explore the possibilities becomes extremely difficult from what we've learned. But all of those areas are being attended to by colleagues in government.

On the constitutional court case, what the Constitution Court did, some days ago, is to bring life to our constitution. So Mr. Mahlangu here, who was the ambassador of South Africa to the United States, and myself played a small part, if he doesn't mind me saying so, in the constitutional development process in the early '90s. And establishing a constitutional state, the institution of the Constitutional Court and having the constitution as the supreme law in South Africa were very important developmental steps in creating the foundations for democracy.

And the court has certainly come to the party and clarified exactly what can the public protector do, what are -- how much of weight is attached to these remedial actions of the public protector, and if you disagree with some element of their judgment, what are the processes to be followed? I.e. go to court and ask the court to give you

clarity. The second element in the specter of the specifics is a national treasury has been asked to establish what amount of money is to be paid and I think the words are a reasonable amount based on the reasonable cost.

The word reasonable is put it in because costs were escalating for each of those items that were actually produced, and so there's another way, a process by which the state will recover those additional costs, and all those people accountable. Our job in the next five weeks is to go back to court with experts doing some work in this area, and put an amount on the table that has been agreed, that will be paid.

In terms of influencing the markets, that we've always said, we have a solid democracy, and the markets in some ways have observed that, although there's a multiplicity of factors that might have influenced the kind of direction that the markets have taken, but I think importantly, the Constitutional Court and us as a country, have reaffirmed our faith in our Constitution.

And constitutions are just, at one level, pieces of paper. Ask the people of the United States? It's these sorts of events that give it life, give it meaning, educate people about what its significance is, and educate people about what the constitution means for them, at a day-to-day level. And so over the next 10, 15, 20 years we will consolidate as people in other parts of the world do, a keener knowledge among the South Africa public as to what does this constitution mean, and how do they ensure that it benefits everybody in our country? So, finally, thank you very much, for having me and my colleagues. (Applause)

MR. SY: And we are finishing exactly on time.

MR. GORDHAN: Right.

MR. SY: So I have 8:59 actually. But thank you very much. I hope you have enjoyed this discussion as much as we have, and that we can all take better

informed decision based on what we've learned today, and what we can continue to learn through the forthcoming weeks. Thank you, again. (Applause)

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CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Carleton J. Anderson, III

(Signature and Seal on File)

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