

INTERVIEW WITH MR LUNGISA FUZILE

In order to unpack the topic of economic transformation, EDGE interviewed the former Director-General of the National Treasury. At the time of the interview, Mr Fuzile had been with the National Treasury for 19 years, starting out as a Deputy Director for Intergovernmental Relations in 1998, and finally serving as the Director-General from 2011 to 2017.

The team specifically approached Mr Fuzile for his exemplary and well-known embodiment of both good governance and passion on economic transformation. In order to give the reader a real sense of his passion on the topic, the interview is transposed as closely as possible to the original live discussion. The original interview is longer and has been shortened for alignment purposes.

Definitions and terminology: a stumbling block?

EDGE: *What is your definition of radical economic transformation? In an article, you stated that you are not fond of the word 'radical'... but maybe you can start by defining exactly what, in your view, radical economic transformation is.*

Mr Fuzile: Thank you. At the outset, I must confess that I am not a fan of the term 'radical economic transformation'. I find the word 'radical' unhelpful in focusing attention on the very important subject of economic transformation. Without equivocation, though, a country like South Africa, with a history like we have of exclusions of certain sections of the population, [namely] blacks, broadly defined and of course women just across the board, definitely needs transformation. Such transformation ought to be deep or as some would say – fundamental – and indeed the pace of change must be accelerated so that those who are supposed to benefit from it do not lose their patience with the process.

In the main, those who had historically suffered exclusion must see and feel change. Those who happen not to benefit must feel it is worth waiting a bit because change will come in their lifetime. People must always have real hope. No section of the population should feel left behind. Opportunities for business and work must abound: it is only when people feel that today is better than yesterday and that tomorrow would be better than today that their hope for the future improves.

If we succeed in doing that, we can then increase the labour



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participation rate among both black people and women across all races. And when you do that, then you stand a good chance of creating the kind of opportunities I have referred to here. Then, as a country, we stand a better chance of pushing back poverty, inequality, and of course, we will be reducing unemployment.

EDGE: *Would you not say that that term 'radical' refers to the fact that what you have defined above is urgent... that economic transformation needs to happen urgently, given that it has taken so long? That it needs to be prioritised and expedited?*

Mr Fuzile: I would hate to be stuck at the stage where one emphasises utensils, terminology, adjectives and so on.

The mere use of the word 'radical' sometimes gets people stuck at the level or at the point of explaining it and what it means... so that's what I mean. To be clear, the notion of 'radical economic transformation' does not scare me, personally. But I feel that because it scares some people whose support we need to build an inclusive economy, I can give up the use of the specific term. This is, without giving up on the intent: namely, reigniting confidence, reviving



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investment and growing the economy while ensuring that everyone shares in that growth. I can't do the opposite. I cannot give up the higher purpose for the term. I simply can't, that is my point.

About good governance and transformation

EDGE: *There is often a perception that for good governance to occur, economic transformation must be halted. The perception is that economic transformation and good governance clash, so for those who govern well or have attained good governance, economic transformation is rarely taken into account. Or in order for an institution to roll out economic transformation programmes, good governance must be flouted or swept under the carpet. How would you say we achieve a balance between the two?*

Mr Fuzile: There is no clash necessarily in the desire to transform in a fundamental and fast way, and of course, stick to the rules. In fact the two, should be mutually reinforced (such that) the rules are calibrated to achieve transformation. (We must) recalibrate the rules so that they allow transformation in a structured and guided way.

If for instance, you are going to use procurement to drive elements of transformation, you have got to calibrate the procurement rules or framework in such a way that they are still consistent with the requirements of Section 217 of the Constitution. Requirements such as fairness, competitiveness, cost effectiveness and transparency.

One would ask why you should follow ways that are not fair simply because you want to affirm certain categories (of the population)? Of course, when I say that, I'm mindful that in a context where you are not starting with a level playing field, you do need to tilt things in favour of the historically excluded, but you do that through the rules; you do that by adjusting the rules so that they allow that.

Similarly, focusing on growth alone without ensuring that the benefits of growth are shared more equitably would worsen inequality and create fertile ground for resentment among those who feel excluded or left behind. The consequence would be instability, and as we know, unequal societies are generally less stable than more equal ones, assuming all other things to be constant. Equally, a narrow and possibly exclusive focus on transformation without due attention to growing the economy has limitations. It is simply unsustainable. We need to strike the right balance. This might not be popular, but in my view, it is simply the right way to approach this.

Dare I say, this is where people differ. Some people elect to come at this debate in a manner that polarises society rather than focuses on building. Perhaps such polarisation suits their ends, but in my view, that is totally unhelpful and I doubt if it is about building a better life for all.



Why is transformation taking so long?

EDGE: *Having observed South Africa, given that you have been at National Treasury for so long, what would you say are some of the main reasons why economic transformation has taken so long to materialise? Did it have to get to the point where new terms and slogans have to be created, and where we take drastic action to get attention (for example, frequent strikes, forced land occupations, calls for land expropriation, work stoppages, etc.)? What would you say, from your perspective, has taken the country so long to reach this stage (of prioritising economic transformation)? Or is what the country is experiencing normal?*

Mr Fuzile: Yes it's a loaded question but a good one. You see, to start with, fundamental transformation of the kind that our country requires was never going to be easy. It is a very a complex process in which some people see themselves as potential losers; certain sections of the population giving up a bit of their privileged positions, while others view themselves as deserving to benefit from the process. So, it can quickly, and possibly dangerously, be characterised as a zero-sum game.

So transformation in this country needs championing by leadership where the rest of society is made to appreciate quite deeply that transformation is absolutely necessary, and you cannot do without it; that is the first point.

The second point is that, of course, the mere writing of the rules is not adequate, the mere changing of laws and regulations to remove impediments to black people – broadly defined – being able to do business on an equal footing with their white counterparts, is not enough. There is a degree of activism that is required; you can call it enforcement, perhaps. Because you cannot just reset the rules then



go on holiday, and come back several years down the line to measure the progress. (If you do) then people find ways around the rules and pretend to be compliant, and pretend to be playing by the rules.

This is one of the areas of weakness that I have noticed thus far. Often, once we have amended or passed a new law (eg. a BBBEE Act or the Preferential Procurement Policy Framework Act), we seem to think that the world is going to be a different place.

Change needs advocacy. It requires enforcement: sweetness and penalties. In my experience, we tend to lack follow through. Our execution lacks the kind of diligence required to achieve good results.

There are also things that were not anticipated along the transformation process. You need leadership to say: 'Oh, we did not anticipate this, then let's adjust', but in adjusting, do so very fast, so that you don't stop the process of change. Indeed, there must be readiness to learn by doing and to change course where it is deemed necessary to do so in order to make progress.

You make the adjustment while in motion, which is usually not an easy job. Leadership has got to make sure that it never takes the eye off the ball, keeps on nagging, (and) keeps on applying the right kind of pressure. Not the kind of pressure that polarises society, but the kind of pressure that unites society behind the desirability of transformation for South Africa, for businesses.

The point I am trying to make here is that there must be agility; there must be a lot of learning by doing as well as adjusting and adapting and we have lacked that.

Also, part of why this (transformation) has lacked, sadly, is that you will have people, for instance – and I say at the risk that my former colleagues will get angry at me, but that's fine – you would have people at different levels across the value chain who have got sometimes just academic qualifications but do not have the technical experience on the ground to do the things they are supposed to be doing. That's at best.

At worst you have people without academic qualifications. So that is taking a leap of faith when you think that (this is) a national programme that relates to an important transformation agenda of the kind that our country requires. Then you let it be led by people with very limited or no experience [sighs].

Controversies around ratings agencies

EDGE: *There has been a perception floating around that given our recent downgrades, we need to subscribe to a BRICS ratings agency because this is more likely to assist our country in achieving radical economic transformation. Or an agency that would be more transformation friendly or at least more pro South Africa. Would you say there is any value in having a new rating agency?*

I ask because we have heard comments such as "...you know these rating agencies such as Fitch and Moody's are anti-transformation" and, "they are looking to de-transform our country and reinforce apartheid systems". What would you say to having South Africa subscribe to another, 'pro transformation' rating agency?

MR FUZILE: "I'm going to frustrate you a bit because I'm not going to answer it too directly. Before responding to your question, let me ask you a question on the same subject. How many rating agencies do you know to rate South Africa?"

EDGE: *"There are a couple but the top three are Fitch, Moody's and Standard & Poor's... although there are probably a couple more"*

Mr Fuzile: You have given me the answer I wanted! There is another rating agency that rates us but I won't say too much about it lest I get into trouble for saying discouraging things about it. But you should pause and then ask yourself: 'Why is it that you don't know it but it has been in existence for a very long time and it is rating us better than the other ones? So that is the first point to make.

To start up a rating agency as BRICS countries when our ratings have taken a knock for reasons that are valid, by and large, is just not the right approach. This only serves to undermine the credibility of the rating agency even before it has opened its doors and started issuing ratings. An impression is created that the sole purpose of the rating agency is to issue good ratings on BRICS countries.

Furthermore, owners of funds decide which rating agencies results to use when deciding where to put their money. Merely having a BRICS rating agency does not guarantee that its ratings will be used. It takes a very long time for rating agencies to earn their stripes. How long will it take for a rating agency to give South Africa a credible rating? A rating that gets respected across the world? It costs money to be rated. We pay every rating agency that rates us. 'Is it worth paying another one?' is the question we should answer. Does the cost justify the benefits, if any? In fact, you are almost condemning that rating agency that you are about to set up, if you say: 'Let us set it up so that it rates us well!'

So this is not the best way to go about doing things. Second point, most people don't know that Moody's, one of the most highly recognised rating agencies, never once rated South Africa as sub-investment grade in the history of SA being rated.

Third point, go back and look at some of the rating reports of the rating agencies... they have been saying that part of the problem that South Africa has is that it is not transforming fast enough!

They have been saying that South Africa's growth is not inclusive enough! Not enough effort is put into ensuring that the economy is growing in an inclusive way. We run the risk of social instability here!



Sometimes we frown at those comments and say: 'We have got peace, we have democracy so don't come and tell us there will be social instability!' Finally, I will tell you this, and this was best captured by the Secretary-General of the ANC, Gwede Mantashe¹. Rating agencies rate us on what we do, and more often than not they are saying you are not doing what is good for your country. Recently, we were told that our country is in a technical recession² and this means that South Africa needs growth. So we need growth [pauses]... South Africa needs growth! We need growth so that we can create more business opportunities for South Africans – especially the historically excluded – to be included and to be able to participate.

We also need a growing economy so that there will be jobs because once you have got new businesses forming and existing businesses utilising most or all of the capacity they have, more people participating in the economy, aggregate demand expanding in the economy, then all of a sudden, what you find is that the tax collection by SARS increases without the Minister of Finance having to raise rates [pauses], Value Added Tax or PIT and Corporate Income Tax. All of a sudden, you get more income tax because the base is expanding. In this way, the country can afford to deliver more quality services to our people without depending on capital markets to lend us money.

Debt ratios expressed as a percentage of GDP (then) look better, not because you have had to tighten the belt and cut expenditure. So, we need all these things – for the good of the country – not because rating agencies tell us these things! Rating agencies would then be happy when we achieve these things because the country's ability to service debt would be good and of course, growing the economy tends to be a practised investment because investors are looking for future returns.

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So when investors see that the South African economy is steaming ahead, this country will not have a problem with attracting foreign direct investment, and of course, investments by South African business. South African business, by the way, is sitting on about 700 or 800 billion (rands) in cash. Now you can swear at them as much as you like, but sensible business people will not put money into any investment if they don't anticipate that they are going to get returns in future. State-owned companies are not run well.”

On farming and future plans

EDGE: *Just to wrap up, the question is: of all the retirement options that you had, what made you choose farming instead of going to a resort somewhere?*

Mr Fuzile: [laughs] They are not necessarily exclusive. I have always farmed; people miss this. I grew up with my parents farming. Money generated from farming activities partly paid for my education. I have always had a passion for farming and I am emotionally and sentimentally attached to it, you could say.

Over time, I have been putting some money into farming. About a decade ago, I started scaling up, somewhat. What I like the most is breeding animals; cattle, sheep, and goats. Just the science of it and what it produces; it fascinates me a great deal to play with genes: to see good quality animals. I hope to be a positive influence to those I live among. I want younger people to learn a thing or two from me (good things, of course).

And finally, farming just enables me to disconnect from the sophisticated world of capital markets and it is my thing. I decide what happens here; if I have made a bad decision, the consequences are mine. There is no fighting with other people, no tiptoeing to please other people but of course, I care about the guys who work for me and I try to make sure that I keep them happy. But look, I'm not retired in society. I'm going to take a long break to build the farm in terms of infrastructure and livestock, just to do the things that I was not able to do when I was busy serving my country.

EDGE: *So this is not the last we hear of you?*

Mr Fuzile: No! Definitely not! I hope to make a return, but we will see where and how.



To continue the conversation or engage further on the topic, contact:

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[1&2] Interview conducted June 2017.