



14 January 2020

**2019 Annual Memorial Lecture**

Towards the end of last year, the Annual Memorial Lecture was delivered by Stephen Koseff, the immediate past CEO of Investec Bank. Stephen's preference was to have an interactive discussion, instead of a formal lecture. A transcript was made of the evening's proceedings, and I attach a copy.

I feel that it makes a valuable contribution to the debate on the South African economy, and specifically to the question as to what should be done, not only by Government, but also by the business sector.

I hope you will find it interesting and useful.

Yours sincerely

Francis Antonie  
Director

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## Annual Helen Suzman Foundation Memorial Lecture - November 2019

### Introduction

On 13 November 2019 the Helen Suzman Foundation, in partnership with the Gordon Institute of Business Science and the Kaplan Centre for Jewish Studies, hosted the 2019 Annual Helen Suzman Memorial Lecture.

The Lecture was delivered by Stephen Koseff. By way of background, Stephen Koseff joined Investec in 1980, when it acquired its banking licence. He was with Investec for thirty-nine years and was CEO from 1996 to 2018. During this time, Investec became a major bank and asset manager both in South Africa and internationally, and in 2002 a dual-listed company structure was implemented. Stephen was awarded an honorary Doctorate in Commerce by Wits University, his *alma mater*, in 2017. In addressing economic and financial issues, Stephen has broadened the focus of the HSF's Lecture series, which had in the past focused on politics and the law.

Stephen preferred to use the Memorial Lecture event as an interactive discussion, rather than delivering a formal lecture. What follows below is a transcript of the questions and his answers.

### Questions and answers

**Question:** What do you see as the major challenges for the economy? How should they be addressed?

**Stephen Koseff:** We all know that our economy is stuck. If we go back to 2007, before the financial crisis, the economy was growing at between 5 and 6 percent *per annum*. Our debt to GDP was 26 percent. As the Minister of Finance mentioned the other day, it is now at 60 percent and on its way to 80 percent if we don't do anything about it. In the latter part of 2007, we had a

budget surplus. In the Medium-Term Budget, the Minister talked about a deficit of 300 billion Rand.

Eskom had the identical output that it has today and owed R40 billion. Today, Eskom has a staff complement of 46 000 people as opposed to 32 000 people in 2007. The cost of electricity is higher and Eskom owes R450 billion, while struggling to produce what is required for us as a society.

After the 2009 recession, the world (and in particular the developing world), started growing at the pace that it was growing prior to the 2008 financial crisis. Investec economists determined that our GDP would have been about R1.3 billion higher, had we grown at our pre-crisis growth rate. The GDP today is at around R5 000 billion. Instead, we went downhill to the 0,6 percent growth that we have at the moment. As a percentage of GDP, revenue is between 28 percent and 30 percent, which means that in 2018, about R350 billion could have been added to revenue - against the current budget deficit of about R300 billion.

Adrian Gore, from Discovery, worked out that unemployment would have been at 16 percent, not 29 percent. Our debt would have been around 30 percent of GDP and our rating would probably have been BBB+.

We've got to understand the devastation that took place over the past ten years and the impact that it has had on the economy and the wellbeing of our society. The challenge is how do we fix it. We have a bloated state, with state-owned enterprises that are totally dysfunctional. We have an economy that structurally can't grow. Our core challenge: how do we grow our economy; how do we fix the state-owned enterprises; and how do we deal with the bloated state? How do we move away from the concept of being a developmental state to what the President calls an entrepreneurial state?

The first thing that the Government has to do is to fix Eskom. The Presidential task team has published its recommendations. This is part of the process that the Government has to go through and now they have to execute it. This is really South Africa's weakness - our inability to execute - which goes beyond drawing up plans and having a dialogue.

There always seem to be delays as the President is required to undertake all processes with the Government's partners, which include unions and those with vastly different ideological views. To build a society that grows and develops you have to sit down and become very business-friendly and growth orientated.

Professors Panagariya and Bhagwati from Columbia University wrote a book in 2013 titled "Why growth matters". They studied India from 1950 to the early nineties, when India grew at between three and four percent (referred to as the "Hindustan Growth rate"). They had a system called the licence Raj (an elaborate system of licences, regulations and accompanying red tape required to set up and run businesses between 1947 and 1990). They were stuck in a growth rate that was not creating wealth or uplifting people from poverty. The licence Raj was scrapped by the Indian Finance Minister Manmohan Singh, which helped liberalise the economy, increasing the growth rate to between 7 and 9 percent from 1991. This uplifted people significantly and built up a large middle class.

This is not to say that we as a society must not understand that our growth needs to be inclusive - it is right for us as a country, to uplift people from poverty. But this can only be achieved through business-friendly policies that enable growth and create jobs, and gives the Government the capacity to do what it needs to do: whether it is in the form of social grants, schooling or infrastructure.

To recover what we have lost we will require the right economic policies, and an honest and disciplined Government. This will start building confidence because people will see that the Government is doing something and moving down the right road. There are medium-term and long-term things that we have to do, like fixing the education system. So that it should not be people who are privileged who go to private schools that get all the opportunities.

We have to bring skills into our country. We are very short of skills. In fact, Ricardo Hausmann says "your society lacks know-how". When he says it lacks know-how, it means it lacks skills. Unless we start giving visas for skilled people to come in and help us, we are going to continue to battle to get growth.

**Question:** Apart from fixing Eskom and creating an influx of skilled people, if you had to think about concrete measures that government can take - the easy things to do - what kind of things would come to mind?

**Stephen Koseff:** It starts with fixing state-owned enterprises, then building confidence. Uncertainty in social and legal areas such as land expropriation, have to be resolved. We have to start building confidence in our society, taking corrective action on Eskom and putting people in jail.

The Springbok rugby team demonstrated that when we get together as a team, as a society, and stop wallowing in our misery, how much can be achieved. Eighteen months ago, the Springbok team lost to Italy. Losing to Italy is not a good thing for South Africa. Argentina you can occasionally understand, but not Italy. The Springbok team that won the World Cup was totally different, was well represented, people were there on merit. They won the World Cup when they had no chance of winning it 18 months ago.

As a country we need to start using that as an example. We need to start working as a team of people and put the best skills in the roles that will uplift people. That's where there needs to be a shift by the Government. There are a lot of retired people out there that can help them, but they don't want to use them. How are you going to help us change the society? How are we going to get this economy growing so that at the end of the day Government can do the things it needs to do uplift people. Government has to create an enabling environment. If that is done, the private sector will run with the ball.

**Question:** Does everything depend on Government or is there something that the private sector can do in the current circumstances?

**Stephen Koseff:** We got quite involved post-Nenegate and even pre-Nenegate, trying to intervene. Business leadership created an initiative called the "CEO Initiative" and I was also involved in this. Business needs to lift its game, and I've got no doubt about it, being a co-chair of the Youth Employment Service. I go around to large businesses like a sales person and ask

them to give internships and to help train and develop the youth. We all need to play a role in uplifting society.

But they are just looking at what their return on equity is and to satisfy their shareholder body. They need to learn that in a society like South Africa and in even in the world, business has a much bigger responsibility than just maximizing returns. At business school, in 1978 to 1981 on the first part time programme at Wits (GIBS wasn't born yet), they taught us to maximise profits. But when you're in a society, you have to go way beyond maximizing profits. You have to talk to all your stakeholders, you have to get the right kind of return for your shareholder body. Profits are important but you also have to play a role in uplifting society and we are able to do that as business. South African business is not bad, but it needs to lift its game.

**Question:** What is the importance of fiscal and monetary policy for the situation in which we find ourselves? There is a lot of talk about whether there will be a Moody's down-grade after the 2020 Budget and there's much speculation about what its effects will be. Do you feel that there is an adequate understanding in Government of the implications of our situation. Against that background, is there something that the private sector can do?

**Stephen Koseff:** Both on the fiscal and the monetary side we are in good hands. The Minister and the team at National Treasury and the Central Bank show we are in very good hands. Lesetja Kganyago is an excellent central banker and he has a very strong team with him. He has monetary discipline. Minister Mboweni also has fiscal discipline. He has been on both sides of the equation - he was a Governor of the Central Bank and then he was on the board of many private sector companies. He has seen how both sides work, as has the President.

The recent policy paper on how to fix the economy which was released by the Minister of Finance, is the first positive thing I have seen for a while. Maybe it's not perfect, but there is a lot in it that, if it is executed, will start transforming our economy. You want monetary and fiscal discipline because if you don't, then you debase the currency, and we have all seen societies with a currency that has been debased.

With monetary and fiscal discipline, we can defend the value of the currency. It is very important to defend the value of the currency as you then defend yourself against inflation, and you end up with lower interest rates. I lived through two periods where interest rates went to 25 percent. Now there are youngsters here who have just taken out mortgages on their homes, at 8 or 9 percent. I want to ask them how they will afford it if rates go to 20 or 25 percent? You don't want to go down that road. You want fiscal and monetary discipline.

But you're not going to be able to have fiscal discipline if Government continues to spend irresponsibly. The Minister has to discipline his colleagues, and bring in the kind of discipline he is talking about. We need to support him on this front. We also need private sector growth which needs confidence. We have to make sure that property rights are secure and that people can get on with making a decent living. Government must not crowd out the private sector.

**Question:** A lot of publicity has been given to the Government and President's attempts to drum up huge amounts of foreign investment or promises of foreign direct investment. Do you think that's putting the cart before the horse?

**Stephen Koseff:** The President is promoting the country and that's important. We do not have large savings in our country, so we need to attract foreign investment. We do attract foreign flows but that's not foreign direct investment, so we need to create an environment in which foreign companies create head offices in South Africa. There's talk of the African free trade zone, so if they get that right then we should be the platform where people are prepared to bring their head offices here. Let them bring in skills and if they want to bring in their own CEOs, let them, because they will employ people. Let them build their businesses from this platform, as that will create jobs and that will create investment.

We saw quite a lot of foreign firms at the Investment Summit, talking about how much they were going to invest in our country. We could do multiples of that if we created a more enabling environment. Some ambassadors have come to me and said that their mandate is to support the country and they are going to make sure that we get as much investment as possible from their large corporates. I think the President is doing the right thing; he's presenting the country in a way that it will become an investable destination.

However, we need to get the fiscal situation fixed, in line with the monetary situation. We need to protect our ratings and we need to create confidence with South Africans so that instead of putting all their money into dollars, or whatever currency, and emigrating, that they rather start investing. That is our challenge: to create a level of confidence in our society that our own people also invest.

**Question:** As far as the 2020 Budget is concerned and the speculation about the likelihood of a Moody's downgrade and its implications?

**Stephen Koseff:** It's a tough order because we've got till February. They are watching to see whether there is the political will to deal with the issues. Whether the President will tackle the left of his party, as that's what's in his way right now. If he successfully tackles them then we can fend off a downgrade.

We can't have a situation where our debt-to-GDP keeps on increasing.

At Eskom, they can keep the transmission but the power plants need to go into private hands. The midlife plants still function but the new ones don't work. They may have to scrap them, despite having spent R300 billion. One doesn't even have a coal mine nearby - they have to transport the coal. There are tough decisions that they are going to have to take.

Ireland in its financial crisis cut civil service pay by 25 percent. I know we can't do it in our country. They had a banking crisis. They defaulted and they had to get support from the Europeans. The Government had to bail out the banks and it was a mess. Debt of a USD100 billion and the first thing they did was cut civil servants' pay.

Tough decisions need to be made. I'm not saying we have to cut pay but they have to lighten the load. We have to build the capable state that they identified in the National Development Plan. At the moment the state is hollowed out. There are some departments that function but a lot don't function at all.

**Question:** We all know there's a skills shortage. I think there's also an underutilisation of some of the skills that are here. I was wondering what your idea would be on perhaps suspending designated candidates, employment equity and whether the employment market should just be left to operate as a free market.

**Stephen Koseff:** The freer the labour market, the better for economic growth, but obviously we have to understand the issues of our history. We have to understand that transformation is a big agenda item and is not going to disappear. I think to maintain meritocracy is also very important - just look at the Springbok rugby team. The areas that I'm talking about with skills shortages are in those technical areas such as artisans and engineers. We probably have enough accountants and lawyers - maybe not, but I guess we do have. We simply do not have enough artisans, engineers, scientists and technical people.

I think the fear in the labour market is with the minimum wage because you're not going to absorb unskilled labour with the minimum wage. I know that the minimum wage doesn't sound high to a lot of people, but it is high when you compare it to wages in other jurisdictions. How do we compete with Kenya and Ethiopia and those countries who are starting to manufacture, moving from Asia to Africa. There is a need to absorb unskilled labour, which there is in surplus. But at the same time, I do believe that there is also a massive shortage of skills. There may be some supply of certain skill in our country, but there is a shortage of skills. We should use all the resources that we have.

**Question:** You mentioned moving from a developmental state to an entrepreneurial state and that business must come to the party in a bigger way than it has. Business has put an enormous amount into development of the poor communities. Do you think business will come to the party to make more jobs available and more internships available to develop skills in this country?

**Stephen Koseff:** If we want a society that is going to function; if we want an economy that is really going to grow, business has an obligation. The question is what kind of country do they want at the end of the day? There are people in business who are arguing they are retrenching - they can't take on more. But a lot of them make a lot of money and so they could give a little bit of the money away. I always used to fight with my ex-colleagues about that extra half-percent

on return on equity. Our shareholders want it and they shout and scream. But it's important for us to help our society.

We have to work out how are we going to uplift people and business can make a massive difference. I don't think they've got a choice. Hearing guys like Larry Fink, who runs BlackRock, saying that our role in society is much broader than just a return to shareholders. That's the shift, that's where capitalism needs to move towards to avoid populism.

I think that capitalism has to look at itself and say how do we ensure that we maintain a free market system, which I certainly believe is the best system, as history has shown us that other systems don't work. China has a different form and until they had free markets they did nothing - they had famines. They really started growing when they went free market, very state-controlled but still free market. I do believe that the world is moving to a different place, and that younger leadership understands that there are a lot of important things in the world that need to be addressed. And we've seen a move on climate control.

If you come to a bank today and say finance a coal-powered power station we are going to tell you that we are not doing it. So, there is a massive shift. Even though we can make money from it, we are going to say that we are not financing it. The whole element of where the world is shifting to is making people think. Some South African companies do a great job but they can do more. They need to do a bit more.

**Question:** Stephen, help us understand how we can do what we do better. How can we get wealthy individuals in families in South Africa as well as business to invest in civil society organisations that promote accountable governance, in the way that the HSF does, enable the vulnerable to access justice and while defending the Constitution promoting a South Africa that is equitable. I'm asking this question because the organization that I am with, which supports the HSF and many other NGOs, has been successful to a certain extent in getting high net worth individuals as well as businesses to support these organizations. But we are not as successful as we think we can be.

People need to acknowledge and recognise the role that civil society plays in the country. And if we don't defend this democracy then we face the threat of something different which doesn't look good. So, I would like to know from you, what more can we do? How can we get more people involved because these are organisations which are never going to generate income? They will only be able to continue doing what they do with the necessary support.

**Stephen Koseff:** I am happy to say that the organisation I came from supports lots of civil society institutions. You have to keep on doing what you do and you will need to be out on the road. I chair a number of large organisations, and there is a lot of demand for support from civil society organisations. People doing brilliant work in communities - trying to uplift through child development centres. Unfortunately, the demand is there because Government is failing in certain aspects.

I was quite shocked. I'm chairman of a foundation called "Innovation Africa" which is an Israeli-American NGO responsible for putting water in villages right through Africa. By March we will have done 60 villages in South Africa, with a population of between 4000 and 6000 people in each village. They have no water. They go to dirty streams to collect water and at the moment they go at three o'clock in the morning.

There is so much need in our society. As I said we've already got enough money to do 60, but I would like enough money to do 200 or 400. I think there may be 400 villages in our country with no water. There is so much demand at the moment for civil society type organisations and I think the people are overwhelmed.

We would try and support as many as we possibly can but we have allocations. We also have to satisfy the needs of shareholders so we can't give everything away. A lot of wealthy people do a lot of excellent work. But there is a massive amount of demand. We'll try and help as much as we can because you guys do great work and you did save our society through the kind of work that you did. We as corporates owe a great debt to the civil society organisations because without a functioning country, we would not be able to do anything - employ people or pay our shareholders' dividends.

You have to keep on the road and keep pushing. I try raise money, as the co-chair on the Youth Employment Service, and I go around the large corporations asking for them take on interns as they all have a target. And you get a lot of rejection and you get very cross, but you keep going back and getting into their face.

**Question:** You stressed the importance of creating a more enabling environment for business. Stephen, what would you see as some of the key elements that need to be addressed, in order to create that more enabling environment?

**Stephen Koseff:** There is a lot of red tape that come out of the departments like Trade and Industry where small business has to do all sorts of things to get up and running. A big challenge is that a lot of start-up businesses, particularly smaller SMEs, battle with BEE codes and that kind of thing; also minimum wages. It's OK for us as large businesses because we've got the infrastructure and the support structures to manage all this kind of stuff. Maybe you should lower tax rates for small business. Push VAT up and cut corporate tax and encourage investment into our country. Use some of the extra VAT to help at the bottom of our society through social grants and exemptions on certain products.

You can close quite a big gap without affecting confidence and without affecting levels of activity. Change the narrative: we support entrepreneurs, we support people who start businesses, we give incentives to small business where they are creating employment. We talk about Jim Collins' Flywheel turning. The most important thing we have to do is to eliminate the crowding out of the private sector by Government and give people the hope that we are in a society that is going to grow and develop.

This is why I keep harping on fixing Eskom, putting people in jail, reducing the size of the civil service, trying to get incentives for lower tax rates for small business, so there is an incentive for people to take risks.

People moan about no money being available for entrepreneurs and the banks won't lend them money. It's not the bank's job. Banks are custodians of other people's money. There are a lot of funds, created by government through the IDC and others where they lend money. They should

grant the money, and be repaid if the company is successful or receive an equity return. Presently you are borrowing it at a high rate and they are battling to repay and most go broke. The key thing is to get the confidence up to a level in which people start taking risk.

**Question:** Stephen, you've painted the picture of what business can do, and there's been a question here about how one can push business and capital to meet the current needs. Anecdotally, how amenable are you finding people on the left in recognising this critical moment, and the need to compromise on a left agenda.

**Stephen Koseff:** That's where you need a social compact. The day unions understand that their role should shift from defending jobs to creating jobs, is the day the economy will start moving.

We need a social compact and that's what Australia did. They were socialist and they had to reform as they were in a recession. Israel was socialist with inflation of a 1000 percent. During the nineties they got a million Russians into their society. People brought very high skills, tech, engineering, data scientists. Now they are integrated. In 1988 their debt-to-GDP ratio was 150 percent, today it is 60. GDP per capita was USD8 000 in 1988, today USD40 000. The size of the economy: from USD35 billion to USD365 billion 30 years later. Unemployment is probably below 6 percent. Exports are massive as a result of tech being big there and all the major tech companies invest there because of the skill set, and they originally had a strong socialist bias which ultimately was not affordable.

You've got to move away from the developmental state economic model. We have to be inclusive and satisfy all stakeholders, but shareholders must always be given the right kind of a return for the risk they take, or capital is not going to flow. The left is not ready for this yet.

**Question:** Realistically, what concessions could be made with the unions to reach some sort of compromise so that we could get the deal going which the Minister envisages. Or maybe you feel that concessions shouldn't be sought, they should just be tamed.

**Stephen Koseff:** I think they need to negotiate and they need to come to a compact. Europe is also a lot slower than America or the UK in terms of realigning its labour force. At the World

Economic Forum, on a panel, the head of Lloyd's Bank was talking about how many branches had to be cut. One of the large insurance companies from Europe said they can realign their workforce quite easily in America and in the UK but in Europe it would take three or four years to realign their force. They simply send people back to school or university and pay for them.

We have to retrain people and maybe that's the deal. We will pay for the retraining, but after a period of time this job is gone. I don't really know how to resolve it because it is so bad. But then we have how many people who have no skills, who have no hope of getting a job, who need to be given an opportunity, who are not educated in the right kind of way?

The union to deal with is SADTU because they are controlling the teachers. Investec runs a program called ProMaths. We've got 5 000 students on extra maths and science in grades ten, eleven and twelve. Last year we had 1 200 write Matric - people were failing before they went on the program. 360 of the 1 200 got A's. The total A's in South Africa was 6 000. Intervention can work but you need commitment.

**Question:** Realistically, what is the mindset of an entrepreneurial economy? What does a real entrepreneur have to be like in a downward economy with bad public policy decisions?

**Stephen Koseff:** I say to people get on with it. I joined Investec when there were eight of us and now there are 10 000. A small balance sheet of a few million Rand then and now we are custodians of R4.3 trillion. When you're building a business, every day is a challenge and you have to be really resilient. You have to have a product offering or something that is relevant to where you are operating and the people will appreciate the service from you. In your own business you have to have gas in the tank to get on to the street. Maybe you'll have reasonable capital structure if you are capital intensive, and if you are service orientated, you need the energy to get on with it. Be very service-orientated and make sure that you deliver on your promises and then people will use you no matter what.

At a macro level we have to care. But at a micro level you do not have to care about anything except delivering on your promise.

