

NATIONAL ASSEMBLY

Introductory Remarks on Vote 8: National Treasury, the South African Revenue Service and Vote 13: Statistics South Africa

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Minister of Finance
09 June 2003**

Madam Speaker

Honourable Members

In many respects, the Growth and Development Summit which we held this past Saturday was a watershed for all of South Africa, and certainly for the issues at hand in the debate on the two votes and three departments before us today. The GDS was possible because of the economic achievements of our young democracy, but it was also a reminder of what remains to be achieved.

As a country, we continue to be brave enough to take decisions that may be unpopular in the short-run, but are ultimately beneficial in the long term. This is the spirit of the GDS that prevailed on Saturday.

More fundamentally we must be able to dream and we must set ourselves realistic visions, behind which we should rally, as a people. A dream of a better life. A dream of a time when all South Africans can share the fruits of our rich and diverse land. No better leader could have led us down this path, other than President Mbeki, in his call for a GDS two years ago.

The GDS is a call to action to all South Africans. It urges us to act now to implement our plans to broaden the economy so that it does not benefit only the few. To strive to achieve a low and stable inflation, one that fundamentally protects the poor. To ensure that our economy is even stronger than it is now, so that we can reach higher levels of growth and importantly job creation.

Government alone cannot address the development and growth challenges of our country. The GDS embodies the commitment and key elements of the partnership between

Government, business, labour and community necessary to achieve a “Better Life for All”. Collectively we must take responsibility for the success of this partnership.

The role of government is to ensure that the macroeconomic fundamentals remain in place and that the environment is conducive for all economic players to engage effectively in the economy. This responsibility will continue to be preserved, as a key foundation for delivering on our micro outputs.

Indeed, the purpose of the GDS is to build on this foundation and pay increasing attention to microeconomic prerequisites of the growth and employment challenge.

Constituencies have agreed to work together in the realisation of our dream. Government is committed to ensuring that tight partnerships are built whilst promising a state growing in effectiveness and relevance.

We would be foolhardy to either ignore the current perils of the global economy, or to sell ourselves short in respect of the already-formidable achievements of our own economy. While our international counterparts face the near future with trepidation - for good reasons, we remain optimistic. This optimism is not ground on luck, but on the hard decisions and work undertaken, in reforming the South Africa economy, over the past 8-10 years.

We are entering a new phase of economic growth and development, looking forward to expanded investment and employment opportunities.

Despite the gradual weakening of the international economy, the South African economy grew strongly in 2002, averaging growth of 3 per cent on the back of encouragingly strong growth in investment. Only with a lag has it started showing signs of weakening, in response to the global performance and higher than expected domestic inflation. This lag confirms the health and resilience of the South African economy.

I was able to deliver a very positive budget this year, which set out rapid expansion in government expenditure, together with significant tax cuts and declining borrowing costs.

While it is premature for us to be talking of radical changes to our economic outlook, we must remain vigilant of the economic environment in which we find ourselves.

The poor economic situation in Europe and America is in marked contrast to the experience here in South Africa. This month marks the 56th month of economic growth in our country. All indications are that this growth will continue.

Our most recent data shows that:

- External exposure is declining;
- Official reserves will start rising on a net basis, with the elimination of the NOFP;
- Prospects for higher investment are improving with a strong indication of an effective correction in South Africa's inflation;
- Costs of borrowing will continue to drop, with declining yields and growing confidence towards the emerging market world and South Africa in particular;
- Capital inflows will improve, on the back of much improved sovereign ratings on South Africa.

The outlook for our economy remains positive.

We can only attain the desired outcomes if the machinery of government is well aligned, well informed and well equipped to deepen the partnership. The opportunity today is for an evaluation by parliament of the extent to which the joint objectives of alignment, information and equipment will be met. In their own distinct ways, the three departments – Statistics SA, the National Treasury and the SA Revenue Service contribute to these objectives, both within government and beyond.

Vote 13: Statistics South Africa

Stats SA has been in the news over the past few weeks for all of the wrong reasons. Let me put the error in the computation of CPIX in perspective. Though regrettable, this type of error is not unique to Stats SA – in fact, statistics agencies in some of the world's largest economies have, at times, committed worse errors. But in South Africa, where we set such high standards for ourselves, where our hunger for information is so essential a part of measuring the changes that democracy brings to the lives of our people, we take it very,

very seriously. It is for this reason that we have moved as speedily with the Statistics Council to obviate its reoccurrence.

Stats SA has as its vision and a series of themes to support it:

- Enhancing the quality of products and services;
- Developing human capacity;
- Enhancing statistical integration through geography and registers;
- Advancing transformation;
- Refocusing statistical information in line with user requirements; and
- Develop the national statistics system within which the Statistics Council plays an important role.

Work on these themes is exceedingly difficult. South Africa has a shallow endowment of numeracy and statistical skills. As an ongoing project, the organisation must be built from the ground up, recruiting, training and retraining – a task which is exceedingly difficult when we have only one university that currently offers official statistics as a course, which incidentally was only introduced at the start of the 2002 academic year. Whilst this process continues, important outputs must be regularly and accurately produced. Furthermore, ongoing campaigns are necessary to convince the sources of information – people in their homes, businesses or public servants that the supply of accurate information is not optional.

Stats SA produces a total of 118 data series, key among which is the population Census, conducted every five years. Other key statistical series include national accounts data such as GDP, price data – in particular, the CPIX, the quarterly survey of employment and earnings, the labour force survey, the income and expenditure survey and poverty statistics and mapping.

The strengthening of the organisation and the veracity of its outputs receives ongoing attention in partnership with some of the leading statistical agencies in the world. In the recent period, we have invited evaluation missions from the International Monetary Fund, Statistics Sweden and Stats Canada – each of their reports have commended the improvements already made but pointed to what remains to be done.

One of the key focal areas resulting from these interactions is the strengthening of the business register – this is a process which also involves the Department of Trade and Industry, the Department of Labour and SARS to ensure that all the databases are utilising the same core information. We will soon be able to announce a broadening of the register to provide a new sample frame for key data on the economy such as output, earnings, employment, labour law exemptions and tax registration. Going forward, we will have both a better stronger data source and a reference check for other outputs.

Similarly, in close collaboration with the Statistics Council, we will recast the essential series, with a strong emphasis on periodic surveys.

The huge undertaking of Census 2001 is now in its final stages. Stats SA will present the results to the President of the Republic and to the nation on 08 July 2003. The value of the results needs to be understood in the context of the fact that South Africa has only had one previous full census, in 1996. The results of the two censuses will provide South Africa with two anchors of important socio-economic information to use for evaluation and extrapolation. In many respects, Census 1996 was undertaken very early in our democracy, presenting a ‘dawn of democracy’ picture and Census 2001 will reflect the outcome of policy changes. For this reason, there is no margin of error. We are deeply indebted to the sterling work being undertaken by the Statistics Council, under oath, to ensure that the quality of the results is entirely above reproach.

Stats SA will endeavour to remain true to its vision – a focus on quality and competence, and the promotion of evidence-based planning and decision-making. Despite the recent difficulties, its commitment to be the standard-bearer of statistics of the highest quality remains very, very strong. Notwithstanding the fact that as responsible Minister, my remit is limited by statute and practice, I wish to give this House the assurance that we will work hard to overcome the obstacles that we ourselves are so conscious of.

Vote 8: the National Treasury

Ensuring efficient and sustainable management of public finances lies at the heart of Government’s efforts to promote economic development, good governance and rising living standards for all South Africans.

Core budget resources will allow the Treasury to focus on ongoing fiscal and budgetary reform aimed at promoting sustainable growth and development, strengthening initiatives to reduce poverty and increase job creation, enhancing budgetary transparency, and improving financial management and the quality of public spending.

Further priorities include advancing procurement reform processes and introducing supply chain management practices, reinforcing the quality of public sector financial accounting and reporting in line with Generally Recognised Accounting Practice (GRAP), ensuring efficient Government debt and financial asset management, and deepening relations with international multilateral institutions.

Looking ahead, we are committed to developing macroeconomic policies that are relevant to the twin challenge of growth and development.

On the fiscal front, Treasury is strengthening its fiscal analysis capacity in line with international trends. Following the Asian financial crisis in 1998, multilateral institutions and governments around the world agreed to implement a system of performance reviews on economic management, governance, and fiscal transparency. South Africa is one of a few countries to have completed all eleven reviews.

The sound but more expansionary fiscal stance first signalled in the 2001 Budget is maintained for the 2003 MTEF, supporting sustainable growth and development. This achievement, in the face of enormous fiscal difficulties in so many countries should be applauded. In many respects, our fiscal management is now seen as model. We can expand on a sustainable basis because we have been willing to take the correct, albeit tough decisions and to stay the course.

Increased spending on infrastructure investment has a significant impact on economic growth and the expansion of service delivery. Over the next three years, capital spending averages 5,7 per cent of GDP in real terms, with strong growth in public-private partnership expenditure supporting the step up in national, provincial and municipal infrastructure investment.

In addition, the deepening of South Africa's financial markets, gradually liberalising exchange controls, improving financial-sector oversight and regulation and sound and

efficient tax policy design play a critical role in stimulating the economy and raising a robust revenue base, respectively. Members will be pleased to hear that our ongoing tax reform includes a review of retirement savings over the next year.

Poverty reduction and job creation

Approximately 60 per cent of expenditure on the main Budget comprise transfers to provincial and local governments, placing them at the forefront of social and basic service delivery.

The 2003 division of revenue reinforces the shift in the division of nationally raised revenue towards provinces and local government. Over the next three years, national transfers to provinces will increase by 6 per cent in real terms and those to local government will rise by 12 per cent, contributing towards extending the coverage and improving the quality of social and basic service provision, respectively.

As a key player in the evolving intergovernmental system, the National Treasury will continue to focus on the implementation of financial and budget reforms underpinned by the Public Finance Management Act. Provinces and local government are at the forefront of delivery and efforts to improve their performance remains high on the Treasury agenda.

The recent publication of the 2003 Intergovernmental Fiscal Review provides a consolidated review of spending and service delivery at the provincial and local level. Strong relations with and the efforts of my provincial colleagues in Team Finance have contributed to stabilisation of provincial finances and the focus of attention now on improving the quality of spending in our schools, health care system and social development sector.

In this respect, a key priority this year is the revision of the equitable share formulae used to divide resources horizontally between provinces and between municipalities. The publication of the 2001 Census data in four weeks time is central to such a review.

Budget transparency and planning

Better budgeting and planning contribute to improving service delivery. Recent reforms place us in a stronger position to deepen the link between Government's policy choices, its spending plans and the delivery of services.

In particular, the *Estimates of National Expenditure* raises the level of Government's commitment to budgetary transparency and accountability through its consolidation of national department strategic policy priorities, spending and delivery plans. The ENE summarises the more detailed 3-year strategic plans that departments are required to publish, outlining programme measurable objectives and service delivery targets. It indicates how these plans are resourced through departmental MTEF allocations. And it provides the basis for departmental reporting on service delivery progress against plan in departmental annual reports, completing the accountability cycle.

The Treasury will continue to work in partnership with departments, enhancing and strengthening the measurable objectives, output measures and service delivery target information as set out in the annual ENE. The publication of measurable objectives for each programme, in line with the PFMA, reflects a commitment to improved service delivery, greater transparency and increased accountability.

An exciting development has been the tabling of provincial department strategic plans during March and April this year. These strategic and performance plans are based on uniform budget formats for the health, education and social development sectors. Key to this reform is building a closer link between planning and budgeting, so that departments can reflect on what they have delivered with their allocated resources.

Madam Speaker, I can say, without fear of contradiction that the roll-out of the PFMA now places this parliament in a stronger position of oversight than any other. Parliament has an ENE chapter for each vote, an annual Strategic Plan for each department, and monthly gazetted reports of actual expenditures, published in terms of Section 32 of the PFMA. There is no parliament better equipped to oversee Executive functions, both in plan and actual implementation.

Procurement reform processes

Treasury is focusing considerable effort on procurement reform processes. We need to be able to procure the right goods in the right place at the right time and the right place.

The Treasury has finalised a policy strategy to guide procurement reform processes in Government. The strategy is aimed at promoting sound financial management and uniformity in the implementation of procurement-reform initiatives across Government. It also provides the framework for review of the Preferential Procurement Policy Framework Act and its Regulations, ensuring that they contribute more effectively towards meeting Government's objectives for black economic empowerment over the medium term.

Managing public sector debt

The Treasury's *Asset and Liability* division is charged with the efficient management of public-sector debt and managing the financing of the budget deficit. Mechanisms for financing the government deficit for the 2003 budget year are currently being put in place.

Our debt management system is now one of the most highly regarded in governments across the world. Our weekly domestic auctions are continually oversubscribed. For a number of years, our annual foreign placements have been awarded 'Deal of the Year' by the Government Borrowers Forum. In this regard, our most recent placement, a global Euro transaction was heavily oversubscribed – we placed a 10 year Euro bond worth Euro 1,25 Billion at 125 basis points over the mid swap rate, against initial pricing projections of about 128 basis points over the mid swap rate.

I am sure that parliament is also aware of the fact that two rating agencies, Fitch and Standard & Poors upgraded South Africa's sovereign credit ratings in the past few weeks.

The Exchange Control Amnesty

The Amnesty Unit was established with effect from 01 June, as required by the recently promulgated legislation. We appointed Advocate Buysile Madlanga to head the unit. He will be assisted by eight panel members, four each from SARS and the SA Reserve Bank.

The week since it opened its doors has seen an overwhelming response. As of this morning, the website has had 5272 hits from different individuals. We are expecting a flood of applications in the course of the amnesty period. In fact, the first application was faxed to us on the Monday morning that the Amnesty Unit opened its doors!

Our decision to proclaim the amnesty has clearly been correct and we will inform parliament of the successes of the unit from time to time.

The Public-Private Partnership Unit

The increasing workload of the PPP Unit in the National Treasury is a leading indicator of our commitment to making public private partnerships work in South Africa. The challenges we face – building and maintaining roads, rehabilitating our hospitals, streamlining the justice system, banking to the unbanked, delivering water, bringing computer and connectedness into schools and clinics – are serious undertakings.

Over the next few years, key PPPs include the Gauteng Rapid Rail Link, the Dube Trade Port (including the relocation of Durban International Airport), Chapman's Peak Toll Road here in the Western Cape, hospital co-location projects in the Eastern Cape, tourism projects, fleet-management projects, the Home Affairs National Identification System, and the social-pension administration system.

Working in partnership with the private sector allows us to harness the resources, project management capacity, the technology and knowledge that reside in the business sector. As part of an extensive consultation process, we recently published the Standardised Provisions for Public Private Partnerships for public comment. These provisions aim to streamline contract documents and negotiation and thereby ease the PPP process in future. This publication is in the same spirit as the agreements struck in the GDS this past Saturday.

The South African Revenue Service

The performance of the SARS, Madam Speaker, is judged by evaluating the revenue collected; the administration of South Africa's growing trade with the outside world, and by our success in increasing tax compliance and in combating tax fraud. The three-year strategic plan of the SARS that I mentioned in this house last year is paying handsome dividends to the South African government and the South African public.

The past year has once again seen the SARS deliver on its brief. Revenue came in at R281,1bn in the financial year 2002/03, with the SARS collecting about R1.7billion above the revised target. This was attributed to real growth in the economy and to greater corporate earnings. A significant contributor was the constantly improving compliance among taxpayers and better administrative efficiencies.

Our Customs officials are increasingly stamping their authority at all ports of entry, while our enforcement side continues to score major victories against fraudsters and other criminals. We are prosecuting more and more people for a range of offences, including VAT fraud and tax evasion. A case in point is that of Mr Grant Ramsay, whose successful prosecution last month has yielded valuable information that will help us launch more prosecutions in the next coming months. I urge those engaged in criminal activities to heed Mr Ramsay's warning – "crime does not pay and don't think you can hide." Our prosecutions show that the SARS is increasingly making its mark in the fight against crime.

The year ahead will see the SARS adopt measures to improve the culture of tax compliance. This includes an educational and awareness campaign designed to help taxpayers submit their returns correctly and on time; enabling certain categories of taxpayers to submit their returns electronically; improving both customs facilitation and controls through the better management of the trade supply chain, and by taking a systematic approach to enforcement in select high-risk industry sectors.

The Filing Season Awareness Campaign

The filing season campaign, launched last month here in Parliament, aims to create awareness among taxpayers of the importance of paying taxes, on time and correctly. Information kiosks, located in public areas all over the country and managed by staff well-equipped to assist taxpayers, have been made available to the public. The SARS has made adequate preparations to deal with the additional load of tax return expected to come in as a result of this campaign. The granting of extensions, a South African pastime, has been reduced and the SARS' enforcement section will act against those who do not heed our ample warning.

E-Filing

By the end of July, the SARS will launch a free facility for certain categories of taxpayers to file their returns electronically for VAT, PAYE and Income Tax. These categories include companies and trusts. Building on the model introduced two years ago, this facility will now be controlled by the SARS and will be offered free of charge to the taxpayer as part of our drive to improve the service we give to taxpayers and to keep in line with international trends. The expansion of other electronic forms of facilitation is currently being explored. This service is expected to reduce administrative and operational inefficiencies on the part of both the SARS and taxpayers.

Customs

The current year will see the doubling of efforts to improve the effectiveness of Customs controls and trade facilitation. One of the highlights includes the commencement of a twenty-four hour operation for commercial traffic at Beit Bridge, the busiest border post in Southern Africa. Another development will be the implementation of the simplified and harmonised transit procedures in terms of the SADC Protocol on Trade. SARS will also step up the fight against Customs evasion through a yearlong national enforcement campaign. At the same time SARS will double efforts to strengthen cooperation with legitimate traders that operate within the terms of the law. A compliance conference is planned for later in the year where this partnership against Customs evasion and criminality will be formalised. This will also be a major step towards compliance with international cargo security measures given impetus by the realisation of the vulnerability of legitimate trade to abuse by international terrorism.

Enforcement

We continue to develop and implement different mechanisms of risk profiling that are systems-based and involve related third party interfaces and suspicious activity reports. This has enabled us to identify and address non-compliance effectively at both a national and regional level. Some examples of this approach were evidenced during the last year in the campaigns launched within the music, fishing, financial services, cash and carry and oil and petroleum sectors and among sex workers and practising professionals.

In implementing the economic sector approach, the SARS has identified ten (10) different sectors where risk exists. Some of the stakeholders in one of these sectors, namely

gaming and leisure, have already been approached by the SARS with a special focus on the illegal aspect. The SARS is examining international financial transactions, structured finance, transfer pricing, e-commerce and looking at various other economic sectors within the country. The benefit of these efforts is evident in a number of ongoing high profile cases.

During the past year, 906 criminal investigations led to successful convictions. The sentences ranged from community service to 15 years imprisonment and fines of up to R 2 million. We are increasing the number and level of investigators who will be involved in enforcement activities. The National Prosecuting Authority, supported by the SARS, is harnessing its criminal prosecution-capacity for tax-and customs matters into a nationally dedicated capacity.

Ten additional prosecutors will be deployed during this year. To further enhance our current enforcement capacity, we have commenced the re-organisation of the Woodmead and Special Compliance Unit into a Central Enforcement Unit as a national capacity focussing on special interest areas. We are also re-organising the current audit, criminal investigations and collections components distinguishing between a compliance control capacity and an enforcement capacity.

The Siyakha Transformation Programme

As part of the drive to improve efficiencies, the Siyakha programme of transformation has been rolled out in KwaZulu-Natal and the Western Cape, with call centres already operational in these areas. Work has already begun on the Gauteng roll-out of Siyakha and operations are expected to resume in this coming year.

On the Legislative Front

We have had three bills passed by this esteemed house:

- The Taxation Laws Amendment Act of 2002 – which codified most of the Budget proposals of last year
- The Amendments to the SARS Act
- The Revenue Laws Amendment Act of 2002 – which dealt with the remaining Budget issues

As the Members of this House know, the Exchange Control Amnesty and Companies Bill became effective on 1 June 2003.

The second half of the year should see us translate into legislation the remaining budget proposals – like the incentives for urban development zones;

- ring-fencing provisions for losses in respect of secondary trades; and
- small business stimulus measures

Research will also continue in the following areas:

- The Customs and Excise rewrite project;
- The review of the taxation of the retirement industry; and
- A system for advanced tax rulings.

Alternative Dispute Resolution Mechanisms

As part of its drive to offer a cost-effective service, the SARS introduced a new dispute resolution system on the 1 April 2003. The new system sets down standards and time frames for each aspect of the dispute resolution process – a far cry from when disputes with taxpayers could take years to resolve. In addition, taxpayers can opt for an alternative dispute resolution to resolve disputes. As part of the improvement of taxpayer services, this mechanism also allows the tracking of a taxpayer's enquiry throughout the process.

Registration of tax advisers

The consultative process with respect to the registration and regulation of tax practitioners is progressing well. We thank practitioners from the accounting, legal and financial sectors for their thoughtful contributions. SARS is in the process of considering the submissions and will publish a second discussion document for further interactions with the various constituencies. A policy framework should be concluded later this year.

This process is vital to providing SA's taxpayers greater certainty and assurance that they receive good advice. Equally importantly, this process will promote the development of a credible and professional cadre of tax advisers in South Africa.

International Responsibilities

The Ministry and senior staff of the three departments, in addition to their domestic responsibilities play key roles in both global and regional forums.

Last year, the Minister had been appointed Special Envoy to the Secretary General of the United Nations for the Conference on the Financing of Development. He chairs the Development Committee of the IMF and World Bank, last week he concluded a term as chairperson of the Economic Commission for Africa. The Commissioner for SARS is Chairperson of the World Customs Organisation.

In addition, we are working with a number of African governments on issues such as the introduction of VAT, tax reform, budget reform, debt management, capital market development and census methodology.

Conclusion

We place the achievements of a few short years before this august House for evaluation and critical appraisal. Our mission remains the fundamental transformation of South Africa to ensure that democracy effects tangible improvements in the lives of all of our people. A critical element of that mission is our accountability to parliament. We offer an overview of work done, work in progress and work to be done.

I want to express my sincerest appreciation to the three heads of department – Professor Maria Ramos, Dr Pravin Gordhan and Mr Pali Lehohla. Their dedication, input and energy remains exemplary. I would be remiss if I did not also say a word of thanks to the outside officials who assist, in bodies like the Statistics Council and the SARS committees. Finally, I also wish to convey my sincerest appreciation to all the Members of the Portfolio Committee on Finance, under the able stewardship of Ms Barbara Hogan.

The watchword, amplified at the Growth and Development Summit is partnership, across all of South Africa. We trust that by the discussions here today we will strengthen the partnership between the executive and legislature.

Thank you.