MINISTRY OF FINANCE

REPUBLIC OF SOUTH AFRICA

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ADDRESS TO PARLIAMENT ON THE OCCASION
OF THE ADOPTION OF FINANCE MINISTRY BUDGET VOTES

24 MAY 2005

Madam Speaker
Honourable Members

We meet to evaluate the performance of three departments against their respective mandates, as set out in the Constitution and further legislation. Our commitment is to build a democracy that truly cares, to engage all of government in a battle against poverty, underdevelopment and dehumanization. In the throes of World War 2, Sir William Beveridge drafted a report for the UK parliament in which he challenged government to fight against " the five giant evils of want, disease, ignorance, squalor and idleness." The language of our Constitution is more refined – it commits us, in the Preamble, to "improve the quality of life of all citizens and free the potential of each person."

This remains the essential framework for the discussion here today. Neither the Treasury, SARS ,nor Statistics SA is directly responsible for day-to-day services to citizens, yet their activities must nonetheless be subjected to scrutiny through this lens. I know that Members will not hold back from this duty to question whether our policies are adequate, to probe where the information is incomplete, to dig deeper if the analysis is unconvincing. Is our fiscal policy framework appropriate for our times, does the budget process address the quality of life of all citizens and, indeed, do the resource allocations we propose enable our departments to discharge their responsibilities satisfactorily? Are we confident that we have the capacity to collect taxes due from the appropriate persons? Can our surveys and statistical compilations correctly measure activity and inactivity, and instances of want and surplus, to enable government to direct resources to where they are needed most?

Last year, GDP grew at 3.7%, and the growth trend will be maintained this year to reach 4.3%. Inflation declined to 4.3% last year, and will remain well within the target range of 3% to 6% this year. During the past two years interest rates have been lowered by six and a half percentage points. Our budget deficit is now about 1.5% of GDP, primarily because the South African Revenue Service harvested R 354.9 billion in 2004/05, or R 21 billion more than we anticipated at the time of the 2004 Budget. We witnessed capital inflows of R 60 billion last year, and this trend continues – just two weeks ago we were able to announce the largest single inflow of foreign direct investment to date with the acquisition of a majority share in ABSA by Barclays Bank. Furthermore, employment trends continue to improve. Business and consumer surveys all signal that there is a new optimism, an unprecedented degree of confidence in our economic outlook. These are just a few of the array of overwhelmingly positive indicators of our progress – the visible and practical measures of the success of our macro-economic management. The improving economic outlook is the hard-won fruit of forward-looking macro-economic plan we placed before this House in June 1996.

On the strength of this success, we are able to be bolder yet in the years ahead. We are acutely aware of the extent of need – for employment, for broader participation in economic activity, for relief from the trap of persistent poverty, for housing, better education, reliable health services. We are still ourselves confronted with Beveridge's 'five giant evils of want, disease, ignorance, squalor and idleness' – although this might not be our preferred turn of phrase. These challenges have disciplined our policies and budget plans over the last ten years, and they remain firmly in mind in the growth and development strategy for the decade ahead.

This is not a battle that can be waged on one field. It must be waged across a broad spectrum in South Africa, and it must be waged in the international arena.

Our international work is important. Since 1996, the world has lived through no less than five global financial crises, each of them denting our best efforts domestically. These crises have wreaked havoc with the exchange rates of most developing countries, and driven up interest rates, each time impacting on the most vulnerable living in poor countries. Even now there are enormous concerns about the threat to global stability in the period ahead – about high oil prices, about the twin deficits of the United States, about the impact on the rest of the world of China's extraordinary growth and its capacity to supply industrial goods at unprecedented low prices. We have to remain active and engaged in a series of international fora – in the IMF and World Bank and the Development Committee that oversees these institutions' strategic thinking; in the World Customs Organisation, which is chaired by Commissioner Gordhan for the third successive year; in the G 20 on financial stability – we host a meeting of the Financial Stability Forum later this week; in the United Nations, where the Statistician General chairs a panel on statistics in developing countries; in the OECD, which for us is a learning centre; and in the World Trade Organisation, in support of the Ministry of Trade and Industry. Each of these institutions is important since together with other developing countries we must do battle to ensure that the rules are transparent and fair, and that they support more rapid social and economic development.

In his book, *The Age of Consent,* George Montbiot writes , "Everything has been globalised except our consent… Democracy alone has been confined to a nation state. It stands at the national border, suitcase in hand, without a passport." We will not stand back from taking that journey. We will continue to do battle to have our voices heard, we will continue to carry a democratic and progressive message into the forums of international discourse with which we engage.

The "suitcase in hand" in respect of the African continent takes on an entirely different meaning. On the continent we are involved with the building of stronger institutions – both pan-African such as the African Development Bank and the African Union, and sub-regionally, as in the case of SADC or SACU. We are called upon from time to time to assist with capacity building – SARS remains directly involved in skills transfer in a number of countries, and the National Treasury has taken a leading role in a Collaborative African Budget Reform Initiative which already involves 16 countries and is likely to grow considerably. Further we are afforded the opportunity to engage in advocacy on behalf of the Continent – my participation in the Commission for Africa was a great opportunity for learning and sharing and preparing the African case for the G8 meeting to be held at Gleneagles in July. In coming years, our workload on the continent will surely increase further.

But, Honourable Members, we are mindful of the fact that our ability to contribute constructively in international forums is not unrelated to our performance at home. If we seek to hold the world to account for its global development commitments, we must of course be rigorous in our accounting against the challenges we have set ourselves.

Let me comment briefly on the performance of the Treasury, Statistics SA and SARS against their published functions and objectives.

THE NATIONAL TREASURY

Alongside its core administrative component, the Treasury vote provides for a further seven programmes.

The first (programme 2) covers the coordinating role of the Treasury in Economic Policy and Budget Management. The tasks at hand include macroeconomic analysis and advice, international financial relations, tax policy, intergovernmental fiscal relations, the structure and resilience of the public finances and the coordination of fiscal policy. The measure of performance in this area is laid before the House every year, in the quality and depth of the documents that are published to assist Parliament and provide the public with detailed and reliable economic and fiscal accounts and reports. The commitments we make to align appropriations with broader policy objectives require implementation by all government agencies. This is a matter to which I shall return to presently.

The Asset and Liability Management programme is also a cross-cutting task that also involves other government agencies. Our costs of borrowing have been significantly reduced because of management improvements and concomitant improved ratings for South Africa. Members will be aware of the huge fiscal benefit we have derived from reduced debt service costs. Members should also know that the National Treasury was able to defer the proposed foreign borrowing for 2005/06, partly because of the revenue over-runs which SARS produced. Key new responsibilities for this branch over the next year include the development of a monitoring system for the treasuries of state owned enterprises and efforts to improve the articulation and alignment of our development finance institutions.[1]

[1] Our Development Finance Institutions are the DBSA, Land Bank, National Housing Finance Corporation, Industrial Development Corporation. For purposes of alignment both the Public Investment Corporation and the Independent Development Trust are included.

The work of our Financial Management and Systems team includes the overhaul of government procurement and supply chain management; the standardization of the financial systems of national and provincial government – we will soon launch a revamped Integrated Financial Management System (IFMS); and the implementation of the PFMA. Let me take this opportunity to remind the House of the detailed monthly financial reports published in terms of Section 32 of the PFMA. These provide Parliament – almost without precedent internationally – with readily available up-to-date information on trends in revenue and departmental expenditure. I hope that we will see progress over the year ahead in the active use of this information by portfolio committees, as its intent is to contribute directly to monitoring and accountability.

The central task of the Financial Accounting and Reporting programme is to strengthen the hand of Parliament by promoting transparent and effective financial management within the broader public sector. I wish to draw the attention of this House to the fact that all departments have been requested to close their books for the 2004/05 Financial Year by 31 May. We hope to see steady improvements in the quality of financial accounts, and fewer qualified departmental audits in future years.

The Treasury vote also includes substantial transfers to Provincial and Local Government. The key challenges here relate to the matching of appropriations with actual spending. We have set a high priority on regular reports on infrastructure expenditure and maintenance. A report published last week provides Parliament with an updated picture of the state of provincial expenditure, and we have drawn the attention of the President's Co-ordinating Council, which is attended by the Premiers, to the slow pace of infrastructure spending measured on a quarterly basis. The other major challenge is in respect of Local Government where the formula for equitable shares has been improved and where the Municipal Finance Management Act is being rolled out to improve on the efficiency of financial management.

In relation to the Treasury's responsibility for Civil and Military Pensions, I wish to share with this House that I have published the names of the Trustees of the Government Employees Pension Fund today and the first meeting of Trustees has been convened. The key challenges that remain in this area are the Amendments to the Special Pensions Act which we will have before this House this year, and the improvement of general administrative arrangements, focusing on speed of response and client relations.

The final programme on the Treasury vote provides for various fiscal transfers. The largest payments for which we are responsible are in fact direct deductions from revenue and do not rely on Parliamentary appropriation, as they are made to our neighbours in the Southern Africa Customs Union (SACU). The renegotiated SACU Treaty is now in force and provides a new dispensation for calculating and affecting transfers based on customs, excise and a development component. Our neighbours are facing unprecedented economic shocks at present, especially Swaziland and Lesotho whose economies have been seriously impaired by the expiry of the Multifibre agreement and the possibility of changes to the African Growth and Opportunities Act. Recent discussions in the SACU Council have raised the prospect of making adjustments to transfers for the next two years in an effort to help stabilize our neighbouring economies as part of a broader reconsideration of the transfer mechanism.

STATISTICS SOUTH AFRICA

It is an open secret that Stats SA frequently attracts criticism – some of it, unfortunately is justified. But we should, together as policy-makers, pause to reflect on the world in which Stats SA works. South Africa has opted to comply with the international Special Data Dissemination Standards, which are overseen by the IMF. In terms of this protocol, all 61 participating countries, are required to produce regular, timely and accurate statistics across a wide array of series – 253 in total, in our case. The protocol further requires that governments have no pre-release sight of the data, a rational decision to discourage and prevent tampering. The protocol does not, however, set the quality standards for specific indices – so, for example, whilst all participating countries compute inflation figures, the relevant items in the basket differ and are measured at different times in different countries, and there are various ways of doing the sampling and collecting the information. Compiling a price index, moreover, is a comparatively straightforward statistical matter. The difficulties inherent in the measurement of employment and unemployment, or the structure and change in national income and output, are formidable even in wealthy economies with high levels of financial literacy and formal business accounts.

Stats SA has achieved a great deal over the past decade. We now have economic and social statistics that cover the whole country, we have a far more detailed picture of living conditions across the full landscape and diversity of our people, and as an organization

Stats SA has thoroughly transformed its staff structure and its approach to both public debate and examination of statistical methods and sources.

This kind of transformation is difficult, and particularly when there is no opportunity to pause for restructuring. The SDDS timetable moves on relentlessly, surveys have to be completed with limited resources, data publication deadlines have to be met. Outside of the SDDS requirements, there is also a range of statistical information required by Government for evidence-based decision-making. The workload in Stats SA is large, and the skills and expertise needed are not easily found.

Members would be aware of the fact that the Statistics Act is designed to minimize direct Executive involvement in the work of the agency. An intermediary, in the form of the Statistics Council is created to engage with the detail of method and output, and it serves as an advisory body to the Minister. Honourable Members would also be aware that a new Council has just been convened, and we look forward to a strong cooperative relationship with Stats SA management in pursuit of the shared goals of accurate measurement of economic and social trends and healthy relationships between our statistics agency and users of its products.

Stats SA has recently procured the services of three very experienced statisticians from Canada and Australia to assist in re-engineering the organization. This is work in progress. A comparative study was recently undertaken on trends in statistics in countries with a similar profile – Brazil and Argentina were the reference points. Out of this process, we look forward to further progress in the quality and comparability of our statistical series.

Against this backdrop, I believe we should accept the forward-looking framework for the evolution of statistics, as outlined before the Portfolio Committee on Finance. In terms of this framework, we must set detailed annual performance targets since the framework runs to fiscal year 2010/11. This project requires substantial resources for the development of skills and investment in systems. It does not mean that we should lower our tolerance for errors and inaccuracies, but it means that we should increase the profile of the Quality and Integration programme, asking of the agency to advise, in advance, each year on which of the series will be improved and how. This approach is more likely to succeed, and will make for easier monitoring of progress, rather than an attempt to improve everything at once. We will then have a better basis for the anticipation of the stabilization of economic statistics and a keener sense of the methods and costs of the 2006 Community Survey.

We should be mindful, however, that this task on its own is exceedingly difficult since the economy is changing rapidly, the ability to access first-hand information in ‘high-walled areas’ is constrained, and the demographic profile is shifting as a result of migration both into and through South Africa. New efforts to improve survey methods and capacity that stem from reviews of our statistics collection process will need time, energy and resources.

I am pleased to announce that Stats SA will today release an exceedingly important publication entitled “Achieving a Better Life for All”, which is a further compilation of the results of Census 2001. This release, read together with the results of Census 1996, affords us an opportunity to measure the qualitative improvements in the quality of life of South Africans, thereby responding to the preamble of the Constitution.

THE SOUTH AFRICAN REVENUE SERVICE

Let me turn to the work of the South African Revenue Service. A useful starting point is to remind the House of the SARS “volumetrics” – 14 600 employees; 14 million returns processed; 1.4 million corporate taxpayers; 4.3 million individual taxpayers; 573 876 VAT vendors; 300 268 PAYE employers; 14 million passengers moving through Customs; 68 775 consignments stopped; 1.4 million SACU movements; 1 851 total seizures; 998 221 export transactions and 1.7 million import transactions. Oh, and by the way, R21 billion collections over Budget.

Staggering as these statistics are, there is no respite on the horizon. Yesterday, we launched the start of the Filing season. We appeal to all individual taxpayers to file their returns well before the 8 July 2005 deadline. Last year we received quite a large number of new registrations. This year, we hope to beat that mark. This is a measure of our progress in growing a compliance culture, which bodes well not just for taxes, but for all of democracy.

SARS has introduced a number of innovations, including the introduction of barefoot practitioners to interface with small businesses. Small business has responded with enthusiasm, demonstrating willingness to speak out and express its ideas and needs. This creates the platform for the establishment of meaningful public-private partnerships. SARS will be assisting and nurturing small businesses by deploying community tax helpers to visit taxpayers at their businesses and advise them on registration, return completion and taxes in general. Dedicated small business help-desks and centres will be established shortly.

The communication challenge has also been advanced with the recent launch of a new cartoon character called Khanyisile Khumalo, or “Khanyi” to her friends. She is a welcome addition to the SARS team and will be assisting with taxpayer education. Her job is to take complex legal and technical tax and customs issues and explain them in a way that everyone can understand.

To ensure easy and cost-effective access, SARS must be equipped to respond quickly, consistently and accurately. SARS has aligned its “central architecture” for delivery with that of Government by transforming itself into an outward-looking institution that better understands and is more responsive to its operating environment.

Interaction will be easier through e-filing being rolled out to more and more elements of the tax and customs system. Similarly, the national call centre continues to make it easier for taxpayers to interact with SARS. The e-filing service has been expanded to make it easier to comply.

Interaction has also improved through continued roll out of the “one stop shop” approach provided by the Large Business Centre and small business counters. The Large Business Centre has made significant capacity gains and has now activated eight industry sectors as well as a dedicated service offering to wealthy individuals.

The SARS audit and investigation program this year places special emphasis on the abuse that is detected where companies accumulate duty credits when exporting, that in turn may be offset against duty liabilities when they import. Unfortunately, exports are at times somewhat misrepresented and inappropriate credit certificates are obtained. The Motor Industry Development Programme presents a similar compliance risk.

The inculcation of a team culture is vital to the development of a learning organisation. Attention will continue to be given to achieving better employment equity and enhancing the wellbeing of staff. The development of a suitable cadre of progressive, professional managers is a crucial challenge. Ongoing recruitment efforts seek to raise the level of relationship skills as well as deepening our tax technical and business skills.

In the coming year, SARS will focus on improving its enforcement and service delivery capacity at ports of entry, supported through the strategic deployment of officers, canine teams and visibly marked vehicles. SARS will also implement a “single window” concept that will link SARS with other government agencies, businesses and other Customs Administrations.

In the period ahead, the collaboration with neighbouring states will have to deepen. SARS is committed to improving on trade facilitation rather than falling back on tight trade control. Facilitation will only be successful to the extent that our neighbours have a similar approach. A strong basis already exists – training has been provided to staff of the Botswana Revenue Authority, and SARS is on the verge of concluding a Memorandum of Cooperation with the Lesotho Revenue Authority. Beyond our immediate neighbours, SARS has assisted in the Sudan, in Rwanda, and in Uganda. Just last week SARS hosted a Regional Conference of the World Customs Organisation which was attended by delegates from 14 African countries – the chances are that there will be additional calls for capacity building and assistance.

CONCLUSION

Honourable Members, the business of putting our statistics on a sound footing, of deepening our engagement with the rest of the world on economic, fiscal and tax matters, of improving our economic analysis and budget process and of building a culture of healthy compliance with sound revenue laws, is often dry, and always technical. But it is also exciting and challenging, and I wish to commend the budget proposals of the National Treasury, Statistics SA and the South African Revenue Service to this House with the assurance that they reflect the considered forward plans of three highly competent and committed professional teams.

I would like to take this opportunity too, Madam Speaker, to remind the House of the Government’s commitment set out in tabling the Budget on 23 February this year, to an economic and fiscal policy framework that will reinforce and deepen the pace of our growth and development over the decade ahead, and will accelerate the elimination of poverty and broadening participation in economic opportunities. Although policy priorities and programmes will shift in emphasis from time to time, these remain the critical measures of our progress and performance.

Finally, permit me to express appreciation to the three Heads of Department – Mr Pravin Gordhan, Mr Pali Lehohla and Mr Lesetja Kganyago and the teams they lead for their dedication and effort – their combined effort has brought measurable improvements in the quality of life of so many South Africans.

Thank You.