Budget Vote 7: National Treasury

Deputy Minister of Finance

7 May 2015

Honourable Members

The National Treasury contributes not just to value for money in our public finances, but also to the broader financial environment that supports investment and growth. I will highlight the key roles of several institutions of the wider finance family in bringing together savers, investors, lenders and borrowers in an orderly manner.

The role of the financial sector in facilitating economic development in a modern economy is critical, but its destructive force if it is not well regulated should never be underplayed.

In fulfilling this important role, there are various policy challenges for Government, which have to be carefully balanced. For example: the need to facilitate financial access while ensuring that consumers are protected; the need to combat financial crime while ensuring that honest customers are not excessively burdened by compliance; the need to ensure that financial entities are always financially sound to meet their commitments to their customers, while also noting the compliance costs associated with new regulations.

In our effort to fulfil the above objectives, and to adopt best international practice where appropriate, several draft laws were released over the past year for public comment. These include the Financial Sector Regulation Bill (2014) to give effect to the Twin Peaks regulatory model; the Insurance Bill (2015) to support the financial soundness of our insurance companies and enable low-income access to insurance; and the Financial Intelligence Centre Act Amendment Bill (2015) to strengthen the Financial Intelligence Centre's ability to assist in combatting financial crime.

We have also prioritised the need to encourage South Africans to save, and thereby to rely less on excessive debt, especially debt offered on expensive and sometimes predatory terms.

Over-indebtedness, Honourable Members, makes our workforce depressed and less productive. On 1 March 2015, the Tax Free Savings Accounts became a reality in South Africa. We encourage South Africans to take up this offer. This saving initiative also reflects what can be achieved if both Government and the financial sector work together for a common cause.

The 2015 Budget Speech reiterated National Treasury's commitment to continue with retirement reforms to ensure that workers are saving enough and get good value for their savings. We repeat our message that workers, especially government employees, should not panic and prematurely resign to access their savings. Their savings remain theirs and under the stewardship of trustees.

In fulfilling the above objectives, Honourable Members, the National Treasury is ably assisted by the various regulatory and supportive institutions within the Finance Family.

Financial Intelligence Centre

The Financial Intelligence Centre plays a critical role in protecting the integrity of our financial system. During the past year the FIC, in collaboration with the National Treasury, worked on the draft Financial Intelligence Centre Amendment Bill, 2015 which has been published for public comment after being approved by Cabinet.

South Africa has a long-standing commitment to combating money-laundering and the funding of terrorism, having ratified the United Nations Convention Against Corruption ("UNCAC") in 2004, after joining the multi-lateral Financial Action Task Force ("FATF") in 2003. In 2001 South Africa enacted the Financial Intelligence Centre Act and other related measures to criminalise financial crimes and facilitate access to information about illicit financial flows.

Financial crimes take several forms, for example: fraud, money laundering, terror financing and corruption. It fighting such crimes, we aggressively seek to protect the integrity of our domestic financial institutions and contribute to the resilience of the global financial system. Cabinet adopted this policy objective in 2011 in responding to the 2008 global financial crisis, as outlined in the policy document *"A safer Financial Sector to serve South Africa better"*. Moreover, the intelligence products from the FIC are increasingly used by the law enforcement authorities, intelligence services and the SARS as an integral part of their ongoing investigative work.

The FIC Amendment Bill proposes several measures to address threats associated with money laundering and terrorism financing and to address regulatory gaps which have emerged since the Act was last updated.

It introduces major shifts which seek to make complying with the Act easier for customers of financial products while maintaining the controls necessary to protect the integrity of the system. Being "FICA'd" will no longer be the frustration it has been in the past. It will become easier for all concerned. The Bill introduces a risk-based approach to give financial institutions the flexibility to work out how best they can verify their client's identity.

South Africa has long recognized the problem of illicit financial flows. We started taking strong steps to try and deal with this issue, long before it became fashionable to talk about it. This can be seen from the routine work of South African Revenue Service, the South African Reserve Bank, Finance Intelligence Centre and the prosecuting authorities.

While there are various mechanisms that are used to facilitate such illegal capital flows, like trade mispricing, money laundering, drug trafficking, corruption, we believe that aggressive tax avoidance and evasion probably form the most significant part of such illicit flows. This was one of the reasons why the former Minister of Finance appointed a Tax Review Committee chaired by Judge Dennis Davis to improve the tax system and reduce the scope of tax avoidance and evasion. Judge Davis and his committee have already produced a report to deal with problems of base erosion and profit shifting (BEPS).

The problem of illicit flows within Africa requires Africa-wide co-ordination and co-operation. But this is a global problem and it requires globally-coordinated action. South Africa strongly supports and is therefore part of the actions by the African Tax Administration Forum and other global forums. We recognise that collaboration in this area is critical..

The South African Revenue Service

The global and domestic economic environments continue to put at risk SARS' revenue collection and compliance goals. Despite this difficult economic environment SARS managed to collect R986.4 billion during the 2014/15 fiscal period. This achievement was R2.8 billion above the target set during the Medium Term Budget Policy Framework and R7.4 billion above the revised target announced in February 2015. This achievement would not have been possible without SARS' determined efforts to improve compliance, and to close loopholes in the tax system. During the 2015/16 fiscal period SARS will increase its activities to address base erosion and profit shifting (BEPS) schemes used by multinational entities and high net-worth individuals to avoid/reduce their tax liabilities in South Africa. SARS will participate in, and implement multi-country exchange of information agreements to enhance its efforts in this regard.

Our focus is to ensure that SARS remains stable and focuses on its mandate of tax collection.

SARS' efforts to improve trade facilitation will also be enhanced by the implementation of the new Customs Control and Customs Duty Acts during the 2015/16 year. This will have many benefits for traders, importers and exporters. SARS will also continue in its efforts to reduce the compliance burden for small businesses operating in South Africa through its continued rollout of "small business desks" at its branch offices throughout the country. We have officially opened 138 small business desks nationally and it is most likely that the number will increase in mid-June once the provincial workshops are completed.

I stress again, that contrary to reports, SARS is focused on its core business and succeeding in its work.

The Financial Services Board (FSB)

A major focus of the FSB in 2015 will be the continued preparatory work for its transition to a Market Conduct Authority in terms of the “Twin Peaks” regulatory proposals and National Treasury’s Market Conduct Policy. This transformation encompasses the creation of a new structure aimed at better financial services delivery with a consumer dedicated regulatory focus. This entails a re-look by the FSB at its approach to supervision, embedding the Treating Customers Fairly principles, together with an outcomes-based approach in order to enhance supervision.

The FIC will also proceed over the next three years with its Retail Distribution Review, which aims to improve the financial product distribution model. A regulatory framework for hedge funds will be implemented, and the FIC will work with the National Treasury to finalise the Financial Sector Regulation Bill.

Financing Development

The Ministry of Finance has responsibility for three Finance Institutions: the Development Bank of Southern Africa, the Land Bank and the Public Investment Corporation. Over the period ahead these entities will further explore areas in which they can collaborate and work together while focusing on their respective comparative advantages.

The Development Bank of Southern Africa

The Development Bank of Southern Africa (DBSA), as a vehicle of the state and a development finance institution, is recognised as a single yet important component of the national infrastructure system with a mandate to contribute meaningfully towards the national infrastructure objectives. The Corporate Plan of the DBSA outlines a concerted effort to support the improvement in the standard of living of our people through the development of social infrastructure as well as support the growth of our economy. The promotion of regional integration remains also a key focus area for the Bank.

Over the next three years, the DBSA will seek to increase investments to sectors such as energy, transport & logistics, water, ICT, health and education by significantly increasing its infrastructure financing support, contributing to municipal lending, State-Owned Enterprise infrastructure plans, regional lending as well as public-private partnerships.

Given the country’s current energy supply constraints, the DBSA will continue to investment in power generation projects, including renewable energy as well as coal and gas-fired power sources. Key initiatives to be supported over the medium term include the Small Projects Independent Power Producers (SPIPP) Programme facility and the Independent Power Producer Coal Base-load Programme.

The DBSA actively supports infrastructure development in municipalities aimed at addressing backlogs and expediting the delivery of essential services in support of sustainable living conditions and improved quality of life within communities. The Bank aims to increase its annual infrastructure lending to municipalities from R6.0 billion in 2015/16 to R7.6 billion in 2017/18. To complement these funding activities, over R30 million a year will be set aside to provide planning and implementation support for the origination of infrastructure projects. We will also be rolling out R150 million a year for interest subsidies in selected under-capacitated municipalities.

The DBSA will continue to manage the Infrastructure and Invetment Programme for South Africa (IIPSA) programme on behalf of the National Treasury and the European Commission (EU). The IIPSA facility EU was concluded during the 2013/14 financial year, unlocking €100 million for project preparation over a seven year period. It is estimated that a leverage effect of at least five to 10 times the amount of financial non-refundable contributions could be achieved. In order to be eligible, projects should preferably be supported by more than one of the participating finance institutions in consortium.

In line with government's objective to progress to a low-carbon and sustainable economy, the Bank will continue to provide programme implementation support for the R800 million Green Fund which remains crucial to provide finance for high-quality, high-impact, job-creating green economy projects around the country.

The Public Investment Corporation

The Public Investment Corporation currently has assets under management of approximately R1.8 trillion. The key strategic focus area for the PIC is to invest in sectors and industries that are aligned to government economic priorities as encapsulated in the National Development Plan (NDP). The PIC investment strategy is focused on developmental investments across all its activities. These include:

- Economic infrastructure, such as roads, ports, water and telecommunications
- Renewable energy
- Support to Eskom in its long-term investment in generation capacity

- High priority job creation sectors, such as agriculture and agro-processing, tourism, mining beneficiation and employment-intensive manufacturing and downstream sectors
- Small and Medium Enterprises (SMMEs), as they are generators of jobs
- Support for black industrialists and transformation in previous untransformed sectors both on the JSE and in private companies
- Social infrastructure, such as affordable housing, further education, health facilities and student accommodation.

The PIC is also invested in the African continent, with a special focus on contributing to regional integration. The PIC is also actively working with other development finance institutions and state-owned companies to provide sustainable financing to ensure economic growth through infrastructure development.

Land Bank

In the case of the Land Bank, it is recognised that expanded financing for agriculture and emerging farmers is a critical requirement for both food security and faster job creation. In its efforts to strengthen its balance sheet and operational efficiencies, the Bank has decided to conduct an organizational review focusing on the following:

- The Bank’s mandate and business model, including processes, systems and people
- Improvement of the Bank’s sustainability by rebuilding its capital base
- Optimisation of the Land Bank’s operational efficiencies and reduction of costs; and
- Development of an appropriate funding model for an agricultural DFI.

McKinsey & Company has been appointed to assist with the review, which has recently commenced and will take approximately four months.

Over the past five years, the Land Bank disbursed R1.9 billion in targeted development loans. It will continue engaging multilateral development banks in order to secure affordable funding, and will partner with other local development finance institutions in large scale development projects. Through the Wholesale Financing Facility, the Bank is able to offer low interest rates for emerging farmers, having advanced more than R500 million in this facility. In order to achieve better co-ordination of delivery of development funds, including those allocated in the fiscus, the Land Bank is considering a number of options as an aggregator of various grants programmes for agriculture.

Conclusion

Honourable Members, on the strength of an improving fiscal position and our well-developed financial sector, South Africa is able to mobilise finance and adopt innovative financing arrangements to accelerate infrastructure investment, enhance economic competitiveness and improve living conditions. We need to proceed with greater urgency in translating plans into projects – in converting our National Development Plan, sectoral strategies and municipal integrated development plans into investment programmes, jobs and economic activity.