Budget Vote 7: National Treasury

Deputy Minister of Finance

Democracy and Institutional Governance

Hon Mcebisi Jonas

4 May 2016

Madam Speaker

Context

Thank you for the opportunity to participate in this crucial vote debate of National Treasury, my address today will focus on three main issues:

1. Reinforcing the constitutionality of our work,
2. Fiscal sovereignty and
3. The highlights of the work of National Treasury Entities

As we reflect on the progress we have made since the dawn of democracy 22 years ago, it is important to connect the progress we have made in transforming our society to two critical pillars. I have decided to give some special focus to these pillars. The first is our Constitution and the suite of laws that this democratic Parliament passed over the last two decades. The second pillar to which we owe much of our progress is our fiscal sovereignty.

So, in celebrating two decades in which all of our peoples could truly claim South Africa as their own, we are surely reminded that strong institutions are the foundations of both our enduring democracy, a modern, vibrant and inclusive economy.

The institutions that protect our freedom and that contribute to rising prosperity face new challenges every day, and have to be renewed continuously for the emerging active citizenry and the opportunities provided by the global and local markets.

The institutions for which the Ministry of Finance and the National Treasury are responsible are both guardians of democracy and good governance, and instruments of economic and social development. The key principles on which the public finances rests are freedom, economic opportunity, transparency, accountability, fairness and the rule of law, opportunity for the disadvantaged, sustainability and growth.

Honourable Members, faster economic growth is an absolutely necessary condition for the advancement of our development agenda. Growth allows businesses to expand. It creates jobs. And it allows the tax base to expand thus allowing government to afford more and better quality services sustainably.

The current economic climate is arguably the most challenging since 1994. We need to rapidly stimulate growth. We need to carefully navigate the current macro-economic environment and restore investor confidence. We need an environment of fiscal stability and to protect the integrity of our financial system and our financial institutions. This includes state-owned companies and public entities. Without this, our developmental agenda and efforts to address our socio-economic challenges will be seriously undermined.

South African Revenue Service

Honourable Speaker, one of the biggest successes of our democracy is the modern revenue administration service. SARS continues to be a strong and stable revenue service, that is crucial in ensuring that government can finance its developmental objectives. Our revenue service needs to treat all taxpayers fairly and without prejudice, enjoy the kind of public credibility that fosters tax morality and engenders tax compliance.

The South African Revenue Service has a solid track record in executing its mandate. SARS has proven to be resilient even during these difficult economic conditions. Its collection efforts raised revenue by more than 8 per cent, outperforming GDP growth over the past year.

In order for SARS to collect its target of R1.169 trillion in the 2016/17 financial year, they will have to remain innovative, energised and focused.

South Africa as an early adopter country of the OECD's Automatic Electronic Exchange of Information as well as United States Foreign Account Tax Compliance Act, or commonly known as FATCA programmes, this information exchange capability now spans the international realm, making it more difficult for people to hide or illegally shift their wealth. This initiative positions SARS well to elevate its focus on High Net-worth Individuals, Base Erosion and Profit shifting as well as Transfer Pricing. The Office of the Tax Ombud established Two and half years ago continues function as another pillar of our tax architecture.

Financial Intelligence Centre

The recent revelations about Panama Papers underscore the need to ensure that as a country, we have laws and regulations in place to protect the fiscus against those that will go to all lengths to conceal the source of their income and hide it from relevant authorities. Revelations contained show the extent and complexity of the intertwined and related issues of bank secrecy, tax evasion, money laundering and tax havens.

Illicit financial flows should be a concern to all of us, because the sheer magnitude of these flows are a drain on the fiscus and the economy, and undermine general prosperity.

South Africa has a long-standing commitment to combating money laundering and the financing of terrorism, having ratified the United Nations Convention Against Corruption (''UNCAC'') in 2004, and joining the multi-lateral Financial Action Task Force (''FATF'') in 2003. As a result, South Africa enacted the Financial Intelligence Centre Act, 2001 (Act No. 38 of 2001) (''FIC Act''), and other related Acts to assist in combating financial crimes.

Amendments to the Financial Intelligence Centre Act are currently under discussion in Parliament. They identify and address deficiencies in the current Act and will bring it into line with international standards. We shall be coming back to this House soon for this discussion.

Financial Services Board

The Financial Services Board, in close co-operation with fellow local regulators (SARS, SARB, FIC and the justice system authorities amongst others), plays an important role in ensuring that South Africa's financial system is stable and strong. At the same time, the FSB provides the necessary co-operation with foreign regulators on a continuous basis.

The Financial Sector Regulation Bill, which aims at establishing the Financial Sector Conduct Authority (FSCA) and the Prudential Authority (PA) respectively, is currently in the Parliamentary process. Consequently, a major focus area of the FSB is the preparation of its transformation to the conduct authority (FSCA) to give effect to the Twin Peaks implementation.

The 2014 comprehensive Financial Sector Assessment Programme conducted under the joint auspices of the IMF/World Bank found that our regulatory system is largely in line with the international standards of the standard setting bodies. Several matters were identified for further attention, such as regulation of the trading of over-the-counter derivative instruments and enhancing the capital adequacy regimes of insurance companies and market intermediaries. These issues are addressed in the current legislative review programme.

Government Employee Pension Fund (GEPF)

The GEPF is the biggest and one of a few surviving defined benefit funds in the country which ensures the security of income in retirement for its members. Public servants who are members of the GEPF should not be enticed to cash in their pension benefits by resigning while in service or just before retirement to uplift their accumulated benefit as there are significant associated adverse consequences. The Government Pensions Administration Agency (GPAA) is modernising its administration systems to ensure that benefits are paid accurately and on time.

Public Investment Cooperation

On behalf of the GEPF, the PIC manages the monies saved by GEPF members. With more than R1.8 trillion under management, the success of the PIC is critical in ensuring that as a defined benefit fund, the GEPF will always be able to meet its obligations.

The PIC will invest R70 billion in developmental investments in the next 3-5years to drive economic growth and job creation. The sectors that PIC will focus on are Agriculture and Agro Processing, Mining and Beneficiation, Manufacturing, Infrastructure and real estate, Social Infrastructure, Energy (Renewable & Conventional). The PIC will further allocate about a R1 billion towards investments in Small and Medium Enterprises. These investments are expected to improve the risk profile of our client portfolios and deliver sustainable returns. The PIC has allocated a further R5 billion towards job saving in vulnerable sectors such as mining, construction and manufacturing. Strengthening governance remains a focus of our work.

The Chief Executive Officers of the PIC and Standard Bank are co-chairs of a working group,″ driving key investment projects in targeted sectors", this has been established between government and the private sector. This working group is aimed at getting government, labour and the private sector to identify a core set of priority economic sectors and enterprises.

Development Bank of Southern Africa (DBSA)

Honourable Members, I can also report that the Development Bank of Southern Africa is playing an increasingly active role in financing municipal infrastructure and supporting economic growth. The Bank delivered a strong set of developmental and financial results for the recently concluded year, increasing its infrastructure support by 30 per cent from R 21.4 billion the previous year to R28.0 billion in 2015/16.

Support to the municipal market exceeded R8.2 billion last year. The Bank also assisted in the completion of 68 infrastructure projects (seven in water and sanitation, 51 in electricity, nine in roads and storm water and one in fleet management) across the country. Thirty-three schools have been completed on behalf of the Department of Basic Education, and maintenance projects have been undertaken at 60 clinics or health centres.

For the forthcoming year the Bank will seek to increase its project preparation support to R9 billion, whilst crowding in third party funders to the value of R5.6 billion, and to increase project disbursements to over R16 billion.

Land Bank

One of the most critical sectors for job creation is the agricultural sector, but it has been hit by drought. The sector has significant potential, especially for commodities for export such as specialised crops, horticulture, etc. In line with the NDP, the strategy of Land Bank is therefore premised on continuing to invest selectively in the sector, in order to support areas of high growth potential. Specific geographic areas have been identified as having high availability of land undeveloped, and therefore hold great potential in the provinces of Eastern Cape, Limpopo and KwaZulu Natal. The Land Bank had initiated a special programme for Project Research and Development to unlock the potential of these areas.

South African Airways

SAA continues to make progress in the implementation of its **Long-Term Turnaround Strategy** but in order to maintain a competitive edge SAA needs to significantly reduce losses and increase its revenue. We expect more from the company and its leadership in this area. We are working hard to put together a package of measures to move SAA towards long-term financial sustainability.

Firstly, we are finalizing the process to appoint a full-strength board. Secondly, once appointed, the board will have to finalise the process of appointing competent executives in the vacant positions of CEO and CFO, amongst others. Thirdly, the full board and executives will accelerate the implementation of the long-term turn-around strategy, including the process of rationalising our airline businesses. Once all of these are implemented, government will be in a position to consider possible support that would enable SAA to table its annual financial statements for the last two years, as a going concern.

CONCLUSION

Honourable Speaker, the strength and resilience of our institutions are critical foundations for growth and development. Of special importance over the period ahead is the need to expand cooperation between our development finance institutions with private sector financial institutions, to broaden investment in infrastructure and support partnerships in financing growth. The quality of governance and integrity of our finance family institutions are critical building blocks of a faster, more inclusive growth and development strategy. If a growing economy and stable society are to be our legacy, it is incumbent on this House to protect the two pillars of our progress: the Constitution and our fiscal sovereignty.