



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

SPEECH BY MINISTER OF FINANCE MR PRAVIN GORDHAN

Reinforcing the values of our Constitution through Public Finance Management

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Thank you for the introduction, Programme Director.

Let me greet our European Union Ambassador Mr. Marcus Conoro – the European Union Ambassador. I had the pleasure of meeting him a few minutes ago.

Deputy Auditor- General Ms Tsakani Ratsela;

The Director General of National Treasury, who pays my salary;

And to all of you, who came from various parts of the country and different state institutions to join us today.

I am going to make about four or five simple points.

Firstly, I would like to join Mr. Jayce Nair, the Acting Accountant General and thank the European Union Ambassador for this concrete expression of solidarity with our attempts to build a democratic state and democratic institutions and democratic culture amongst South African public service. Ambassador, we hope that this will continue in the future because as you know these things don't take short time they take long time. The European Union itself is evidence of that in many ways.

The Foundation for Public Finance

The Constitution, the Public Finance Management Act (PFMA) and the Municipal Finance Management Act (MFMA) are key foundation stones of good fiscal and financial management in South Africa. At one level these are documents that will evolve and gain meaning over time and have - as I have been reminded in recent days – a multi-generation of impact. In other words, what we do today will have impact in many generations to come.

If we don't do the right things today, build the right system, put in the right culture, and encourage the right behavior and do right by the majority of the population in South Africa, then there will be consequences for future generations.



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Somebody reminded me a while ago that those generations will be pointing at all of us and say: “where were you when the democratic state was been constructed? Why did you not do all in your ability to create the right kind on integrity, performance and equality outcome in the processes that the state gets involved in?”

But while there is this multi-generational aspect, there is also shot to medium term aspect. What we do each day informs what will happen in years to come. The choices that we make, as officials but indeed as politicians in today’s terms and this month’s terms and clearly the next two years or three years do influence what happens in the immediate environment but in the medium term environment as well.

If we choose to give contracts to our friends, if choose not to monitor and manage these contracts well, if we do not ensure that every cent of the trillion of rand that is going to be spent by government in the 2016/17 for provincial and national budgets - and another R400 billion where local government is concerned - then we can legitimately be asked by our people are we really looking after public funds. We can be asked if we are ensuring not only the quantitative outcomes that we are looking for, but the qualitative outcomes as well.

As public finance management practitioners you are all potentially forces of good. You are forces that can encourage right behavior, right orientation and right inclinations in the public sector. Or we can start planting wrong seeds and then chase our tails to try to rectify the kind of misbehaviors that we have.

But in life no one force, in this instances the force for good, can survive on its own. There are also counter-sets of forces. Those counter-sets of forces contest the forces of good such as greed. The suffering of integrity and ethics within the public finance system extends to which our social norm decline. Examples include the issue of tax avoidance and tax evasion, which are very much up the most in the minds of both the European Union, Emerging Markets and the African continent as well.

It’s this balance between those who want to create the right kind of state the right kind of orientations and do the right things versus those who do not that will actually determine the kind of outcome that we can see for ourselves and our society.

I think there is an anti-corruption conference that the UK government is convening in the near future; I thought last night I spotted in one of the British newspaper a number that said that between \$ 8-12 trillion find way out of particularly big developing countries and big developed countries as well. These are monies that should belong to the fiscus of each of the countries where these monies originate.



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These are monies that should provide the kind of fiscal support that many of our countries actually require but instead finds its way in tax havens or illegitimate financial centers that specialize in helping the wealthy and the crooks to hide the money.

Those are the forces that those who want integrity within the Public Financial management system will have to contest with.

The Values Espoused in the Constitution

Yesterday was a historical day. The 8th of May 1996, was when our current constitution was adopted by the constituent assembly established in terms of the interim constitution negotiated in 1993 by the various parties in our country; the two primary parties being the African National Congress and the then National Party.

On the 18th of December 1996, President Nelson Mandela signed the Constitution into law, after its certification by the Constitutional Court. That became the founding document of our country, so it is useful to remind ourselves of this short history. That kind of negotiating spirit but also contestation of the period leading to 1996 took 2 years; a very short period of time to negotiate and draft a whole new Constitution that will act as a foundation stone for the legal framework of this country for generations.

It is sometimes useful to go back to that period of negotiations and ask ourselves: how did we settle our differences; how did we come up with creative compromises; how did we solve problems that seemed intractable around key issues affecting the Bill of Rights, the distribution of powers within and amongst spheres of government and many other elements as well.

That Constitution and negotiation process led the basis for transformation of basic services, which many and the transformation of public finances, and the transformation of the fiscal and microeconomic management of the country which Treasury and its many senior officials and politicians have been responsible for. Equally, today marks hopefully an interesting point in this historic trajectory where we once again look at the public finances and how they are managed. But let's go back to the founding document, because interestingly in Chapter 10 of the Constitution, it sets out the basic values and principles governing public administration in South Africa.

Amongst those values and principles are the following:

- a high standard of professional ethics must be promoted
- efficient economic and effective use of resources must be promoted



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These are Constitutional values and principles that everyone of us - the plus/minus 1.3 million public servants that work in provinces and national government plus the hundreds of thousands at the local government - should be practicing and mindful of every single day.

Thirdly, public administration must be development orientated. Again we should ask ourselves whether on a day-to-day level, we can assure South Africans that what we do is indeed development orientated. Services must be provided impartially, fairly, equitably and without bias.

As we get closer to the local government elections, we are going to get a lot of finger-pointing about this issue. People's needs must be responded to and the public must be encouraged to participate in policy making. Again, the focus here should be the 55 million plus people living in South Africa, not select groups that have lobbying power and influence and the ability to approach you and me and others within the system.

Accountability

Public administration must be accountable. We are not a law unto ourselves, we account to our executive authority we account to our legislatures but above all we account to the South African public. In order to be accountable, we require transparency in the provision of accessible and accurate information so that the public can hold us accountable.

One of the problems with finance people is all these tables: excel spreadsheets; computerized spreadsheets, big volumes of documents that are published etc. One must ask: while it's great to publish this stuff but how many people read it? How many people understand it? How often do we actually ask ourselves this question: are we simplifying it enough so that we can in fact be held accountable by the public and the various parties that we account to? So in complexity lies obfuscation because you can hide all sorts of things in complexity. In simplicity lies transparency and accountability. The more you simplify, the more accessible it is and the more you and I can be held to account. That's the true democratic spirit that our constitution requires of us.

With regards to human resource management and career development practices, the public administration must be broadly representative of the South African people. It is one of the key transformation issues that we have to deal with.



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Global Environment

It is also important, over and above the Constitution to look at our global context and economic context briefly. I am sure when the ambassador speaks he will give you some insights into how Europe sees life at the moment and how they see economic trends developing and the kind of impact that this has both on European economies and people and indeed on the world broadly. These are difficult and complex global times, one in which systematically and over a period of time the international bodies like the World Bank, the IMF and OECD have been downgrading growth from 5 per cent, to 4 per cent and we are now hitting 3 per cent. All that means - as we have been saying in South Africa – is that we are “on our own”.

We need to find new and innovative ways within the South African system and within the African continent to search for new engines of growth and find new ways of igniting growth and create jobs that our people desperately require. We have to do extraordinary things in providing the inspiration that is required both for the public sector and private sector. It's in that context that the breathing space we have been given by one of the rating agencies over the weekend is a very important achievement for team South Africa, meaning government, business and labour. Moody's over the weekend reaffirmed our ratings. This is a demonstration that when we work as a team and have a unified purpose and a common focus and objective, we are capable of beating the adversities that might confront us from time to time.

It is important for you, as managers of public finances to understand what this report from Moody's says about what our strengths are as an economy. We have many strengths in our economy. There are many correct decisions that government has made. But this report also gives us a clear indication that if we don't do certain things right - for example enhance medium term growth; ensure that public finances are managed well and that we bring our debt under control; encourage and build investor confidence both South African and foreign investors - we will find ourselves in a difficulty once again.

I am however, very optimistic that the Team South Africa approach is one that we can extend to the next two rating agencies that are going to come and assess our economy and management thereof and in particular the interaction between labour, government and business. I believe that as we work together, we can build more trust and confidence in one another which bode well for all of our people.



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Conclusion

Let me conclude on a few of key points the first of which is to ask you to constantly think about the values in the Constitution; the objectives that we set ourselves in the Bill of Rights in terms of what our people are entitled to and the manner in which public finances should be managed to achieve the objectives set out in the Bill of Rights.

Public finance is there in order to manage public finances well so that government can be able to deliver the goods and services required by the majority of South Africans. More importantly, that money should be spent in ways in which we can stimulate inclusive growth and create the kind of jobs and training opportunities that South Africans actually require.

In order to achieve that, it's crucial that we remind ourselves that national interest is what should drive all of us not sectorial interests. It's not about which province I come from or which region I come from. So each of us need to ask ourselves: what is in the interest of the country at this point in time and in the medium term; how do those interests drive us in the kinds of decisions that we make and the manner in which we manage officials in all levels within the public space; how do we ensure that in spending all these billions, it is the masses of our people that benefit from this expenditure? There is no point in saying I would rather pay money in that particular grant if that money is disappearing into pockets of individuals rather than being experienced as benefits by the people themselves.

So the question and the litmus test for all of us is: can the people of South Africa say the way in which we are spending our money is beneficial to them?

The second key element in concluding is that we are part of the processes of building and protecting our institutions. By institutions I mean organizational structure, culture, systems and the people within them. Each of us will come and serve 10 years, 20 or even 25 years. We will come and go. But the question we need to ask ourselves is that in those 10, 20 or 25 years we have spent in the system: did we add to its resilience; did we add to its moral character; did we add to its longevity so that it can survive us and the next generation can say those that came before me did very well is creating systems and laying the right kind of integrity and ethical bases for what we do.

As you run these institutions you always have a choice. You can choose the right growth or the wrong growth and not only at the leadership level but at the functional level as well. So, how do we make the right choices; how do we ensure that we reinforce the principles of our Constitution and the democratic objectives and the right values and the right way of doing things and build the public's confidence in these institutions?



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I imagine that over the next three days you will hear a lot about value for money. We have talked a lot about it and I think we do fairly well on average. But there is a lot more we could do. If you take the trillion rand that we spent – say deduct R430 or R440 billion for salaries – the R500 billion or so that we spend a year, how much of that do we get back as value for money and how much of that is actually lost in various ways without benefiting either government or the people. I am sure you will come up with interesting numbers.

The challenge is: how do we reduce these leakages so that the money we spend delivers infrastructure, services and goods and a better life for South Africans.

You are also in many ways juggling to put governance as well if the principles of good governance, again I'm sure you will also discuss the principles of good governance over the next few days. We need to ask ourselves how what we need to tighten in our governance system so that we can create a competent, professional and corruption free public system at the end of the day.

Ladies and Gentlemen, I am sure you will come up with many ideas as you go forward.

At the end of the day, we need to remember that we are public servants within a public administration; we are not here to serve ourselves but to serve South Africans from all sorts of backgrounds with all sorts of needs with a huge purse of a trillion rand. You are very important guardians of the future and the wellbeing of these South Africans. Each of us needs to apply our minds to how do we spend the money; how we make decisions, how we ensure that the values in our Constitution are promoted every single day.

I wish you well with your discussions over the next few days and look forward to your recommendations. I am sure we will see a stoppage to wrong tenders being issued and that contract management will improve and programme delivery will change for the better. If that is what we get out of this then Mr Ambassador, it was worth spending your money here.

Thank you very much