



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

**REMARKS BY THE DEPUTY MINISTER DR DAVID MASONDO DURING THE
METROPOLITAN MUNICIPALITIES ROADSHOW ON ECONOMIC RECOVERY
AND RECONSTRUCTION - TSHWANE**
1 JULY 2021

Greetings to the honourable Mayor, MMC's and Officials present here today.

We are meeting during difficult times working our way out of the uncharted terrain of the COVID-19 pandemic. When this pandemic hit our shores, none of us had the experience or knowledge necessary to respond to it. As the national government, we followed the global trends and advise of the World Health Organization (WHO). As with most countries our response was to introduce a hard lockdown in order to "flatten the curve" an attempt to save lives. Whilst we achieved what we set out to, the socio and economic cost of this decision was harsh, with many jobs being lost and many families pushed deeper into poverty.

The dire social and economic consequences of the decision, had a negative knock on effect into our city finances with both revenue and expenditure-side challenges. Since our first national Lockdown we have experienced subsequent waves and have managed to weather the storm with less severe and perverse outcomes. It is only now that we are once again forced to go into Level 4 Lockdown owing to the intensity of the third wave we are experiencing driven by the more contagious Delta variant.

Though we are still under threat, we can see some-light at the end of the tunnel with a systematic vaccination roll-out gaining momentum in the country. As has been demonstrated in other countries around the world, it is only through the vaccination of our society that we will be able to return to normal.

As a country we now have to focus on our economic recovery and reconstruction. We were in a precarious economic state prior to the pandemic and all our structural weaknesses and inequalities have been brought to the fore. Metros will play a critical lead role in our national economic recovery. Increasing investment in infrastructure, and providing public services that enable private investment in productive capacity and residential uses is paramount. This infrastructure investment needs to be of an adequate scale, appropriately located and effectively executed if it is to contribute to improved national economic performance and poverty reduction. The infrastructure provision in metros also provide opportunities for the private sector to contribute meaningfully while indirectly assisting in the provision of service delivery.

There are economic opportunities which can be explored by private sector institutions within the area of your jurisdiction. However, these opportunities heavily rely on your capacity to provide bulk and connector infrastructure to enable such investments. In addition, there are a number of approval processes that are taking place at the metro level to enable private sector institutions to invest in your space. Thus, the metro need to create a conducive business environment through streamlining and ensuring more efficient internal business processes that interface with the private sector. Such business processes relate to supply chain management, issuing of business permits, responding to customer complaints, issuing of rates and services accounts, development approval processes, issuing of construction permits and rates clearance certificates and ensuring electricity connections.

Together with the World Bank, we have introduced Ease of Doing Business project which drives the reforms in this space at national and subnational level to make the country more competitive and business friendly. The Sub-National Doing Business reforms that we are rolling out in partnership with the metros are a core component of this broader programme. A major component of this reform process is the optimisation and automation of metro businesses processes in order to reduce time, cost and numbers of procedures that businesses have to experience. The COVID-19 pandemic has fast tracked digitisation processes globally and has clearly demonstrated that automation has contributed hugely to metro business continuity throughout this period.

A major concern is the failure of many metros to spend on their capital budgets, placing some of the local government conditional grants in jeopardy. From our engagements with yourselves, we have identified two major constraints on metro performance in this regard. First, is the metro internal Supply Chain Management (SCM) processes, which are lengthy and tedious. Secondly, it is owing to the criminal elements which have mushroomed under the guise of 30% requirements of the Preferential Procurement Policy Framework Act (PPPFA).

We need to be engaging together on finding a solution to these challenges. On the latter point, we wish to hear your views and understand how to address this issue. We need to understand the route cause of the problem and how much it is a policy or criminal issue. It is only through listening that we will be able to develop solutions that are befitting to the problem.

Part of the problem regarding the slow pace of capital spend, is a lack of a project pipeline in some metros. To address this concern a project and programme preparation grant will be introduced effective from your new financial year. We urge you to maximize on the use of this grant on major infrastructure projects which prepare them in a manner that will assist the city to accelerate the infrastructure built programme. Infrastructure investment that can unlock private investment in targeted spatial areas should be prioritised.

As we drive the economic reconstruction and recovery there is a need to strengthen governance in the city. A clear demonstration of this should be reflected in the capacity of the city to reduce the unauthorised, irregular, fruitless and wasteful expenditure (UIFW). It is discomforting that this has been increasing over the years and it does not look like there is an appetite to reduce it. We should be aware that the credit rating has started factoring this issue which has resulted in a decrease in the credit rating. Of concern is that you have the Municipal Public Accounts Committee (MPAC) in your jurisdiction, but it does not look like there is any form of consequence management. The capacity of the city to borrow will soon reflect this poor credit rating leading to

expensive debt and in some instances reluctance of the financial institutions to borrow you money that is critical for growth enhancing investments.

The institutional stability of the city is paramount for the successful implementation of the economic recovery. We are concerned about the high turnover at the executive level. This does not build confidence. As political principals, it is your duty to ensure that there is a stability to enable the institution to focus on service delivery. Such stability is possible - eThekini, for example, has retained the same Chief Financial Officer (CFO) for around 20 years.

The governance and institutional challenges have started to negatively impact on the city. This is due to a number of factors which are within your control, this include

- (1) The rapid decrease in the liquidity position over the past fifteen months;
- (2) the repeat findings in the management audit report. Of concern is that this is mainly due to lack of consequence management an action which is in your control;
- (3) Council's missteps of awarding salary increases to a certain category of workers leading to increase in the wage bill as Salary Benchmarking place severe strains to the finances of the City;
- (4) the City is far behind with implementation and not at the stage of using a core financial system that is the Municipal Standard Chart of Accounts (mSCOA) Compliant.

If these issues are not arrested the long term consequence will be dire for the city and its citizens.

The future of this country depends on you. As the political and administrative leadership of metros, you carry the responsibility for leading the recovery and development of the country. You do not do this alone and national government has to commit to driving the necessary structural, policy, regulatory and financial reforms that will enable you to perform this role. But, nevertheless, you as the city leadership are the ones that need to drive the vision for national recovery at sub-national level and

use all your levers to contribute to this. Visionary and committed leadership that is willing to partner with other spheres of government, the private sector and civil society is what is needed now more than ever before.

As you reflect on the last five years can you confidently say that I have done my best? I have moved the city from point A to point B on key indicators such as spatial transformation, economic inclusion, city resilience and financial sustainability? Can you be confident of your collective track record in employment creation and positioning the metro to lead in economic development in the country?

As we move towards the local government elections, we wish to urge you to give your best and focus not simply on the short term and the election result, but on the longer-term economic recovery and growth of this nation. We need you to demonstrate true leadership at this point, realising that our country cannot afford anymore shocks and that the decisions you make will have lasting consequences – either for better or for the metro shortly after the elections to assess how you have moved during this period and also discuss how best you wish to contribute to accelerate economic recovery initiatives in the metro which is the only meaningful instrument that will address unemployment, poverty and inequality.

I thank you.