2016

Medium Term Budget Policy Statement

Speech

Minister of Finance
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26 October 2016

Honourable Speaker

Mister President
Deputy President
Cabinet Colleagues and Deputy Ministers
Chief Whip
Leaders of all political parties
Governor of the Reserve Bank
MECs for Finance
Representatives of organised business and labour
Civil society and faith community leaders
Honourable Members

Fellow South Africans

Molweni! Dumelang! Goeie middag!

It is my privilege to present the twentieth *Medium Term Budget Policy Statement* for consideration of the House and all South Africans.

I also table:

- The Adjusted Estimates of National Expenditure, and
- The 2016 Adjustments Appropriation Bill,
- Division of Revenue Amendment Bill,
- Taxation Laws Amendment Bill,
- Tax Administration Laws Amendment Bill,
- Rates and Monetary Amounts and Amendment of Revenue Laws Bill, and its accompanying Administration Bill, and the
- Finance Bill.

Introduction

The first *MTBPS* was tabled in December 1997 during the term of President Mandela's government. Its purpose was stated as follows:

> *"It describes Government's goals and objectives.*
>
> *It explains the economic environment within which those objectives are being addressed, and projects the total level of resources that will be available.*
>
> *It analyses the trade-offs and choices that the nation confronts in addressing its reconstruction and development priorities…*
>
> *In keeping with our commitment to open, transparent and cooperative policy-making, it invites the nation to share with Government the important choices that must be made."*

Our goals remain to promote social transformation and more inclusive economic growth, and to achieve a much better life and opportunities for all South Africans.

As in those years, the economic environment today is uncertain. The *MTBPS* must ensure that we have a sustainable and resilient budget and that we leave future generations with a vibrant democracy, a society at peace, and progress in all the sustainable development goals – but without an unmanageable debt, or extreme poverty. No-one should be left behind in our march to a better life for all.

The *MTBPS* reports to Parliament and the public on –

- The planned use of taxpayer funds,
- Measures to secure our fiscal and financial position, and
- Steps to strengthen public finance management.

It sets out the priorities which inform the division of revenue between national, provincial and local government for the next three years.

It outlines a framework for inclusive growth and inclusive transformation, and some of the political and structural changes we must make to create a better future.

Above all, it invites Parliament and the people of South Africa to engage with the policy choices and decisions we must take in pursuing the aspirations and goals of our Constitution and the National Development Plan.

In saying this, I need to caution that we should not expect to find straightforward answers. The budget process, every year, is a reminder that we face many difficult questions –

- How to make further progress in housing, clean water and sanitation for all,
- How to create equal access to health care,
- How to accelerate job creation and small enterprise development,
- How to expand access to further education and advance our technology capabilities.

The economic environment this year is unusually difficult. We have also faced other extraordinary challenges.

Slow economic growth means that employment has declined over the past year. Many businesses are in difficulties and households are struggling to make ends meet.

In the lead-up to this year's *Medium Term Budget Policy Statement,* we have been acutely aware of the depth of these stresses, and the diverse interests and expectations of South Africans:

- Those who need work,
- Those who want to study,
- Those who seek opportunities in their careers or businesses, and for their families,
- Those who dream of greatness in the arts, in sport, as builders or teachers, in business or in public service.

All of us –

- Leaders in business and labour, in churches and universities,
- Workers, students, security officers,
- Officials in government offices, municipalities and courts,
- Our people in informal settlements and rural areas –

All of us have expectations of government, of the economy and indeed of our political system. We expect delivery. We expect change for the better. We expect progress in South Africa. Above all, we expect a better future for our children – particularly through education.

No one stakeholder can meet these aspirations alone. Yet if each of us contributes to our shared goals, we can achieve greatness beyond our imaginings.

There is a Pedi saying: *"Ditau tsa hloka seboka di shitwa ke nare e hlotsa."* (Lions that fail to work as a team will struggle to bring down even a limping buffalo.)

What we seek, and more, can be done –

- If we collectively make the right choices,
- Support confidence and investment in our economy,
- Create a predictable and stable policy and political environment, and
- Put the national interest first.

It's up to us.

Summary of the *MTBPS*

Honourable Speaker, allow me to summarise the medium term outlook.

- Global growth has slowed, affecting investment and trade in many developing economies.
- Our economic growth will be just 0.5 per cent this year, rising to 1.3 per cent in 2017. If we do the right things to support investment and confidence, our economic recovery will be more rapid.
- Measured and balanced fiscal consolidation will continue over the period ahead, with the budget deficit declining from 3.4 per cent this year to 2.5 per cent in 2019/20.
- Debt is projected to stabilise at just less than 48 per cent of GDP.
- Over the next two years, we propose to raise an additional R43 billion through tax measures.
- The expenditure ceiling will be lowered by R26 billion.
- Consolidated government expenditure will rise by 7.6 per cent a year over the MTEF period. Additional allocations are proposed for post-school education, health services and social protection.
- Infrastructure investment, mainly in energy, transport and telecommunications, will amount to over R900 billion over the next three years.
- Efforts to improve supply chain management and ensure greater value for money in public service delivery will continue to be prioritised.

Our central message is that stable and sustainable public finances, alongside economic reforms and a transparent monetary policy, can support a return to the higher growth rates needed to achieve the National Development Plan's goals. But macroeconomic tools are not enough. If we are to nurture the "green shoots" in the economy then our holistic package of measures must be implemented.

No one measure will work: our approach is to mobilise efforts across many fronts, and to recognise a diversity of contributions in an open and multi-facetted development framework.

The *Medium Term Budget Policy Statement* reaffirms our approach to building a national consensus on development and transformation.

1. Inclusive growth is our objective.
2. Our macroeconomic and fiscal framework sets limits to government debt and expenditure, while supporting stronger public and private sector investment.
3. Concerted implementation of our nine-point plan for the real economy is required.
4. Growth and development rely on policy initiatives across a wide range of sectors and Ministerial portfolios, aimed at broadening participation and enhancing economic development.
5. Structural transformation rests on a partnership between government, business, organised labour and all stakeholders who share our commitment to *inclusiveness* in our development path.
6. We must intensify the national dialogue to seek common solutions and concrete actions to slow growth and poverty. Just as in our historic past, we need a collective, concerted effort. We must let hope and resilience triumph over despair and division. It's up to us.

We and South Africa are indebted to the foresight, commitment to the national interest and extensive collaboration of labour and business leaders. The stewardship of Mr Jabu Mabuza together with leaders of all our federations has been rock solid.

Government at work

We have a platform to build on. The "green shoots" are there. Can we nurture them?

Institution-building is never complete. It has to adapt to new challenges. Interests diverge. People make mistakes. Modernisation continues.

In public finance management, work is in progress to reform our procurement framework, improve cost controls, and strengthen budgetary procedures. Minister Radebe is leading efforts to improve our planning systems, including better engagement with social partners.

Minister Ramatlhodi's oversight of the institutions of the public service is also critical. Following a 20 per cent increase in government employment between 2006 and 2011, personnel expenditure now has to be contained, through attrition in numbers, more moderate wage increases and rationalisation of the organisational structure of the state.

In promoting employment and economic growth, we have to address barriers to investment across every sector. Minister Oliphant oversees important initiatives to enhance our labour market institutions, manage industrial disputes better and protect vulnerable workers. Our competition authorities are breaking down barriers to participation under Minister Patel's leadership. The work of the International Trade Administration Commission and Minister Davies' department is vital to our industrial progress and regional development.

In all the portfolios of government, there are statutory or regulatory reforms under consideration that are about the pace of transformation and inclusivity of our growth path.

I have in mind –

- Minister Motsoaledi's guidance of the National Health Insurance initiative,
- Minister Shabangu's leadership on issues that affect women and gender equality,
- Minister Nkwinti's work on land redistribution, agri-parks and rural development, and
- Minister Zokwana's promotion of our agriculture and forestry sectors – where there is so much potential both for job creation and export growth, but we have to manage the challenges of drought and volatile commodity markets.

I also have in mind –

- The need to work with our banks to give greater impetus to housing investment, in cooperation with Minister Sisulu,
- The need for better urban planning and public transport investment, under Minister Peters' guidance,
- Further social security reform, in partnership with organised labour, alongside improvements in the retirement funding industry,
- Minister Zwane's regulatory and social development challenges in our mining sector,
- Minister Cwele's responsibility for broadening access to telecommunications,
- Minister Zulu's small business development initiatives, and the growth opportunities in tourism,
- The responsibilities of Minister Molewa and Minister Mokonyane, in the context of our endorsement of the Paris Agreement on Climate Change and our water security challenges.

Members of the House, there are many other programmes and policies which are vital for our growth. With careful attention to sustainability and inclusivity, they will contribute to employment and broadening of economic opportunities. Properly designed and implemented, they will contribute to black economic empowerment and to strengthening localisation and the growth of South African enterprises.

This is the way forward. Progress in all these areas will depend also on our clear commitment to the rule of law, transparency, accountability, competitiveness and value for money. It is time to re-confirm this social contract. It is time to re-build trust. It is time to make hard decisions. It's up to us.

At a crossroad

Honourable Speaker, as a nation it is as if we are at a crossroad, politically and economically.

In Amilcar Cabral's words: "*…one type of struggle we regard as fundamental…(is) the struggle against our own weaknesses… Whatever difficulties the enemy may create, the aforementioned is the most difficult struggle for the present and the future of our people…"*

We must look frankly at ourselves, and ask what is working for us and what is not, and what needs to change.

- It is not just that our economic outlook is distressed, and there is the possibility of downgrades in credit ratings and the rising cost of debt.
- It is not just the most severe drought in decades, and rising food prices.
- It is not just the unsettling effect of legal matters and court challenges.
- These are considerable challenges, Honourable Speaker. But we can address them –rationally, deliberately, and through the appropriate procedures.
- Much more disturbing, and more difficult, is the rise in our own communities of anger and discontent, spilling over into violence and destructive protests.

Violent protests signal unresolved social challenges. They present immense challenges to the leadership of our higher education institutions, municipalities and community organisations. Highly stressful demands are made on our police and security personnel. Destruction of property diminishes the inheritance of our children.

Our social contract is under pressure. It is as if we have put unnecessary hurdles in the way of realising our potential and implementing our development plans.

- Policy statements sometimes are unclear or conflict.
- Commitments are made without clear resource plans.
- Implementation is derailed by institutional instability.

- Investment is held back by uncertainties and erosion of trust.
- Vested interests and political contestation interfere with decision-making.

Within Cabinet, and amongst committed leaders in business and civil society, we appreciate the challenges before us and are actively engaged in dialogue to confront the weaknesses that hold back our progress.

And we owe it to all those involved to revitalise our capacity to negotiate agreements and to find enduring solutions.

Fiscal policy and the budget framework

Honourable Speaker, since 1994 the size of the South African economy has more than doubled, and the tax base has been substantially broadened. Education and health services have been extended, the child support grant introduced, access to electricity, water and sanitation has been expanded.

Government debt was reduced as a percentage of GDP from 50 per cent per cent in 1995 to 27 per cent in 2008, and a budget surplus was recorded in 2006/07 for the first time in decades.

Then came the great recession. In 2009 and 2010 we were able to respond with an expansionary budget, alongside the Reserve Bank's reduction in its policy rate from 13.5 per cent to 5 per cent. We avoided the worst of the crisis.

But the structure of the global economy has now changed, commodity prices are lower and trade competition has sharpened. Our structural reforms and policy responses have been sluggish, and economic growth has remained below expectation. We now have to rebuild fiscal resilience, and reverse the upward trend in the debt-GDP ratio.

This has meant that a ceiling on expenditure increases has been in place since 2012, limiting growth to pre-announced medium term plans. This year's *MTBPS* again limits planned expenditure for the period ahead, in recognition of lower growth and the decline in forward estimates of revenue. Careful prioritisation has allowed key social services to expand moderately in real terms, and cost savings have been achieved in spending on goods and services.

Taking into account the rise in food prices this year, I am pleased to confirm that an additional increase of R10 a month has been made to social grants with effect from October.

The *MTBPS* outlines a measured, balanced fiscal consolidation. It continues to prioritise capital investment, and stabilizes national debt as a share of GDP. In the current year, we now project R23 billion less revenue than the February estimate. Measures are likely to be needed in next year's Budget to raise tax revenue by about R28 billion a year, while avoiding measures that would inhibit investment.

The 2016 tax bills are tabled today, together with the *MTBPS*. These give effect to the special voluntary disclosure programme that commenced on 1 October 2016, and also extend the employment and learnership tax incentives. Given the demands on the legislative programme, the carbon tax bill will be dealt with in 2017. Consultations on this and the proposed sugar tax are continuing.

The budget framework forms part of an enabling environment for investment-led growth, recognising that a turnaround in the business cycle will create opportunities for expansion by South African firms. Infrastructure investment and financing of housing and enterprise development will give greater impetus to growth over the period ahead. As GDP growth accelerates, tax revenue will grow and our capacity to finance public services will strengthen. By taking the right steps now, we lay the foundations for progress ahead.

In the international capital markets, we continue to succeed in raising debt despite the tough prevailing environment. South Africa was recently recognised as the "best sovereign debt management operations and issuer" in Sub Saharan Africa by the Global Markets Publication. Debt management initiatives over the past year have reduced government's refinancing risks and were supported by investors across all the major financial centres in Asia, Europe and the United States. The World Bank has recently commended our debt management framework, indicating that South Africa is now "better positioned to absorb fiscal shocks going forward."

Building on resilience and hope

The *MTBPS* cannot provide the details of everything government undertakes. But it sets out the economic context, the trends in revenue and debt, and the framework of spending plans.

These are not abstractions or ideological blueprints. These are the numbers that summarise the thousands of data-points that Statistics SA draws on to monitor trends in our economy; these are the actual money flows that pay for public services; these are the aggregated proposals of 163 national and provincial departments, 210 public entities and 257 municipalities; these are the work-plans of a million public servants and the social grants that go to 16 million beneficiaries.

It is clear to all South Africans prepared to serve the national interest, that if we act together we can advance on our 22 years of progress, revise course where we have made mistakes, and continue to build a better future.

Against the background of extraordinarily difficult circumstances, Honourable Members – the *MTBPS* brings a message of encouragement, resilience and a delicate and balanced approach.

- Despite uncertainties in some areas, there is continuity and coherence in our leading policies and programmes.
- Despite administrative challenges in some institutions, the architecture of government is sound and there is progress in public management.
- The Constitution, the rule of law and social justice underpin our plans and budget proposals.
- Our economic and infrastructure initiatives are the support measures we need for steady improvements in investment and growth over the period ahead.

We are resilient, and we have sound foundations on which to build. But it is action, to bring clarity where uncertainties remain, to address organisational weaknesses, to bring closure to infrastructure transactions and to accelerate trade and investment – that brings hope. It's up to us.

Inclusivity

The *MTBPS* tells a story of an economy in difficulties but not in decline, of a society that is intolerably unequal but is making progress in addressing its legacy of fragmented communities and discriminatory practices, of a government committed to promoting inclusive growth within a sustainable fiscal framework.

As Martin Luther King said: *"Human progress is neither automatic nor inevitable… Every step toward the goal of justice requires sacrifice, suffering, and struggle; the tireless exertions and passionate concern of dedicated individuals."*

By inclusive growth, Honourable Speaker,

- We mean opening up opportunities and broadening participation in an expanding economy.
- We mean meeting the service delivery demands of marginalised communities.
- We mean decent work prospects for all, over time, and extending the frontiers of education to those who wish to learn.

All too often in history, the benefits of progress have been appropriated by narrow elites. War and conquest, colonisation, exclusive trading licenses, protection rackets, monopolisation of markets, secret cartels and discriminatory laws – there are so many ways in which wealth has been accumulated by the few while inequality and class divisions have been entrenched.

But we must not lose faith in our vision of a more just society, and our resolve to attain it. No-one should be left behind.

Social progress is complex, and the struggle for justice and equality has followed many different paths in different countries. Yet there are some common themes in international experience. There are several dynamics of growth that can promote inclusivity:

- The quality of education,
- The pace and pattern of urbanisation and housing development,
- Industrial development and the expansion of employment, trade and commerce,
- Social protection services, including access to health care and social security.

In each of these areas there is immense potential for *broad-based* transformation and empowerment and contributing to social equality.

But the lessons of history are sobering. Progress towards equality is not assured.

In the words of Pope Francis: *“Human rights are not only violated by terrorism, repression or assassination, but also by unfair economic structures that create huge inequalities.*

Inclusive growth depends on how these structures are changed. It depends on laws and policies, on social networks and administrative systems, and how markets are organised. Education will contribute to equality, cities will promote social and economic mobility, markets will broaden opportunities and public services will meet the needs of all – if they are structured to be inclusive, if leadership is far-sighted, if behaviour is transparent and if values are shared.

This has implications for our approach to social justice and transformation. In actively correcting for the injustices of the past, we have a choice between extracting privilege and wealth for the few, or wider participation and broad-based empowerment. We have a choice between approaches that merely transfer wealth and approaches that create new enterprises, new assets, new jobs and a more open growth path.

Our Constitution, as the founding institution of our democracy, sets out the principles on which we must build.

- Everyone is equal before the law, and we are mandated to promote equality through legislative and other measures to protect or advance those disadvantaged by unfair discrimination.
- Human dignity, freedom and security, privacy, freedom of movement and trade, fair labour practices, access to housing, health care and social services, education and just administrative action are amongst the rights protected in Chapter 2.

- The values and ethical standards that underpin good practice and integrity in public administration are elaborated in Chapter 10.
- Fiscal and financial principles in Chapter 13 include an equitable division of revenue, measures to ensure transparency, competitive and cost-effective procurement systems and controls over borrowing and guarantees.

On these Constitutional foundations, we are enjoined to build inclusive institutions and an open, enterprise-based economy, including measures to redress discrimination and promote equality. We are obliged also to combat tendencies that are anti-competitive, restrictive, discriminate unfairly, take undue advantage of influence or are hidden and fraudulent. No-one should be left behind. It's up to us.

International economic developments

Honourable Speaker, the global recovery from the 2008 financial crisis remains precarious. Global growth is forecast at 3.1 per cent in 2016 and 3.4 per cent in 2017.

Low interest rates and monetary expansion in the United States, Europe and Japan have contributed to continued capital inflows into developing economies. However, this stimulus has had limited impacts on investment, trade or the structural reforms needed to achieve more balanced, equitable global development.

In Africa, growth is expected to fall to 1.4 per cent in 2016 before recovering in 2017. Low commodity prices have deterred investment, exposing the lack of diversity in many African economies. More rapid development would be achieved if progress could be made in infrastructure investment and integration of markets. Just 11 per cent of Africa's trade is internal. Greater cooperation is needed between the larger economies – South Africa, Nigeria, Angola and Kenya, for example.

Why do these trends matter? The answer is that we live in a highly inter-connected world.

- Global growth impacts strongly on developing country exports and investment.
- These trends, in turn, affect employment and earnings prospects of thousands of businesses and ordinary people.
- South Africa's growth and development affects trade and employment opportunities in our neighbouring countries and elsewhere.

Low growth and fiscal difficulties have seen several African countries approach the international financial institutions for assistance. This undermines a country's ability to anchor its own policy course. By taking the right decisions, giving impetus to our own economic recovery, we can avoid this loss of sovereignty.

Broader international collaboration is clearly vital. South Africa strongly supports plans by the Group of 20 countries to prioritise economic development of the African continent in the years ahead.

The South African outlook

The *MTBPS* revises our growth expectation for the South African economy to 0.5 per cent for the 2016 calendar year, somewhat lower than the February estimates of 0.9 per cent. For the current fiscal year, the revised growth estimate is 1.0 per cent.

We currently expect growth to rise to 1.3 per cent next year. With appropriate policies in place we will see the recovery strengthen more rapidly. Though investment has still to gain momentum, there have been a number of expansion projects announced in mining and manufacturing this year. The first steps have been taken to attract natural gas infrastructure investment into Richard Bay and Coega.

Domestic structural constraints continue to limit our growth potential. Our industrial structure is too concentrated and infrastructure networks need to be better aligned to global growth prospects. As emphasised recently by David Lipton of the International Monetary Fund, profit margins in South African companies are often built upon barriers that both hurt consumers and block potential competitors.

More rapid and more inclusive growth requires concerted efforts to improve the investment environment, particularly for export-oriented and more employment-intensive manufacturing.

In advancing inclusive growth and transformation, Honourable Members, we have to frame our policies and interventions in ways that reinforce confidence and investment.

Our destiny is in our own hands. There are various initiatives we can build on:

- The City Support Programme is bringing together urban planners, business leaders and government officials to strengthen investment incentives and address development challenges in major metropolitan areas.
- Under Minister Davies' guidance, *Invest SA* has established a facility to assist potential investors with the procedures required to meet regulatory requirements.
- Alongside Minister Patel's stronger measures to combat collusion and abuse of market dominance, conditions have been imposed on recent merger transactions that will open up retail space in spaza shops to smaller producers.
- Efforts of Minister Naledi's Department are contributing to the international competitiveness of South African industrial innovation, including fuel cells, titanium powder, medical devices and composite materials. Construction of the Meerkat array is due for completion at the end of 2017.

- Over the medium term, resources have been re-prioritised for the Small Business Department, including efforts to strengthen agencies that support small enterprises.
- To complement this, the CEO Initiative has established a new fund to support the expansion of small firms, providing support through mentorship and market access.
- The business sector is also developing an internship programme to improve the job-readiness of young work seekers.
- Some R17 billion worth of investment and 5 000 jobs have been unlocked in the oceans economy. Licences for oil and gas exploration have been issued as part of the sector growth strategy.
- Active work by the Commission for Conciliation, Mediation and Arbitration has brought greater stability in the workplace this year.

Honourable Members, we can move the country forward. Speedy resolution of regulatory uncertainty and policy challenges enhances development prospects. Our future is in our hands.

Financial sector reform

Since 2011, a substantial reform of our financial sector has been undertaken, to make it safer and to serve customers fairly. Legislation to give effect to the “twin peaks” regulatory reform programme is expected to be finalised by the end of this year. It will support inclusive growth in several ways:

- Costs of financial services will be reduced and made transparent. Unduly high costs currently reduce the returns to savers, and inhibit access of small business to credit.
- Default regulations will simplify retirement saving options.
- More competition will encourage innovation. Two new exchanges were licensed this year, and regulations to create a more competitive environment for clearing and reporting trades are being finalised. Consultation will begin on a regime for licensing trade platforms.
- Disclosure initiatives will make it easier for ordinary South Africans to understand complex financial products.
- Improvements in the financial regulation and reporting system will assist further in fighting corruption and money-laundering, while providing protection against fraud and systemic risks.

I am pleased to confirm that the restructuring of African Bank is complete. It was facilitated by a government-guaranteed loan issued by the Reserve Bank, which has been fully repaid, with interest. Congratulations are due to the curator, Tom Winterboer, on a job well done.

South Africa has soundly-capitalised banks, and strong financial institutions. They are well-placed to finance investment and enterprise development as our economic recovery gains momentum.

Division of revenue and medium term expenditure plans

Honourable Speaker, the *MTBPS* sets out revenue projections and the proposed medium term expenditure framework for the three-year period ahead.

The division of revenue within the main budget takes into account the respective functions of the three spheres of government, and their revenue-raising capacity. The revised allocations to provincial and local government for 2016/17 are set out in the *Division of Revenue Amendment Bill.* For the period ahead, the *MTBPS* proposes that provinces and municipalities should be allocated 43.4 per cent and 9.1 per cent of the total, respectively.

Changes to this year's national department allocations are set out in the *Adjustments Appropriation.* The adjustments include provision for emergency water supplies and animal feed, and compensation for the effect of exchange rate depreciation on the International Relations and Cooperation budget.

In the present phase of our development, financing of education has to be our highest priority.

We are especially mindful of the need to expand access to post-school education opportunities. But this is not enough: our progress rests on improvements in the entire education system.

Minister Nzimande has rightly emphasised that expanded opportunities in our universities cannot rely on government funding alone. Public expenditure on post-school education and training has in fact grown considerably faster than other budget allocations in recent years, and this will continue. At the heart of the issue is that access has expanded faster than resources. As a result, many students face financial hardships that undermine their ability to succeed academically.

In addition to the R16 billion added to higher education funding in the February budget, we therefore propose:

- A further R9 billion for the National Student Financial Aid Scheme over the period ahead, raising its funding by over 18 per cent a year,
- Over R8 billion to meet the costs of fee increases for students from households with incomes up to R600 000.

We will work with the corporate sector and financial institutions to expand bursaries, loans and work opportunities for students. In seeking a balanced, sustainable roadmap for student finance, we appreciate that graduates who go on to earn higher incomes will in due course contribute a share of these gains to the next generation.

Honourable Speaker, social sector spending plans outlined in the *MTBPS* also include:

- A further expansion in the HIV/AIDS programme, which now reaches 3.5 million people,
- Increases in the National Health Insurance conditional grant to continue the contracting of general practitioners and bring professional capacity into the School Health Programme,
- A new conditional grant for employment of social workers,
- An extended child support grant for orphans, and
- Funding for 39 000 *funza lushaka* bursaries for prospective teachers.

In support of inclusive economic development, spending plans over the medium term include the following:

- A proposed R45 billion to promote industrialisation, economic transformation and sustainable resource management,
- Implementation of the agri-parks initiative, to help small farmers with production, marketing and training,
- A shift of housing funds to speed up investment in rental housing units and planning of catalytic projects in large towns and cities,
- Establishment of the National Radioactive Waste Disposal Institute,
- Funding for the N2 Wild Coast road, the Moloto road and improved maintenance of both national and provincial roads,
- High-speed internet access in government buildings, and
- A supplementary R1 billion for the local government equitable share in 2018/19.

Infrastructure investment

Major infrastructure programmes over the next three years include over R300 billion in transport and logistics projects, R240 billion in the energy sector and R137 billion in water and sanitation.

Security of energy supply is a cornerstone of sustainable growth as we have learned from our last few years of experience. Within the framework of the Integrated Resource Plan, it has been confirmed that Eskom will take the lead in the nuclear power initiative in respect of ownership and operations. The Treasury will work with Minister Brown's department and Eskom to ensure that the scale and phasing of the programme are in South Africa's best interests and that the procurement arrangements are transparent and compliant with the law.

Our approach to energy security and to meeting climate change commitments also includes a substantial renewable energy programme. Contrary to the views of some, these are sound and sensible long-term investments which are consistent with our climate changes commitments. A total of 64 projects are already in progress, bringing investment, jobs, clean energy and community development. Minister Joemat-Pettersson and the National Energy Regulator have approved another 37 independent power projects. Once Eskom has signed the offtake agreements, which they are required to do in terms of their commitment to government, a further R58 billion in investment and some 4 800 construction jobs will commence, bringing 2 354 megawatts of capacity to the electricity grid.

Provinces

A Joint Action Plan for fiscal consolidation has been agreed with the provincial finance MECs. It includes the following:

- Containment of administrative personnel expenditure while protecting education and health staff and allocations for medical supplies and essential services,
- Improved revenue collection,
- Rationalisation and closure of redundant and underperforming programmes and entities,
- Intensification of cost-containment measures, in keeping with national guidelines.

I have visited several provinces in the past two weeks to consult on provincial finances and share the macroeconomic outlook and the fiscal framework.

There has been good progress in expenditure management in provinces this year. I need to congratulate provincial leaders for taking the tough steps needed to remain within the agreed budget limits.

It is clear that efforts to address misallocations of resources will yield substantial gains. Provinces transfer about R9 billion a year to 71 public entities currently, often for duplicate functions and high personnel costs. Efficiency improvements in infrastructure spending are needed, building on the Standards for Infrastructure Procurement and Delivery Management issued by the Office of the Chief Procurement Officer.

Local government

Similarly, in municipalities, far more can be done to improve financial performance and delivery of basic services.

Additional cost saving measures for municipalities were issued by National Treasury in March 2016. These include savings on travel, consultants, catering, office furniture, events and staff benefits. These will shortly be given force in regulations.

Our newly elected municipal leaders have a vital role to play in ensuring delivery of reliable services to all our people and improving the quality of spending. This requires zero tolerance for corruption and wastage of public resources, improved revenue management and better maintenance of infrastructure.

More rapid investment in housing, public transport and industrial development in our cities is central to faster and more inclusive growth. I will be meeting with the mayors of our metropolitan municipalities shortly, to hear their plans and suggestions for practical partnerships for meeting basic needs and faster development.

National Treasury is also working towards the implementation of the new municipal Standard Chart of Accounts in all 257 municipalities from July 2017. This is a major reform that will improve the transparency and comparability of accounts, allowing for stronger monitoring and oversight of municipal finances.

In keeping with our commitment to transparency in the public finances, the National Treasury has launched a new local government budget data portal today, called “Municipal Money”. It provides citizens and other stakeholders with access to comparable, verified information on the financial performance of each municipality. It aims to promote transparency and citizen engagement by providing information about municipal spending in a simple, accessible format.

Supply chain management

Honourable Speaker, we have indicated in previous years that supply chain management reforms and transparency are important elements in achieving value for money and combating corruption.

As articulated in the ANC’s 52nd National Conference Resolutions: *“Corruption is a systemic and institutional phenomenon involving all sectors of society and undermines democratic processes and corporate governance and erodes social cohesion and values. Measures to combat corruption must deal with both those who are corrupt as well as those who are corrupted.”*

The Office of the Chief Procurement Officer, in just over three years of existence, has taken bold steps to modernise our systems and combat abuses.

- A Public Procurement Bill is being finalised. It will strengthen accountability and oversight in supply chain management, while providing flexibility and promoting empowerment, small enterprise development and job creation.
- The Preferential Procurement Regulations are being revised to ensure that at least 30 per cent of government procurement goes to designated groups, including small and medium enterprises, cooperatives and rural and township enterprises.
- Contracts are being renegotiated with airlines, hotel groups, software suppliers, pharmaceutical companies, property owners and construction firms. This aims to achieve savings of R25 billion a year by 2018/19.
- The eTender portal was introduced in May last year. It has seen over R80 billion in tenders published, saving R650 million a year in printing and advertising costs.
- The Central Supplier Database was launched on 1 September 2015, significantly simplifying procurement administration. Over 342 600 suppliers have already registered.

I need to urge, again, that legitimate suppliers must be paid on time, in full. Confidence in government is eroded and businesses are sabotaged if payments are delayed, whether through poor planning, administrative shortcomings or other motives.

As Kofi Annan wrote in the foreword to the 2003 United National Convention Against Corruption:

> *In promoting development and making the world a better place for all, we are called upon to reaffirm the importance of core values such as honesty, respect for the rule of law, accountability and transparency.*

Managing risks and liabilities

Honourable Speaker, the *MTBPS* includes a “fiscal risk statement” for the first time this year.

It highlights several concerns:

- The impact of slower GDP growth on revenue and debt sustainability,
- Unplanned expenditure pressures, including growth in the government wage bill,
- The financial position of several state-owned companies, and
- The unfunded liability of the Road Accident Fund.

The National Development Plan requires more rapid growth, and clearly this is a pre-condition for achieving inclusive development and transformation. The *MTBPS* emphasises that low growth is not inevitable – if we take the right decisions, inclusive and more rapid progress can be achieved.

Moderation in government personnel spending and the steps that are in progress to improve procurement and supply chain management are important both to ensure a sustainable fiscal path, and as pre-conditions for effective and cost-efficient public service delivery.

Reform of our state-owned companies is similarly both about addressing financial vulnerabilities, and about long-term investment and broadening participation in our economy.

Guiding principles for the oversight of state-owned companies have been agreed by the Inter-Ministerial Committee led by the Deputy President. These reforms are aimed at achieving stabilisation, coordination and collaboration, rationalisation and consolidation and an improved governance framework. The guidelines include:

- Development of a shareholder management framework,
- Principles for private sector participation to promote higher levels of investment in economic infrastructure,
- A framework to inform the board appointment process, and
- Separation of costs related to the developmental mandates from the commercial mandates of state companies.

There are a number of processes underway to rationalise state entities. These include the merger of the housing development finance institutions, appointment of transaction advisors on restructuring the state airlines and the possible introduction of a strategic equity partner, and rationalization of government’s shareholdings in the telecommunications sector.

Full strength boards have been appointed at SAA and the Post Office.

These reform efforts will improve financial sustainability and enhance the delivery capability of state-owned companies in the interest of inclusive growth.

In respect of the Road Accident Fund, NEDLAC has completed its work on the proposed Road Accident Benefit Scheme, which will provide a more equitable and affordable benefit arrangement. Legislation now needs to be taken through Parliament.

Acting together for a better future

Allow me to summarise again, Honourable Speaker.

1. Inclusive growth is our objective.
2. Our macroeconomic and fiscal framework sets limits to government debt and expenditure, while supporting stronger public and private sector investment.
3. Aggressive implementation of our plans for the real economy is required.
4. Policy initiatives across a wide range of sectors and portfolios are in progress, aimed at broadening participation and enhancing economic development.
5. Transformation rests on a partnership between all stakeholders who share our commitment to *inclusiveness* in our development path.
6. The national dialogue to seek common solutions and concrete actions to slow growth and poverty has to be intensified.

If we do the right things, we will achieve a just and fair society, founded on human dignity and equality.

Our Constitution binds us as citizens, government, business, labour, communities, youth and students to work together to give effect to this social contract. It enjoins us to recognise the injustices of our past, and establish a society based on democratic values, social justice and fundamental human rights.

Our current challenges place an extraordinary responsibility on all of us. This is a turning point in which if we take the right choices we can achieve faster, more inclusive growth. It is a moment in which we need action – economic, social and political. But it is also a time in which we must reflect carefully: we need to confront long-standing inequalities and forms of domination without creating new ones; we need to widen opportunities without capitulating to opportunism.

This is time for us to re-engage in taking our hard-won democracy forward. The voices of workers, activists, business owners and ordinary citizens of all walks of life have been heard. So many South Africans, representatives of business, or labour and of community organisations, have contributed to our engagements on our growth and development challenges this year. Allow me to thank those who have joined us in this discourse, nationally, internationally and in local communities and forums.

Courage, hard work and systematic organising are the ingredients we need to meet all the challenges we face.

I need to acknowledge the special role that non-governmental organisations and our faith-based communities continue to play in promoting justice, accountability and peaceful resolution of our challenges. Your moral guidance is a cornerstone of the struggle for freedom and the fight against corruption. *Enkosi, Umanyano, Ngamandla.*

Those who are called upon to serve in public institutions have an added responsibility to work with integrity, honesty and accountability and to ensure that their efforts are directed towards the shared interests of all South Africans.

Put simply, this means that public funds must not be diverted to private ends. All citizens are entitled to demand accountability and integrity from those who serve them. As Amartya Sen writes in *The Idea of Justice*, while institutions and rules influence the scope and course of our actions, it is human lives, their experiences and realisation of their potential that is of primary importance.

Fellow South Africans, the global trends and our national realities must be recognised frankly and transparently, so that we can assess both the opportunities and risks which present themselves in our historic journey of transformation, inclusive growth and social justice.

Fifty-five million South Africans want to see and experience real change in their lives, and continuous progress.

For change there *has* been since 1994: Constitutional democracy, political freedom, economic growth, expansion of public services, rising living standards for many. But not all.

And so this *MTBPS* signals a renewed commitment to *inclusiveness* in our growth and development strategies. No-one should be left behind.

It is tabled at a time of uncertainty, but of hope, of caution, but of opportunity. It's up to us.

Allow me to thank you, Mister President, for your guidance and leadership. My appreciation goes to Mister Deputy President for his wise counsel. I would also like to thank my Cabinet colleagues and members of the Ministers' Committee on the Budget for their cooperation and support.

I also wish to thank Provincial Premiers and Finance MECs, and Municipal Mayors, who share our fiscal and financial responsibilities.

Deputy Minister Jonas and Director-General Fuzile have been resolute pillars of support.

I know that Members of the House will join me in expressing appreciation to:

- Staff of the National Treasury,
- The South African Reserve Bank,
- The South African Revenue Service, and
- The finance family institutions.

I am also grateful to the finance and appropriation committees, who have responsibility for steering consideration of the Division of Revenue Amendment Bill, the Adjustments Appropriation Bill, the Finance Bill and the Taxation bills.

As Oliver Tambo once said: *"We have a vision of South Africa in which black and white shall live and work together as equals in conditions of peace and prosperity."*

"Ditau tsa hloka seboka di shitwa ke nare e hlotsa." (Lions that fail to work as a team will struggle to bring down even a limping buffalo.)

Adapting Nelson Mandela's enduring words:

> *…With freedom come responsibilities,*
>
> *…We dare not linger, for our long walk is not ended.*

Na Khensa, Ngiyabonga, Ndi-a-livhuwa.

I thank you.