



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

**ADDRESS TO THE ABASA ANNUAL CONVENTION
16 SEPTEMBER 2004**

TREVOR A MANUEL, MINISTER OF FINANCE

***CONVENTION THEME "OUR CONTRIBUTION TO SUSTAINABLE ECONOMIC GROWTH
FOR THE NEXT DECADE"***

Director of Ceremonies

Distinguished Delegates

Ladies and gentlemen,

I consider it a distinct honour to address this convention. I set much store by the ability of government to engage with partners like yourselves because in recent times no other professionals, to my mind, have succeeded in attracting so much attention to the work they do. On this occasion I do not merely want to share observations; in the interests of transparency, I want you to know that I have come here to enlist your support and your energy for a project of major national significance.

The theme of this convention: the contribution of the accounting profession to sustainable economic growth, is particularly apt if one considers the negative impact of dishonest financial management and reporting on an economy. The loss of savings, jobs, productivity, innovation and future growth are but some of the eventualities when a corporate, or public entity fails as a result of poor financial management or outright dishonesty and fraud.

The role of the accounting profession to sustainable growth has another dimension. In a narrow sense, the accounting and auditing profession provides a critical service to business and government to produce prudent financial statements that reflect reality and to be the informants of the shareholder. This narrow role does not place a prohibition on accountants and auditors playing a similar role for society as a whole. The accounting profession plays an important part in shaping our understanding of how societies grow, develop and prosper. In the South African context, this broader objective is key to defining the true contribution of a profession to the long-term prosperity of a country. Sometimes, what is good for the interests of professional segment is not necessarily good for our economy as a whole.

The question that confronts us is, I suppose, what sort of society do we wish to bequeath.

In basic economic terminology, if demand increases and supply remains muted, the suppliers will benefit and prices will rise. In some respects, this is what has happened to the accounting profession in the past decade. Let me

be more specific, this is what has happened to black accountants. Because of a history of inappropriate and poor quality education, the production of black, and in particular black female accountants is far short of what we need. The result has been dramatic increases in the salaries of black accountants and a significant premium for black female accountants. While this is good for the present 'insiders', society as a whole is worse off.

Because of the recovery of the economy over the past decade, the need for skilled labour has outstripped supply. Partly as a result of our employment equity policies, which have sound social objectives, the demand for skilled black people has outstripped supply many times over. The result of this skills imbalance is that the salaries of skilled people in South Africa have risen dramatically over the past decade. At the same time, the salaries of middle level workers have remained flat in real terms. People categorised as highly skilled earned about R9 000 a month in 2002, while people in the category just below them earned just R2 550 a month.

What sort of South Africa do we wish to leave for our children?

Within the black community, we have seen a dramatic rise in inequality with skilled people on average earning over sixteen times more than the average household income for black people. Between 1995 and 2000, the Gini coefficient for the country (a measure of inequality) has been roughly stable. However, for African households, the Gini coefficient has worsened from 0.54 in 1995 to 0.57 in 2001, suggesting that inequality within the African

community is rising. If the salaries of one group of people rise faster than the nominal rate of growth in the economy, then the income of another group must decline. Growing inequality in society, in the black community in particular, cannot be good for sustainable growth and development.

Amartya Sen won the Nobel Prize for economics because of his work on two fundamental social policy issues. The first of these issues is that countries that spend resources on building human capital have a much more balanced sharing of the fruits of economic success than countries who ignore investing in human capital. The second of his findings is that countries where the gap between rich and poorer is narrow grow more sustainable than countries with high levels of inequality.

It is also obviously correct that huge inequalities in the distribution of national income tends to depress the real wages of workers and the number of jobs that can be created. The top 20 per cent of earners in South Africa earn almost half of all the income in the country, while the bottom 20% of earners earn just 4 per cent of the income. This situation must be turned around and will only be turned around if we increase the production of skills, but at the same time, we moderate the excesses in remuneration of some people.

Unless we bother to engage with these issues now, we shall, presumably, be considered careless about the quality of society we leave to the next generation.

The public sector, and I speak from the experience of the National Treasury, finds it very difficult to attract qualified black CA's to posts that are crucial to effective financial management. The salaries commanded are simply out of the range of what we can afford. This is surely not assisting our economy to grow in a sustainable manner. While high salaries may be good for the insiders, it limits the opportunity for new entrants to break into the labour market. This forms a barrier to entry and further constrains the growth on the sector. The whole issue of education, training and salaries of those who qualify needs to be seriously addressed by the profession.

It is critically important to remember that the emergence of black and female accountants is inextricably linked to access to the profession by young black people, specifically women. Looking at the statistics, at the end of July 2004, less than 20% of qualified CA's were women and black women account for less than 3% of all qualified CA's. These numbers are in fact an embarrassment to this profession.

The most obvious hurdle to increasing the numbers of black people into the profession is the rigour, time and cost of the education process that they must undergo. No one is suggesting for a moment that the standard of education should change, but what can this profession do to help ensure that the numbers of newly qualified black CA's increases year on year?

The first thing would be to ensure that those who are already qualified give something back to the community. This can be in the form of time or financial

support to those who are in need of education. Teaching, coaching and mentoring are crucial to ensuring that young people succeed in acquiring the skills and confidence that they need to succeed.

In building a stable and prosperous society, the long-term solution has to be better training and more work opportunities for young people, women in particular. Yes, this is a long-term solution, but in solving the major social divisions we face, we cannot afford to reinforce the huge divides that Apartheid introduced.

The legacy that centuries of colonial and Apartheid education has left is massive underinvestment in human development. To remove this backlog in underinvestment, we have to painstakingly rebuild the culture of learning and teaching, of coaching and mentoring and of investing in our youth. There are no quick fix solutions. You, as educated, accomplished black professionals have, as your biggest responsibility, to invest in the human capital of young people. THIS is your role in promoting sustainable economic growth and it has to be your role if you care about our collective future.

Allow me to cite another perverse consequence of the rapid rise of people with scarce skills in organisations. When people without adequate experience are placed into positions of power and influence simply because they possess the right qualification and are of the right race and gender, then the result is massive financial risk for the companies concerned, and in some cases, for

the economy as a whole. This problem has arisen in the public sector where salaries of senior management in some parastatals approached stratospheric proportions, but profitability continued to decline.

A number of issues arise in this example: The first is where inexperienced people who do not possess the competencies required for a job are given jobs with huge salaries. The problem of job-hopping is also evident where people do not build up a body of expertise or experience, but move on to other jobs on the rationale of 'broadening their scope of work'.

We also need to be mindful of the opportunistic role played by headhunters and the impulses they send into the economy. Their objective is often to maximize their commission by unrealistic price fixing, without looking at the costs and benefits to the economy in general and the value added by the employment of these highly net-valued individuals in particular. Similarly, the reliance we place on remuneration consultants tends to drive up prices segmentally since they are tasked by the firm rather than by the economy. Since neither professional grouping is correctly tasked, we should not expect them to produce outcomes that either are durable or economically sustainable. For different outcomes, a new paradigm must be designed.

The salary distortions are growing and unsustainable. Whilst this is not purely a South African phenomenon, we must take special care to stem this tide. According to the USA publication Business Week's annual executive compensation surveys, CEO's of large US companies earned 42 times as

much as the average worker in 1980, but earned 419 times as much in 1998. Is this the value system we seek to import?

Similarly, Ann Crotty, writing in Business Report (27 May 2004) quoted a study that found that the average worker in South Africa will need to work for 111 years to earn what an executive earns in one year? Is this what we have already imported?

In 2003, Ian Cockerill, CE of Gold Fields received a 63% salary increase, Steve Ross of Edcon 36%, Laurie Dippenaar 25%. This is in the context of inflation of about 6% and a decline in corporate profits in most sectors of the economy. Salaries in the financial services sector lead the pack. Is this sustainable? Is this conducive to long-term growth in our economy?

With salaries of senior people rising this rapidly, where is the link with performance? Will ABASA, as a professional body, agree to advocate salaries for accountants in relation to the performance of the individual?

I ask these difficult questions, not because I like to stir trouble. Nor do I raise these thorny issues to embarrass or accuse my distinguished hosts. I ask these questions, partly because you have asked me to comment on your role in promoting sustainable growth. It is my assertion that former President Mandela's call at the Steve Biko memorial lecture that this wanton drive to get

rich quickly must come to an end if we are to have sustainable economic growth.

On the topic of values, a former President of the USA, F D Roosevelt argued as long ago as 1937, “the pace of our progress is not whether we add more to the abundance of those who have much, it is whether we provide enough to those who have too little”.

In building a post-Apartheid South Africa, we have set ourselves two objectives: to get rid of the racial inequities that were imposed on our people, and to reduce the massive amounts of poverty in our country. Only when we are making progress in both of these fronts, can we say we are defeating Apartheid. In many areas of society, we are not making progress on the second objective of reducing poverty and inequality.

It is imperative that we share the view that salaries and inequality reflect the values of society and not the laws of nature. It is therefore perfectly within our grasp to initiate a process that will recast the outcomes.

As a well-respected professional body representing the cream of the crop of black professionals, you have a leadership role to play in ensuring that we are producing more black and female accountants, that the gap between rich and poor does not increase further, that we make a meaningful impact on poverty. I call on you to lead a national enquiry that will enlist the support of other professional and business organisations, on how we turn around the shortage

of skilled black people in the second decade of democracy and on how we begin to reduce the level of inequity between the haves and the have nots. The task of empowering young black people, the generation of tomorrow, to take their rightful place in the halls of our finance houses is what real empowerment is about. Whilst securing our collective future, is what democracy demands of us. These two tasks are closely interlinked.

Ladies and gentlemen, these are big issues, and I don't mean to throw you into the deep-end. I raise these issues precisely because I know that your organisation has the maturity and wisdom to address the issues of sustainable economic growth in a meaningful way. You have a tremendous contribution to make to build a united, non-racial and prosperous society and I am confident that you will rise to the challenges that confront you today. My dear friends, there is work to be done!

In conclusion I would like to congratulate Ms Futhi Mtoba, the outgoing President of ABASA, for being awarded the Business Women of the Year 2004. I am told that Futhi has not only contributed tirelessly to the work of ABASA, but has also been recently appointed the new Chairperson of Deloitte. I wish her well in her new endeavour.

Thank you.