



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

SPEECH BY THE MINISTER OF FINANCE, MR ENOCH GODONGWANA, AT THE CHRIS HANI DISTRICT MUNICIPALITY'S ECONOMIC DEVELOPMENT AND INVESTMENT SUMMIT, AT THE QUEEN'S CASINO & HOTEL IN KOMANI, EASTERN CAPE

Check against delivery

Good morning to the facilitator and master of ceremonies. To the honourable ministers and my colleagues. Greetings to the leadership of the Chris Hani District Municipality, and to the invited guests. I thank you for your gracious invitation to address this gathering of professionals and patriots, of talented and concerned members of our society.

Today, I have been asked to address you on *“sustainable job creation, economic empowerment and sound investments in the Chris Hani district.”*

At a provincial and local level, this requires that provinces and municipalities conduct themselves in a way that attracts investments and that means meeting the basic needs of businesses and communities.

In essence, to attract investments that support sustainable job creation, municipalities should seek to understand the factors that influence the decisions by firms about where to locate their operations.

Though there is a temptation to design and offer complex incentive systems, it is important to understand that any such interventions would be undermined by poor delivery of basic services.

It is on these basics that I will be anchoring my address around today. In particular, I will be delving into infrastructure delivery.

THE ROLE OF MUNICIPALITIES IN ECONOMIC DEVELOPMENT

The sustainability and development of our municipalities is the foundation upon which we must build a bigger and more inclusive national economy. There is no one without the other.



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It sounds obvious. And it has been our mantra as a national government since the days of the Reconstruction and Development Programme, and today it remains a pillar of the Economic Reconstruction and Recovery Plan – the blueprint which we are implementing to lift our economy from the doldrums of the COVID-19 induced downturn.

That we must restore the economies of our municipalities to transform the lives of our people and nourish the ground for them to move from poverty to prosperity, is as true now as it was in 1994. The specific challenges may have changed, but the objective remains the same.

In the preface of the RDP, President Nelson Mandela eloquently summarized the relationship between a growing economy and the ongoing viability of a free and fair society. I quote the late leader of our liberation:

Democracy will have little content, and indeed, will be short lived if we cannot address our socioeconomic problems within an expanding and growing economy.

I draw the link between democracy and a growing and sustainable economy, for a very specific reason. Here at home and around the world, we have seen the violent results of economic distress, mainly in the form of protests and demonstrations, many of them peaceful, some of them tragically violent.

Almost a year to the day, we saw riots and protests across the country, mainly in KwaZulu Natal and in Gauteng. Over 350 people died. The economic damage ran into tens of billions of rands. Today, we are still reeling from the financial blow: on top of the economic damage caused by the pandemic, and recently intensified by the conflict between Ukraine and Russia.

While much of the rioting was undoubtedly driven by criminal elements, it found fertile ground in the desperate economic situation faced by many of our people.

The truth is, despite the powerful democratic movement that toppled apartheid and gave birth to progressive legislation, and a constitutional framework that foregrounds socioeconomic rights, poverty and inequality in recent years have deepened.

This reversal is perhaps most evident in the state of our municipalities.

You see it in the regular protests where people pour out into the streets to demand basic services and opportunities to claim a better life for themselves and their children.

You see it in factories, plants and small businesses closing shop and retrenching workers, because they cannot rely on the timely provision of electricity and water.



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You see it in roads falling into disrepair, because councils have misspent their budgets and lack the technical skills to maintain critical infrastructure.

You see it in the crumbling of the rule of law and in falling standards of quality of life, as police stations are understaffed and under resourced, while hospitals that cannot afford to hire nurses and doctors are stretched to breaking point.

You see it in people losing faith in the promises of democracy.

To restore that faith in democracy, we need our municipalities to work. They must be the sites of economic growth, investment and industrial innovation that is rich in jobs and high on efficiency.

For this to happen, municipalities and provinces must conduct themselves in a way that attracts investments. That means meeting the basic needs of the communities they serve.

At a financial level, it means adhering to elevated levels of governance and budgeting standards: spending money efficiently and in the interests of sustainable and inclusive growth.

At a provincial level, the focus must be on health, education, roads and agriculture.

Municipalities must focus on achieving a much higher level of delivering bulk infrastructure such as electricity and water, and basic services such as refuse removal.

INFRASTRUCTURE

One way to overcome these challenges to delivering basic services, and to unlock the potential for high-growth activities, is for municipalities to improve and maintain their infrastructure.

Unfortunately, municipalities are underspending on infrastructure.

For example, the Chris Hani District municipality has underspent on infrastructure grants, and returned money to the national revenue fund in the last half a decade. It is unfortunate because this is the money that could have gone to executing its constitutional mandate of providing basic services.

In 2016/17, an amount of R38.9 million went unspent by the municipality and had to be returned to the National Treasury.

In the following year, 2017/18, R65 million was returned to the National Revenue Fund by the municipality. In 2018/19, nearly R240 million was unspent. That figure was R97 million in 2019/20.



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The trend is clear and troubling. It is unfathomable that a municipality in a province like the Eastern Cape, where poverty, inequality, unemployment indicators are consistently higher than the national average, could fail to spend money on providing key services.

Municipalities are clearly struggling. We need to understand what the challenges are so that we can find effective solutions.

National government has its role to play in delivering infrastructure, by providing clear and actionable policies, removing unnecessary regulatory hurdles, and making funding available for infrastructure projects.

In this regard, we have and continue to roll out reforms:

- We are providing skills development programmes by: amending funding and quality assurance mechanisms.
- Updating and amending existing university, technical and vocational education college programmes, to ensure they meet the demand for infrastructure-related skills.
- We are targeting an expansion of opportunities for work-based learning, through learnerships, apprenticeships, internships and cadette programmes.
- Updating the Critical Skills List and fine-tuning the visa regime, to allow for the import of scarce skills.

However, it falls to municipalities and provinces to put in place the budgetary mechanisms, to hire qualified people with the desired skills, and provide proper oversight, accountability, project planning and preparation, for infrastructure building and maintenance projects to be successfully executed.

This is unfortunately not the case.

We are observing that several municipalities are under-budgeting for infrastructure maintenance. The result is potholes in roads, burst sewer pipes, and an overall falling level of service delivery.

We have seen some positive progress, in the 5 projects where implementing agencies are working with the municipalities on a build, operate and transfer basis.

On the issue of skills, the National Treasury has developed a programme to support capability-development in municipalities.

Municipalities need to be clearer about how they are going to leverage the District Development Model.



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There is potential for Chris Hani District Municipality to play a coordination role with all the municipalities that fall under it. The municipality can harness skills at the district-level to deliver on projects.

In fact, we are now considering allowing municipalities to front-load expenditure on infrastructure. As an example, Chris Hani District Municipality is allocated close to R4 billion over the MTEF ending in 2024/25. Front-loading would allow the municipality to spend on infrastructure in year one, to the value of allocations over a 3-year period.

When we can accurately diagnose the problem, then we can collectively produce solutions.

CHALLENGES IMPACTING MUNICIPAL SUSTAINABILITY

Key to many of these breakdowns in the municipal sphere and the failure to deliver on the most basic of services - services guaranteed to our people in the Constitution and the Bill of Rights - has been the inability to spend scarce financial resources in a sound and responsible fashion, that is line with financial regulations like the PMFA and the MFMA.

The latest State of Local Government Report identifies that of our 257 municipalities, 175 are in financial distress. About a decade ago, in 2010/2011, the number stood at only 66 of municipalities. That means that municipalities in financial distress have more than tripled.

In addition, there are 43 municipalities facing financial and service delivery crisis.

There are also 112 municipalities who have adopted budgets this year which they cannot fund.

Probing by the National Treasury has identified unfunded budgets as the primary catalyst for financial distress. More than 150 municipalities are bankrupt or insolvent. They are unable to pay creditors, or even to service pensions.

Many of these municipalities have insufficient funding to invest in the maintenance and upgrades of the local infrastructure required to ensure service delivery. Over a quarter of them, according to the Auditor General, are at significant risk of not being able to continue operating as going concerns.



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The situation has worsened in the last 5 years, and it is no coincidence that this deepening of municipal crisis coincides with the dramatic slowdown of economic growth nationally.

There is also, sadly, a growing lack of political will to adhere to both the letter and principle of the fiscal architecture that governs local financial management and promotes transparency and rationality.

The power of office is too often exercised without care and probity. The fact that many municipalities fail to implement their credit control policies has perpetuated a culture of non-payment.

I do not have to explain in detail the problems that you face here in the Chris Hani District Municipality, I am certain you know them well enough, although it is sometimes my duty as the Minister of Finance to play headmaster.

You have had an unfunded budget for the past 5 financial years up to 2021/22. You are losing a significant amount of your infrastructure grant due to poor performance. The municipality received a disclaimer audit report in the 2020/21 financial year, as well as for the two prior financial years.

This is not the foundation for economic expansion and greater job creation, and the easing of poverty and inequality.

SUSTAINABLE JOB CREATION

So, what can be done?

We must not allow political dysfunction to fester. Municipal and senior managers must be freed from political interference and allowed to perform their fiduciary responsibilities. Those appointed to these positions must be qualified and should be accountable to the communities they serve.

To this end, national and provincial governments are spending billions of rands in capacity-building programmes.

As the National Treasury, we have had to lean heavily on municipal legislation to tighten oversight and monitoring, and to instil forms accountability. In some instances, this has involved invoking Section 139 of the Constitution, effectively putting municipalities under administration.



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Our financial legislation strikes the necessary balance between reward and punishment. We cannot shy away from mismanagement and wrongdoing, but we must also work hard to put the progressive elements of our laws into action.

Remember, the Public Finance Management Act of 1999 mandates us to, among other things:

- Promote national government's fiscal policy and the coordination of macroeconomic policy; and
- Ensure the stability and soundness of the financial system and financial services.

Municipalities are at the frontline of this process. Our laws are not for law's sake, but to protect the interests of our people and our economy.

We have emphasized the need for localisation, and our Preferential Procurement Policy Framework Act (PPPFA) is aimed at providing the incentive for government and businesses to procure from BEE-certified suppliers.

To fundamentally change the structure of the economy, we must work within our laws, but also be brave enough to change our institutional arrangements where we need to.

Spending, and spending wisely to support infrastructure, remains one of the ways we can revive the fortunes of municipalities.

The National Treasury will continue to facilitate conditional grants and provide financial incentives for infrastructure planning and development to municipalities. WE will do this through the:

- Local government financial management grant;
- The neighbourhood development partnership grant;
- The programme and project support grant;
- And the infrastructure skills-development grant.

Transfers to these grants are projected to amount to R6.9 billion over the medium term.

Without the capacity and desire to spend this money wisely, the opportunities to crowd-in further investments into local projects will be squandered.



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Ladies and gentlemen, we have made progress over the last year in reviving our economic fortunes as a country. We need to use that momentum to improve the economic resilience of our municipalities.

Thank you.

ENDS