

**FEDUSA SUBMISSION ON THE BUDGET 2015**

**The Standing and Select Committees on Finance**

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**Presented by: Dennis George**

**FEDUSA General Secretary**

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# INTRODUCTION

The Minister of Finance argues that the 2015 Budget is inhibited by slower growth, rising debt, a weak global outlook and a number of domestic constraints to inclusive economic growth. Government debt has risen from R500 billion in 2008 to R1.6 trillion in 2015, whilst R126.4 billion is needed to service the total debt. Moreover, government intends to reduce expenditure by R25 billion in the next two years and it is necessary to introduce tax increases to support the falling revenue of government to raise an additional R16.8 billion in 2015/6. Unplanned load shedding and the shortage of supply of electricity for the next few years remains the furthermost critical constraint, with the potential to further undermine economic growth and social cohesion.

Notwithstanding the difficult situation, government aims to prioritise infrastructure investment to support economic growth and social development to create employment, reduce poverty and inequality. It is argued that the country urgently needs higher inclusive economic growth, the rapid implementation of the National Development Plan, and a stronger social partnership with business, organised labour and civil society to collectively confront the structural challenges that the country faces. In addition to the above, the 2015 Budget is aimed at rebalancing fiscal policy to give greater impetus to investment, to support enterprise development, to promote agriculture and industry and to make our cities and disadvantaged townships, the engines of future inclusive economic growth.

Nevertheless, the post budget meeting between the Minister of Finance and the social partners in NEDLAC illustrates the lack of trust between government and organised labour. Labour argues that the Ministry of Finance talks left about social partnerships but walks right with regard to unilateralism and the lack of genuine consultation, information sharing and negotiations. Labour illustrates this argument based on the fact that the Finance Ministry has developed an approach of acting unilaterally. This is illustrated through the implementation of the Youth Employment Incentive Scheme, the submission of the social security protection proposals to NEDLAC, the Retirement Reform and in 2015 the Unemployment Insurance Fund.

Notwithstanding, the aforementioned the Federation of Unions of South Africa (FEDUSA) will discuss this negative trend with the Leader of Government Business; the Deputy President, to ensure the principles of social partnership and collaboration with organised labour is respected and honoured.

# GROWTH PRIORITIES

## Electricity constraint

FEDUSA argues that the electricity constraint is the most pressing issue and unreliable levels of energy supply have the potential to undermine economic growth. The electricity constraint also has the ability to seriously affect investor confidence that could hinder investment in the country. It is therefore essential for the social partners to address the crosscutting constraint of electricity supply and introduce new measures to reduce the demand for electricity by at least 2500 megawatts. It is important for government to work together with labour and business in this regard through the participation in the war room interventions. FEDUSA welcomes the reduction of the price of electricity generated from wind – that has dropped from R11.43 per kilowatt hour (kWh) in the first round to R6.65/kWh in the third round.

FEDUSA supports the prioritisation of special interventions in tourism, agro-processing, light manufacturing and services to create decent employment and inclusive economic growth. It is essential to invigorate the agriculture sector, as this industry is extremely labour intensive and requires low and medium skills. The nine-point plan could boost inclusive economic growth and create jobs through unlocking the potential of the small business, as well as the ocean economy. Government needs to do more other than just encouraging private sector investment as this segment is the driving force behind reducing poverty, which is our key development and economic objective. FEDUSA suggests that investment by the private sector in our townships requires market knowledge and the ability to manage risks.

## Investments to transform townships and cities

The World Bank in its Jobs Report (date) concludes that unemployment in South Africa emanates mostly from the fact the informal sector is relatively small in comparison with similar other countries. South Africa is also different from these countries in other ways, too. During the apartheid period, slum clearance, harsh licensing, and strict zoning regulations has rid our cities of black-dominated informal sector niches. FEDUSA recognises that two decades after the end of apartheid, spatial segregation remains, and investment in our townships are low. The legacy of separation also results in high transportation costs for the unemployed, who tend to live far from where the jobs are. Thus, South Africa’s job creation problems may stem primarily from urban issues.

Various research findings conclude that higher rates of social and economic returns from investment in township public infrastructure and the business community should consider new investments in township markets and through partnerships with local entrepreneurs. Investments in townships could also develop and inspire new emergent entrepreneurs, however the basic public infrastructure is needed to advance township renewal to ensure commercial success. The social partners should work together to enhance employment creation, increased knowledge sharing and growing income for our people in townships and to develop real returns for entrepreneurs and investors.

## Investment-led growth

(Dani Rodrik, date) argues that every growth and investment-led model has ended in an unsustainable debt burden, as a result of pricing signals and skewed incentives at the policy design level. It is necessary to understand that investment could become excessive and lead to debt rising faster than debt-servicing capacity. It is equally important to recognise that foreign direct investment (FDI) will probable boost long term economic growth, as well as technological progression and knowledge spread. It is also important to realise that country specific factors such as institutional capacity, trade regime, political risks and policy certainty could assist the entire investment-led growth model (De Mello , 1999). However, in the case of China, it was found that rapid investment slowed could have large spillover effects for commodity producers with large exposures. It was also found that these commodity producers could suffer substantial growth declines as a result of investment deterioration in China (Ahuja & Nabar, 2012). The diagram below, illustrates the investment-led approach of government to stimulate economic growth and employment creation in South Africa.

Figure 1 Investment Led Approach

The Federation supports the adding of value to domestic raw minerals through the implementation of the Industrial Policy Action Plan (IPAP), as it could encourage private sector investment and employment creation. However, it is also important for the labour relations task team in NEDLAC to complete its work to reduce workplace conflict. The introduction of the national minimum wage could assist the process where workers benefit from investment and this could improve convergence and social cohesion.

In addition to the above, the country has not been as successful as other emerging economies in attracting productive investment. South Africa has an average investment rate of below 20.5% over 20 years; the country received a much lower rate of investment than other emerging economies. The average for other emerging countries was 27% over that same period according to (Bhorat et al., 2014).

Furthermore, when investment was made in South Africa, it was largely portfolio capital aimed at capturing strong returns in a high margin economy and not direct investment. In that way, investment was not transformed into that which could increase the output of the productive sector. Similarly, in terms of trade, South Africa’s dependence on short to medium capital flows tends to reproduce dependence on the resource sector. As such, the country’s export profile continues to be capital-intensive and driven by natural resources, resulting in relatively weak export diversification and no value add compared to emerging market peers (Bhorat et al., 2014).

Nevertheless, government argues for an investment-led growth approach to shift the economy from the current consumption-led so as to enhance exports and employment creation. Public investments in economic and social infrastructure are mostly done via the balance sheets of state-owned and user-pay-system in electricity, rail, ports, and pipelines to advance higher economic growth. Moreover, government is trying to lure the private sector to invest, based on the fact that these enterprises have very strong balance sheets. But this assumption has not produced results to eradicate poverty and unemployment. The constraint removal approach where the regulatory environment is relaxed to encourage more investment has also not delivered. The fact government use the successful allocation of the 17 renewable energy projects model for investment attraction, is far fetching. It is important to note that investment in specific renewable projects is not a reflection on investment in other small business opportunity areas.

FEDUSA is aware of the mind-set of the private sector, and the experience of the past 20 years clearly illustrates a story of investment weakness in the productive sector. This is also the argument of Bhorat et al because South Africa has a curse of portfolio-high-margin-return and it is fairly easy for capital to flow in and out of the country without creating any new employment. The Federation calls on Government to convene a national dialogue under the auspices of NEDLAC to take the process forward and to support higher economic growth and employment creation.

# ECONOMIC CONTEXT

FEDUSA understands that global economic growth is expected to remain sluggish over the period ahead – 3.6 percent growth is expected this year in the United States, while the European outlook remains weak. The emerging markets and developing economies, growth of about 4.5 per­cent is expected. China’s growth is expected to slow to 6.8 per­cent this year.

The country will benefit from the lower oil price, but our major commodity exports have been negatively affected by the global slowdown. Our deepening trade and investment links with sub Saharan Africa continue to offer favourable growth prospects. Exports to Africa grew by 19 percent in 2013 and 11 percent in 2014. Our deepening trade and investment links with sub Saharan Africa continue to offer favourable growth prospects.

# CHALLENGES

The social partners in NEDLAC should confront the primary structural and competitiveness challenges that constraint production and investment country.It is important to recognise that electricity constraints restricts growth in manufacturing and mining, and also hinder investment in housing and raise costs for businesses and households. The projected economic growth for 2015 is just 2 percent, down from 2.5 percent indicated in October last year.We expect growth to rise to 3 percent by 2017. Consumer price inflation (CPI peaked at 6.6 percent in June last year. It has subsequently declined to just 4.4 per­cent last month, and is expected to average 4.3 percent in 2015, laying a foundation for economic growth. FEDUSA support the notion that the best short term prospects for faster growth is located in the less energy intensive sectors such as tourism, agriculture, light manufacturing and housing construction. It is also important to incentivise the investment instruments to encourage new private sector investments.

# FISCAL POLICY

FEDUSA supports the reduction in the main budget expenditure ceiling of about R25 billion over the next two years, compared with the 2014 Budget baseline. It is also imperative to revise spending plans across all governmental departments, designed to enhance greater efficiency, reduced waste, eradicate corruption and the improved alignment of spending. The Federation would like to recommend that the consolidation of government personnel numbers is important but in the regard it essential to involve the trade unions in the process. Care should be taken that the appropriate number of teachers, nurses and police officers are employed to ensure quality service delivery.

The Federation understands the necessity to operate within the context of countercyclical fiscal policies to provide support for the economy during difficult economic times. The conventional wisdom focus on how employment and personal income responds in the short run to changes in government expenditures and taxes. However, in economic recessions, countercyclical policies increase government indebtedness, raising future debt service obligations. On the downside, some mix of higher taxes, lower spending, or higher money growth must finance these new expenditure commitments in the future. FEDUSA is concerned that the consolidated deficit of 3.9 percent of GDP was projected for 2015/16, falling to 2.5 percent in 2017/18, and interest on state debt will rise from R115bn this year to R153bn in 2017/18. Government increased the taxes amounting to R17bn in 2015/16.

# GROSS DEBT

The projected gross debt stock is projected to increase to R2.3 trillion in 2017/18 and that the redemptions on debt issued over the past decade will add R190bn to the medium term borrowing requirement.Net loan debt of the national government is expected to stabilise at less than 45% of GDP in three years’ time. It is necessary to stabilise debt situation as it could become a major challenge and rating agencies could downgrade the investment status of the country. The downgrade of the country is dependent on the public sector wage settlement, which would slow GDP growth in relation to the NDP target of 5% of GDP, and the ability of the country to improve national savings.

# AGRICULTURE

FEDUSA supports the notion that it is critical for government to work together and support the agricultural development and trade in order to advance rural employment creation and exports.Capacity building and greater teamwork between emerging and established farmers is critical for social cohesion, inclusive economic growth and rural development. The projected conditional allocation R7bn over the medium is essential to provide access to funding for emerging farmers through the collaboration with the Land Bank.

# EMPLOYMENT

FEDUSA supports allocation of R10.2bn over the Medium Term Expenditure Framework period to manufacturing development incentives, business process outsourcing and additional maintenance for growing service industries. As part of the IPAP, the manufacturing competitiveness enhancement programme will spend R5.4bn and will assist 1 450 companies with financial support to upgrade facilities and skills development.FEDUSA supports theestablishmentofspecial economic zones and the allocation R3.5bn over the medium term, mainly for infrastructure development.The Federation has argued previously that the investment in townships and cities are critical for local economic development and employment creation and it is essential for government to contribute an additional R3.5bn towards mentoring and training support for small businesses.The Jobs Fund will spend R4bn. The community work programme and Expanded Public Works Programmes (EPWP) provides valuable work opportunities for our people. A total of R590m has been allocated to the Green Fund over the medium term.

# HEALTH AND SOCIAL PROTECTION

The Federation welcomes the decision to release the discussion paper on financing options and the National Health Insurance white paper. The establishment of the Office of Health Standards Compliance is an important development in implementing NHI. FEDUSA also welcomes the fact that the antiretroviral treatment programme now reaches 3 million patients and the mother to child transmission of HIV has decreased from 20 percent a decade ago to 2 percent last year. The shifting of National Institute of Communicable Diseases, the National Health Laboratory Service, as well as Port health services to the National Department of Health is a positive development.

# SOCIAL SECURITY REFORM

FEDUSA is of the opinion that social grants play an imperative role in protecting the poorest households against poverty and the Federation is pleased that the number of beneficiaries increased to 16,4 million in December 2014. Empirical evidence demonstrates that people in households receiving social grants have increased both their labour force participation and employment rates faster than those who live in households that do not receive social grants. In addition, workers in households receiving social grants have realised more rapid wage increases (Samson et al., 2004).

Even though the adjustments for 2015 to monthly social grants are less than inflation, the Federation welcomes the fact that it will be reviewed in October 2015. The adjustments for old age, war veterans, disability and care dependency grants will increase by R60 to R1 410, child support grants are increased to R330 and foster care grants increased by R30 to R860.

# EDUCATION, SPORT AND CULTURE

FEDUSA welcomes that fact that the number of qualified teachers entering the public service is projected to increase from 8 227 in 2012/13 to 10 200 in 2017/18. The implementation of the NPD and the Partnership between Trade Unions and the Department of Basic Education plays an important role to support teacher training, through the R3.1bn that is awarded in Funza Lushaka bursaries. The printing and distribution 170 million workbooks at 23 562 public schools is the embodiment of opening the doors of learning for all.The distribution of two books to each learner in Grades R to 9 for subjects in numeracy, mathematics, literacy, language and life skills would also contribute to empowerment of our learners.

The centralisation and standardisation of the school infrastructure backlogs programme is appropriate for the over 500 unsafe or poorly constructed schools, as well as to address water, sanitation and electricity needs.FEDUSA also supports the notion that all schools should meet the minimum norms and standards for school infrastructure by 2016.School and community sport programmes and sports academies will receive R1.7bn in conditional allocations to provinces.

FEDUSA supports the introduction of a centrally negotiated contract and the fact that all school building plans will be standardised and the cost of construction to be controlled by the Office of the Chief Procurement Officer. The introduction and decentralisation of routine maintenance of school buildings and minor construction works are an important component for standardisation education infrastructure. The Federation is of the view that these measures will combat inefficiency and corruption at district and school level.

# POST SCHOOL EDUCATION AND TRAINING

An increase in the post school education and training budget to more than R195bn over the medium term and the University operating subsidies to R72.4bn is a demonstration of the commitment to the implementation of the NDP. The infrastructure transfer to universities of R10.5bn and R3.2bn for the new universities of Mpumalanga and Sol Plaatje confirms the focus of post school education and training; and the importance of narrowing the gap between the world of learning and work. FEDUSAhails the increase of the National Student Financial Aid Scheme from R9.2bn in 2014/15 to R11.9bn in 2017/18, as it would support the human resource development of the country and the university enrolments and in technical and vocational colleges.

# TRANSPORT, ENERGY, COMMUNICATIONS

FEDUSA is concerned that Government plays politics with the Gauteng Freeway financing matter and that the citizens of Gauteng feel that they are caught between national and provincial governments. It is also not fair for national government to introduce the principle of cost recovery for road users as the principal financing mechanism for the Gauteng Freeway. The increase in the general fuel levy of 30.5c a litre is unilateral and this procedure could have been used to find a permanent, sustainable solution to fund the Gauteng Road Improvement and other provincial road infrastructure. FEDUSA is of the opinion that a national fuel levy should be used to build roads for the country.

# PUBLIC SECTOR SUPPLY CHAIN MANAGEMENT AND TENDERS

The introduction of the central supplier database would improve the supplier registration and administration burden of those enterprises interested to conduct business with the state. This approach would considerably reduce the administrative burden for enterprises, especially small and medium sized companies.The interface of the system with South African Revenue Services, the Companies and Intellectual Property Commission and the payroll system would ensure compliance of supplier tax and BEE status. This approach would ensure that public sector officials doing business with the state were identified and rooted out.

Research clearly indicates that procurement and centralisation tenders are the appropriate avenues to follow if corruption is addressed in the public sector. It will be compulsory that all tenders be advertised on this portal, and all tender documents will be freely available there. FEDUSA agrees that the tender advertisements in newspapers and the government gazette be phased out.The non-payment of suppliers on time is a perennial problem that needs serious attention. This practice works against government’s efforts to grow the economy and develop the small and medium sized enterprises sector.Payment of suppliers within 30 days will now be included among other supply chain management requirements.

# REVENUE, TAX MEASURES AND INCOME TAX

Tax revenue will amount to R979bn in 2014/15, or about R14.7bn less than the budget estimate a year ago. Personal income tax remains a resilient source of revenue, but the slowdown in business conditions is reflected in lower than company tax; value added tax and customs revenue. The 2015 Budget tax proposals aim to increase tax revenues as required, limit the erosion of the corporate tax base, increase incentives for small businesses and promote a greener economy.

Personal income tax rates will be raised by one percentage point for all taxpayers earning more than R181 900 a year, which is approximately R21 a month for a taxpayer below age 65 with an annual income of R200 000. Those earning R500 000 would pay R271 a month more, and at R1.5m a year the tax increase is R1 105 a month. FEDUSA welcomes the adjustments to make provision for tax bracket creep, rebates and medical scheme contribution credits. The net effect is that there will be tax relief below about R450 000 a year, while those with higher incomes will pay more in tax.

FEDUSA supports the recommendations of the Davis Committee that it is important to provide a more generous tax regime for small businesses with a turnover below R1m a year as it may assist employment creation. The Federation is not opposed to granting businesses with a turnover below R335 000 a year with an tax exception status provided that these companies complies with all legislative requirements, and that maximum tax rate is reduced from 6 percent to 3%. The establishment of a small business desk in SARS could assist and support the small business constituency tax compliance and reduce the administrative burden for SMMEs.

The reduction and adjustments of the rates and brackets for transfer duties on the sale of property could to provide tax relief to low and middle-income households. The new rates will eliminate transfer duties on properties below R750 000, while the rate on properties above R2.25m will increase, which is very progressive.

The increase of sin taxes on alcoholic beverages and tobacco products will provide for the harmful effects on the national health system.

* The tax on a quart of beer goes up by 15.5c.
* A bottle of wine will cost 15c more.
* A bottle of sparkling wine goes up by 48c.
* A bottle of whisky will be R3.77 more.
* A pack of 20 cigarettes goes up by 82c.

FEDUSA understands the importance of the amendments to the diesel refund system, which applies in the agriculture, forestry, fishing and mining sectors. Some of these changes will take effect this year and some in 2016 to increase the revenue to the fiscus. The net effect of these proposals on 2015/16 tax revenue is an increase of R8.3bn, which will bring tax revenue for the year to R1 081bn, or about 10.4 percent more than 2014/15 tax revenue.

# FURTHER PROPOSALS

FEDUSA is of the opinion that the tax measures to promote energy efficiency, with industry, the electricity regulator, Eskom and other interested parties needs to be discussed in NEDLAC. The first proposal is a temporary increase in the electricity levy, from 3.5c/kWh to 5.5c/kWh, to assist in demand management. It is important for the social partners to agree to reduce the national MW by at least 2000 during peak times. It is also important to plan load shedding to avoid the damage that unplanned disruptions could have on the ability of the economy.

This additional 2c/kWh will be withdrawn when the electricity shortage is over. Secondly, an increase is proposed in the energy efficiency savings incentive from 45c/kWh to 95c/kWh, together with its extension to cogeneration projects. FEDUSA supports the new carbon tax to be introduced in 2016 to provide an additional tool to deal more sustainably with the current electricity shortage and to require the polluter to pay.

# FINANCIAL LEAKAGES

FEDUSA worked with the ITUC and the TUAC to the OECD to develop support for the G20 and OECD decisions with regard to the implementation of actions and in support of transparency and sharing of information on an international level. The Federation is of the view that the country must similarly stand firm in the SADC against tax havens. The South African Reserve Bank (SARB) and the SARS should work closely together to monitor capital flows and assists in identifying movements of funds for tax reasons. The Federation is of the opinion that it is critical for our national institutions to collaborate with international bank regulators and tax authorities to reduce and prevent both capital leakage and tax evasion.

FEDUSA notes the 50c a litre increase in the Road Accident Fund levy and that it will bring the levy to R1.04 to finance the RAF administration to clear the claims backlog. The current compensation system, which has accumulated au unsustainable backlog of R98bn unfunded liability it is imperative for the new legislation to establish the new Road Accident Benefit Scheme. At the completion of the new legislation will the levy be assigned to the new scheme?

The Unemployment Insurance Fund has accumulated surplus of more than R90bn. Improved benefits are now in the amendments in the Bill before Cabinet, but it is nonetheless possible to provide temporary relief to both employers and employees. The proposal is that the contribution threshold should be reduced to R1 000 a month for the 2015/16 year. This means that employers and employees will each pay R10 a month during the year ahead, putting R15bn back into the pockets of workers and businesses. FEDUSA is opposed to the introduction of a contribution relief for both workers and employers, the effect will be that the enhancements in the Bill will not be able to be introduced to bring it more in line with the ILO conventions and will have a devastating effect on the long term sustainability of the Fund. Furthermore the income ceiling will also change the implementation of the BCEA. The unilateral action by the Finance Ministry undermines social dialogue and social partnership in NEDLAC.

# STATE – OWNED ENTERPRISES

FEDUSA argues that state-owned companies play an essential role in promoting economic growth and social development and it is critical to align the operations and corporate governance to the King III Report and the Company’s Act. State-owned companies will invest about R360bn over the next three years, accounting for about 20 percent of South Africa’s gross capital formation. The financial position of South African Airways (SAA), South African Post Office (SAPO) and the South African National Roads Agency Limited (SANRAL) are unsatisfactory because of political interference and weak corporate governance and undermines the ability of these SOCs to contribute towards the development of the country. Reforms are required to ensure that state companies contribute to building a competitive economy and are not an unnecessary drain on the fiscus.

The Federation hereby proposes that government should consider introducing the co-determination model that is used internationally, where worker representatives are appointed to the boards. Furthermore, all deployees should be properly vetted to avoid unqualified persons being appointed on boards of SOCs. FEDUSA supports the approach that fiscal support to state-owned companies over the period ahead should be financed through offsetting asset sales so that there is no net impact on the budget deficit.

FEDUSA argues that it is critical to stabilise the financial position of Eskom and the enterprises will apply to NERSA for adjustments towards cost-reflective tariffs. It is important for proper cost saving measures to be introduced including executive pay restrictions and banning of long and short-term bonuses. The Federation understand the necessity for the fiscus to allocate R23bn to ensure the sustainability of Eskom.

SAA reported a net loss of R2.6bn in 2013/14, as a result of high operating costs, political interference, deployment of unqualified board members, losses on several international routes and valuation adjustments. Government has made guarantees of R14.4bn available to SAA, of which the airline has drawn R8.3bn. Measures to achieve operational efficiencies and restore profitability are now in progress. The public fails to understand the need for SAA to be bailed out, while other airlines operate on the same routes without bailouts and still contribute towards the fiscus through taxation.

FEDUSA notes the guarantees that have been provided to the South African Post Office (SAPO) on condition of the implementation of new turnaround strategy. The Federation refers to the other recommendations concerning good corporate governance.

# DEVELOPMENT FINANCE

It is argued that Development Finance Institutions (DFIs) help the process of job creation and structural change by addressing market failures through the provision of loans, grants, equity and guarantees. These interventions could lead to better and higher quality investment and benefits to local economic development (Jouanjean et al., 2013).

The Development Bank of Southern Africa, the Industrial Development Corporation, the Land Bank and other national Development Finance Institutions at the end of 2014 had combined assets amounted to R250bn, against liabilities of R107bn. FEDUSA supports the initiatives in progress to strengthen the role of Development Finance Institutions in South Africa. The review of provincial entities aimed at enhancing effectiveness and sustainability, the organisational review of the Land Bank to enhance the support for emerging farmers and commercial agriculture as well as the role of the Development Bank of Southern Africa to lead the municipal debt market.

The Federation supports the Industrial Development Corporation objective to mobilise R100bn over the next five years to promote faster industrial development, mineral beneficiation and agro-processing. The Land Bank could play a critical role to support the Department of Rural Development and Land Reform to bring rural land restitution and redistribution projects to full production. The Land Bank was successful in supporting black farmers through its Retail Emerging Markets division, which has financed over 400 projects and created 7 000 employment opportunities to date, without any defaults

FEDUSA, as a member of the BRICS Trade Union Forum, supports government to sign the treaty to establish the new multilateral development bank to be based in Shanghai, China. The first regional office of the bank will be located in South Africa and could augment the infrastructure investment programme of sub-Saharan Africa countries.

# PENSIONS

FEDUSA is pleased that the Government Employees Pension Fund remains well funded and is soundly managed. FEDUSA support the 5.8 percent pension increase that will be granted to GEPF pensioners with effect from April 2015.

# FINANCIAL REFORMS

FEDUSA supports the establishment of the new tax free-savings accounts will be available from 1 March 2015 as it would encourage saving, which the country needs urgently. The Federation hails the announcement that the first draft of default regulations will be issued shortly for public comment. The central objective of the regulation is to maximise the long-term benefits to retirement fund members, to provide retire provision.

Our financial services sector is one of South Africa’s strengths, but as noted in our recent market conduct policy framework document, it needs to do more to treat customers fairly. The bill establishing two new regulatory authorities, the so-called “twin peaks” reform, will be tabled this year.

The International Monetary Fund confirmed that the South African financial system is stable and our regulatory system sound. FEDUSA welcomes the announcement that it is important to further strengthen regulations for banks, insurers, derivatives and hedge funds. It is essential for these regulations to be completed in NEDLAC. It might be useful for the Portfolio Committee stage a joint workshop with the representatives of NEDLAC.

FEDUSA is also concerned about the problem of excessive household indebtedness and the fact that approximately 45 percent of credit-active consumers have impaired credit records. The reasons for these indebtedness could be part attributed poor market conduct by lenders and financial advisers, the mind-set of South African consumers and unsecured loans. It is important for the Portfolio Committee, major financial institutions and the NEDLAC representatives to stage a joint workshop to develop sustainable solutions to the challenge of excessive household indebtedness.

# CONCLUSION

The 2015 Budget is debated within the context where the economic growth has declined, government debt has increased, electricity is considered as a major constraint and the prospects for the future are particularly bleak. In tough times it is imperative for the social partnership leadership to demonstrate courage and develop multiple solutions through social dialogue to provide decent work and a decent life for all. It is also important to implement the National Development Plan and through dialogue in NEDLAC while co-designing systematic resolutions to strengthen our young democracy to be shared more equitably.

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