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Chairperson: Finance Standing Committee
Parliament of South Africa
120 Plein Street
Cape Town
8000

Dear Chairperson,

1. PURPOSE

The purpose of our document is to provide Parliament with our views and recommendations on the 2019 Fiscal Framework and Revenue Proposals (Medium Term Budget Policy Statement, MTBPS) presented by the Minister of Finance on 30 October 2019.

2. BACKGROUND

2.1. Listening to the MTBPS delivered by the Finance Minister, we were reminded of how dire our financial situation is and wondered if at all we can turn things around.

2.2. According to the Minister, government debt to Gross Domestic Product (GDP) will spiral to 70% in 2022/23 with the current fiscal revenue and expenditure trajectory, without any policy adjustments.

2.3. The situation appear bleak if we consider that our debt to GDP was 26.5% in 2008.

2.4. Like the Minister warned "The consequences of not acting now would be grave for South Africa".

2.5. Consequently, government's ability to deliver the so much needed social services to the majority of our citizens will be negatively affected.

3. DISCUSSION

3.1. There is often debate about what is an appropriate government debt to GDP.

3.2. More like a corporate's debt/equity ratio, sometimes corporates are allowed a higher than usual debt on their balance sheets with the understanding that either the shareholders will inject capital and/ expected increase in earnings to enable the business to reduce its debt to the comfortable level for the lenders.

3.3. In South Africa's case, our economy is only projected to grow at 0, 5% this year, leaving a budget deficit of R53billion. As the Minister mentioned, we are spending more than we are earning. In addition, given our low growth environment, it's not clear how we will reduce the government debt.

3.4. To fund this deficit, the Minister will probably raise taxes, which he alluded to, resulting in less cash in the pockets for spending and investments by corporates and

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individuals, further contributing to a vicious circle of low economic growth we're finding ourselves in.

3.5. Additionally government will borrow in order to balance the budget, attracting additional debt and related service costs without visibility of a clear plan of how this debt will be repaid, hence the increasing debt levels.

3.6. Moody's Investor Service (The only credit rating agency that currently rates South Africa as an investment grade) has put the country on a negative watch, which signals a possible downgrade to junk status, resulting in even more financial resources being allocated towards debt service costs.

3.7. Inevitably, this will negatively impact on the government's ability to deliver on its social-economic mandate.

3.8. As such we do not have an option, but to take immediate steps and be able to demonstrate tangible results in short and medium being cognizant of ensuring that our country become and remain sustainable in the long term.

3.9. We welcome the Minister's focus on the public sector wage bill. We believe that a more focused attention should be made towards rationalization of Government Departments as this will not only reduce costs but will contribute towards improved service delivery.

3.10. Co-ordination of policy implementation in addition to accountability should be prioritized as well.

3.11. Another low hanging fruit is the State Owned Entity (SOE) reforms.

3.12. Apart from Eskom's R26 billion allocation this year, an additional R11 billion is being spent on several SOEs that are in financial distress, an unsustainable situation for the fiscus, in our view.

3.13. Reforms should focus on improving governance, operational and financial performance.

3.14. Good governance must be a top priority for the SOEs. For instance, appointment of boards with suitable skills and experience in areas such as finance, risk management, law, technical, economics and experienced people with experience for running businesses amongst others, in line with the requirements of a business to enable a board to be effective.

3.15. These individuals must be given liberty to appoint credible and suitable executives and hold them accountable. As such a culture of performance management must be created and inculcated within the SOEs.

3.16. Malaysia offers a very good example of how reform SOEs. The government of Malaysia embarked on SOE reforms, with realistic and performance-based objectives that were in line with international benchmarks.

3.17. With the embedding of robust performance management cultures, the reforms resulted in the improvement in the management of SOEs, resulting in better capital allocation, which translated into higher profitability coupled with effective delivery of the SOE mandates.

3.18. The reforms included appointment of suitably experienced and qualified executives and board members. South Africa has depth and breadth of skills and experience and are ready and willing to serve the country, government should tap into this pool of talent.

3.19. Potential partial privatization of South African Airways (SAA) is welcomed, although it should be understood that government may have to implement reforms in order to make

sure SAA is attractive for the potential investors and may also have to offer some form of support for the deal to be attractive.
3.20. As such this should be executed with caution taking into account our experiences and lessons with privatization of Telkom South Africa and Iscor amongst others.
3.21. Of importance, government should ensure that it selects its partners carefully including consideration for strong technical and financial strength and ensure that the risk and rewards are fairly distributed between government and the investor.
3.22. It is also important for privatization to be conducted in a fair and transparent manner.
3.23. Without doubt, significant tangible progress in fixing the ailing SOEs will have an impact on investor confidence, contribute positively towards economic growth and improve the financial positions of the SOEs.
3.24. Another important area is ensuring that, the boardrooms of the SOEs, at both board and executive level are women.
3.25. In 2014, the Women Empowerment and Gender Equality Bill was passed in the National Assembly. The Bill calls for at least 50% representation of women in decision-making structures.

3.26. Five years later, we are no-where closer to that. For instance, of the top 40 companies listed on the JSE Securities Exchange, there is no female CEO. The picture is not too different in the public sector where few women are in positions of leadership. We need to use this opportunity to invite the many women leaders, women achievers to join the table to help solve these problems.

4. CONCLUSION
In conclusion, the dire situation we find ourselves can be turned around, but we must be prepared to do right things including appointing capable boards, who must be supported and given the freedom to appoint suitable executives. In addition, a culture of performance management should be implemented. Furthermore, diversifying the boards by including skilled and qualified women, will bring fresh and innovative ideas to help solve our problems.

5. RECOMMENDATIONS
5.1. SOE reforms:
5.1.1. Immediate SOE reforms focusing on governance, financial and operational performance and ensuring that they deliver their mandates effectively;
5.1.2. Qualified board members with key skills including finance, risk management, technical, law, economics, entrepreneurs amongst others should be appointed;
5.1.3. A culture of performance management should be fostered in order to ensure accountability; and
5.1.4. Privatization of SAA or any SOE should be undertaken in a fair and transparent manner.
5.2. The important role of women
5.2.1. Suitably qualified and experienced women should be appointed to the SOE boards and as executives.

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On behalf of the board and the members of the AWCA, we would like to thank the Committee for the opportunity to make this submission.

Kind regards,
Ms. Zama Khanyile CA (SA)

President
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