

2023 MEDIUM-TERM BUDGET POLICY STATEMENT (MTBPS)

SUBMISSION OF INPUTS TO THE STANDING AND SELECT COMMITTEES ON APPROPRIATIONS

22 November 2023

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Parliament: Republic of South Africa
2009

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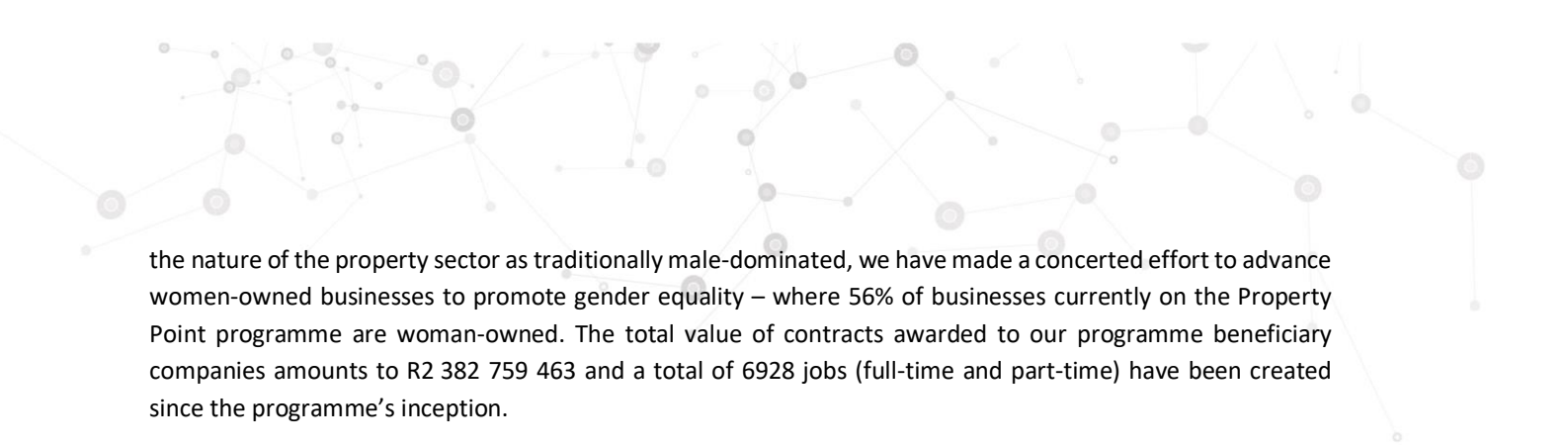
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1. Introduction and Background

Property Point welcomes the opportunity to submit constructive comments on the 2023 Medium-Term Budget Policy Statement (MTBPS). We welcome the emphasis on stabilizing public finances, supporting the most vulnerable and improving growth-enhancing reforms. Our inputs, however, outline concern over government's difficult task to balance the imperative of fiscal responsibility with the crucial goals of promoting socio-economic development through empowering and supporting small businesses and vulnerable groups. With the vital ability of small businesses to drive economic growth and development in South Africa, we argue that the key discussions brought forth through the 2023 MTBPS have a direct and significant impact on small businesses, and should their central role not be considered, the proposed reforms would be to their detriment.

Property Point, established in 2008, is an economic development initiative designed to encourage and develop sustainable businesses in the property sector. It is a partnership between the private sector and social sector which has embarked on a customised SMME (Small, Micro and Medium Enterprises) development programme to drive transformation and economic inclusion in the property value chain. Our carefully developed programme provides entrepreneurs with the skills, training, business, technical and personal development support needed to develop their enterprises into fully independent and sustainable companies.

Over the past 15 years, 518 beneficiary companies have been selected to participate in the Property Point programme and 301 beneficiary companies have successfully graduated from the programme. Understanding



the nature of the property sector as traditionally male-dominated, we have made a concerted effort to advance women-owned businesses to promote gender equality – where 56% of businesses currently on the Property Point programme are woman-owned. The total value of contracts awarded to our programme beneficiary companies amounts to R2 382 759 463 and a total of 6928 jobs (full-time and part-time) have been created since the programme’s inception.

Property Point understands that SMMEs are crucial to the success of South Africa’s economy; and that supporting them is an investment in communities and therefore an investment in the collective future of South Africa. It is therefore against this backdrop that we contribute our inputs and general observations to MTBPS.

2. Inputs to the MTBPS, 2023

2.1 Economic Outlook

The minister outlined a concerning global economic landscape as projected by the International Monetary Fund (IMF), forecasting a decline in global growth from 3,5% in 2022 to 3% in 2023 and 2.9% in 2024. On the domestic front, a modest 0,8% real GDP growth is anticipated for 2023, which is slightly lower than the initial projection at the time of the 2023 Budget. Growth is expected to average 1.4% from 2024 to 2024, a rate deemed insufficient for achieving the desired levels of development argued to be between 2% and 3%. The minister expressed concern over elevated inflation and rand depreciation, posing additional challenges to the economic landscape. Despite these challenges, a positive note emerged as the construction, transport, and communications sectors reported robust growth, offering a glimmer of hope amid the broader economic uncertainties.


2.1.1 Implications for small businesses

South Africa still remains on a low growth trajectory, which has several implications for small businesses and socio-economic development as a whole.

- a) **Reduced Consumer Spending:** As a result of low economic growth, people have less disposable income to spare. This affects small businesses that solely rely on customers for their revenue. Therefore, a sluggish economy is harmful to most businesses since consumers are less likely to purchase their goods and services.
- b) **Higher Competition:** With reduced consumer spending, comes the risk of small businesses having to compete with a smaller pool of customers thus leading to intensified competition and price wars (driving small business competitors out of business).
- c) **Continued rise in unemployment rates:** Sluggish growth can also hurt the labour market as entities become less willing to hire more staff in economically difficult times.

2.2 Fiscal Deficit and Debt Service Costs

We note with concern several aspects of South Africa’s economic standing. The minister acknowledged the substantial weakening of public finances, stating that the main budget deficit has increased by R54,7 billion compared to the 2023 estimates. Moreover, the forecasted main budget deficit for 2023 has worsened, reaching 4.9% of GDP, compared to the 4% estimated in the February budget. Therefore, to cope with the financial challenges, South Africa is projected to borrow an average of R553 billion per year over the medium term. The gross debt is expected to rise from R4.8 trillion in the current financial year to R6 trillion in 2025/26. Over the next three years, debt-servicing costs as a percentage of revenue will rise from 20.7% in 2023/24 to



22.1% in 2026/27. In response to the fiscal challenges, spending has been revised down by R21 billion for the current financial year, with additional proposed reductions of R64 billion in 2024/25 and R69 billion in 2025/26. These announcements collectively underscore the fiscal challenges facing South Africa and the measures being taken to address them.


2.2.1 Implications for small businesses

- a) According to the ministry, South Africa's fiscal outlook has been hindered by the sharp fall in corporate income tax collections and high debt-servicing costs which are crowding out important social spending. Treasury therefore says it will take steps towards spending reductions and reviewing and reconfiguring the structure and size of the state. Among this, is broadening the tax base to raise an additional amount from taxpayers who are already under pressure. The Minister, however, did not disclose where the additional tax revenue would be squeezed from (taxpayers will only find out in the February 2024 budget). This is a clear indication that worsening conditions lie ahead for small businesses.
- b) Consumers are already challenged by high inflation and interest rates, and increasing taxes will be a nail in the coffin. Small businesses will bear a significant portion of the burden due to reduced consumer demand, limited resources and financial flexibility.
- c) We welcome, however, the minister's emphasis on the South African Revenue Services (SARS) improving efficient and enforcing compliance. We propose that these measures be focused on instead of increasing tax (either income or value-added).
- d) South Africa's decision to increase their borrowing, albeit not being in a good credit stance with rating agencies, is not an attractive option and will have significantly negative implications for small businesses. Should South Africa be unable to service its debt, it can lead to a worsened credit rating. This leads to higher interest rates, increased lack of investor confidence and an impossible environment for small businesses to thrive. Additionally, increased government borrowing can increase interest rates thus making it more difficult for small businesses to access additional funding for their operations.

2.3 Energy

We welcome the positive solutions to resolve South Africa's electricity crisis are making traction as outlined by Treasury. Despite experiencing more power cuts through September 2023 than in the entire year of 2022, the government is optimistic about resolving the issue. Treasury emphasized the implementation of additional generation capacity through renewable energy investments and improved operational efficiency, which holds significant implications for small businesses. This aligns with a recent study conducted by Property Point which underscores the importance of generating markets and consumer interest in the energy sector by promoting awareness in society, thus shaping consumer preferences geared towards energy-efficient products. This not only creates opportunities for small businesses to meet the rising demands for these products, but it also provides a pathway for market access.

Despite expectations surrounding the MTBPS, there was a notable absence of updates on the Energy Bounce-Back Loan Guarantee Scheme and its implementation in the speech. The government also outlined plans to implement tax and expenditure measures to support the growing new energy automotive sector, recognizing its significance as a major export and source of employment. These measures align with global trends toward sustainable and environmentally friendly practices however careful consideration on the impact they will have on small businesses should be stated.



Positively, these measures provide an opportunities and access into markets for small businesses along he supply chains of new energy vehicles or related technologies. However, we raise with concern the negative implications this transition to new energy vehicles may have on small businesses. The transition may lead to shifts in market demand and challenges for small businesses that rely on traditional automotive technologies and processes - essentially affecting the competitiveness of small businesses that may be slower to adapt. Therefore, government should carefully consider ways to mitigate job displacement, and to ensure inclusivity and accessibility for small businesses.

The hope is that such measures will protect vulnerable groups of society and ensure that the transition is in fact *just*.

2.3.1 Implications for small businesses

The energy crisis in South Africa has caused rolling blackouts, crippling businesses, disrupting daily life and impeding economic growth. The uncertainty and unpredictability of load-shedding makes it challenging for small businesses to plan effectively therefore affecting their ability to meet customer demands.

2.4 Logistics


We note with concern that South Africa's logistics systems is riddled with significant challenges particularly evident in the deteriorating performance of rail services and inefficiencies at ports. The consequences of rail underperformance are estimated to have amounted to 5% of GDP in 2022, with the minerals sector alone experiencing approximately R50 billion in losses. Ahead of the MTBPS, Transnet sought a bailout of more than R100 billion which was denied by Treasury. The Transnet board had presented a turnaround and recovery plan, which includes interventions aimed at preventing further decline of the state-owned transport entity. Minister Godongwana acknowledged the dismal operational performance of Transnet, citing "weak profitability and deteriorating liquidity" resulting from operational challenges, a high debt burden, and low cash flows. Notably, any financial support from the Treasury for transforming the logistics sector is contingent upon Transnet meeting objectives set by the government. The situation underscores the urgency for reform and improvement within the logistics system to mitigate economic losses and enhance operational efficiency.

2.4.1 Implications for small businesses

With small businesses heavily reliant on these logistics systems, they may struggle to maintain smooth operations, meet customer demands, and achieve profitability and growth targets. Further delays in addressing the swift execution of reforms in the logistics industry only further burdens small businesses and livelihoods.

2.5 Infrastructure

We are pleased to hear of the steps taken towards ensuring a strong and conducive infrastructure ecosystem, albeit plagued by many challenges. Investment into infrastructure was highlighted as a crucial way to unlocking growth. Some of these include: government to widen the scope for concessional borrowing by creating new mechanisms through private-sector investors and multilateral institutions to co-invest with government for selected infrastructure projects; the establishment of an Infrastructure and Implementation Support Agency that will systematically address the need to crowd-in private sector finance and expertise into the public



infrastructure programme and the amendment of regulatory instruments to drive investment into the public infrastructure ecosystem.

2.5.1 Implications for small businesses

Infrastructure is a catalyst for small businesses, allowing them to thrive in an enabling environment filled with opportunities, growth, innovation, and access to basic services.

2.6 Socio-Economic Development

We welcome the budget allocation of R34 billion to extend the COVID-19 Social Relief of Distress grant by another year. This means that people who get the R350 monthly stipend will continue benefitting until March 2025 – a huge relief for the unemployed and in-need. We do note with concern, however, that as in the 2022 MTBPS, no specific mention was made towards supporting the youth and women in South Africa. In his virtual address to mark National Women’s Day, President Cyril Ramaphosa pronounced that the government had resolved to set aside 40% of public procurement to women-owned businesses in a bid to achieve equality and establish an enabling environment for women-owned businesses. However, no mention was made of the progress made in this regard during the 2023 Budget Speech and the MTBPS 2023. Similarly, In the 2022 MTBPS, it was mentioned that R500 million would be set aside to kick off the Home Affairs digitisation project, which will employ 10,000 young people over 3 years. We had hoped for the Finance Minister to provide an update on progress made in this regard.

3. Concluding General Observations

Property Point welcomes the opportunity to provide comments on the 2023 MTBPS. While we acknowledge Treasury’s commitment to stabilising public finances, concerns are raised addressing fiscal responsibility while not abandoning the imperative of empowering small businesses. The implications for small businesses are outlined in various sections, emphasising the need for careful consideration and tailored support to ensure their resilience and contribution to South Africa’s economic development. Property Point underscores the critical role of small businesses and advocates for inclusive policies that prioritises their growth and sustainability.