BUSA
BUSINESS UNITY SOUTH AFRICA

NATIONAL OFFICE
First Floor, 3 Gwen Lane, Sandown, 2196
P.O. Box 652807, Benmore, 2010
Tel: +27 11 784-8000/1/2/3 | Fax: +27 (0) 86 609 8248
E-mail: busa@busa.org.za | Website: www.busa.org.za

PARLIAMENTARY OFFICE
9 Church Square, 1st Floor Graaffs Trust Building
Cape Town, 8001
P.O. Box 3867, Cape Town, 8000
Tel: +27 21 465 1633 | Fax: +27 21 461 5470

BUSINESS UNITY SOUTH AFRICA

SUBMISSION TO THE STANDING COMMITTEE ON FINANCE

FISCAL AND REVENUE PROPOSALS FOR 2012/2013

CAPE TOWN

28 February 2012

BUSA
BUSINESS UNITY SOUTH AFRICA

Table of Contents

BUSINESS UNITY SOUTH AFRICA

BUSA SUBMISSION TO THE STANDING COMMITTEE ON FINANCE

FISCAL AND REVENUE PROPOSALS FOR 2012/2013

1. INTRODUCTION

Business Unity South Africa is a confederation of business organisations including chambers of commerce and industry, professional associations, corporate associations and unisectoral organisations. It represents South African business, including small and medium enterprises, on macro-economic and high-level issues that affect it at the national and international levels.

BUSA's function is to ensure that business plays a constructive role in the country's economic growth, development and transformation and to create an environment in which businesses of all sizes and in all sectors can thrive, expand and be competitive.

As the principal representative of business in South Africa, BUSA represents the views of its members in a number of national structures and bodies, both statutory and non-statutory. BUSA also represents Business' interests in the National Economic Development and Labour Council (NEDLAC).

BUSA welcomes the opportunity to submit comments on the 2011/2012 fiscal and revenue proposals and related budget documentation as tabled in Parliament by Minister of Finance Pravin Gordhan on 22 February 2012.

2. ECONOMIC OVERVIEW

2.1 Global Economic Outlook

BUSA shares the realistic assessment in the Budget Speech of SA's economic prospects and its identification of the major external and internal challenges facing the economy. In its previous submission to the Committee on 15 February 2012, BUSA outlined the global economic outlook very much along the lines of the latest budget speech – and also saw the international economy presently as one of lower growth and higher risks. The global outlook looks marginally better at the moment but the domestic economy remains vulnerable to a volatile global environment. There remains, of course, an asymmetric growth performance between developed countries and developing economies like China and India, to which the Minister of Finance also referred. Against this background, BUSA therefore agrees with the Minister of Finance that SA needs to be globally competitive in a changing world. This indeed requires flexibility, innovation and leadership in both the public and private sectors, if we are to create a more adaptable economy.

2.2 Domestic Economic Outlook

BUSA agrees that real GDP in 2012 is likely to be about 2.7%, with the possibility of rising beyond 3% in 2013. While there is always margin for error in such forecasts, it broadly approximates what several institutions and analysts, including BUSA, have suggested for growth in 2012.

Table: National Treasury and BUSA Forecasts Broadly Converge
(BUSA figures in brackets)

REAL GROWTH %	**2011** Estimate	**2012** Forecast	**2013** Forecast
Household Consumption	4.9 (4.9)	3.6 (4.0)	3.8 (4.2)
Gross Fixed Capital Formation	4.3 (4.2)	4.1 (4.2)	4.5 (4.5)
Exports	6.0 (5.5)	2.9 (2.0)	5.8 (4.0)
Imports	9.4 (8.8)	7.2 (6.9)	7.1 (8.0)
GDP	3.1 (3.1)	2.7 (2.7)	3.6 (3.5)
Current account balance (% of GDP)	-3.3 (-3.7)	-4.3 (-4.3)	-4.5 (-4.5)

Although these are positive growth rates, they remain inadequate to meet SA's socio-economic challenges. There was a welcome improvement in job creation during 2011, but employment has not yet returned to its 2008 peak and the unemployment rate remains high at 23.9%. Most of these jobs have come in the formal private sector and the economy is projected to add about 850 000 more jobs over the next three years – at least 75% of these in the private sector. But this will still leave overall unemployment at unacceptably high levels and below the employment targets of the NGP. Accepting this reality, the Budget strategy rightly adopts a stronger pro-growth stance to encourage faster and more inclusive economic growth.

3. POSITIVE FEATURES OF THE 2012 BUDGET

3.1 General Approach

Overall, BUSA views the 2012/13 Budget as credible, broadly balanced and confidence building. We believe that the Budget opens up a range of potential new possibilities for growth and development, which should be implemented or exploited as soon as possible. BUSA welcomes the recognition in the Budget Speech of the "substantial role" that needs to be played by private sector investment to realize the goals of growth and job creation. This again emphasizes why policy direction needs to be certain, predictable and coherent in

order to create an environment in which the private sector continues to produce, invest and employ. There should be no ambiguity about the crucial role of the private sector.

Given the fact that we live in a rapidly changing world, BUSA believes that the latest Budget creates a "window of opportunity" to do things differently and better – provided it becomes a truly collaborative effort and that decisions are effectively implemented. The Budget Speech should encourage a longer term perspective on SA's growth and development and the policy choices that have to be made. Against this backdrop, BUSA will identify certain selected aspects of a wide-ranging Budget Speech.

3.2 Specific positive aspects

3.2.1 The debt profile in the 2012/13 Budget appears more sustainable than the picture presented last year but fiscal space remains limited with gross debt levels expected to stabilize at under 43% by 2015. The National Treasury should be encouraged to finalise its promised long term outlook study for public finances, drawing on certain accepted principles, and taking into account SA's demographic trends and socio economic challenges. This would include the appropriate balance between consumption and investment spending by the state.

3.2.2 BUSA supports the commitment in the Budget Speech to take the tough decisions needed to keep the fiscus on a sustainable track. It is important that there is a collective determination on the part of government to control state spending and to phase in fiscal consolidation over the medium term. State spending on recurrent items needs to be brought under control. As the National Treasury points out in the *Budget Review* the current Eurozone crisis, where out of control government spending played a major part in precipitating it, is a salient lesson for SA.

3.2.3 BUSA is pleased with the central priority that the Budget placed on the expanded infrastructure program. This initiative should not only aid in building modern infrastructure, but will also help to reduce poverty, create decent work and expand employment opportunities. Given the importance of a successful infrastructural programme to South Africa - as well as the amount of money involved - it is essential that these programmes are rigorously assessed and the economically viable and necessary ones are implemented as quickly as possible. All projects need to make economic sense or they will eventually have a contractionary influence on the economy. Infrastructural projects where there are possibilities of contestation should be carried out and funded by the private sector. Where there are so-called "natural" monopolies the state obviously has a role to play but there is still space for private sector involvement.

3.2.4 The Private Public Partnership framework is a sound one in its concept but needs strengthening and extended implementation. Business has recently completed a study on how PPPs could be improved and plans to discuss the report with National Treasury soon.

Partnership with the private sector in procurement is not the only area where the private sector and government can work more successfully together. Examples from the Budget Speech include the following:

- Infrastructure roll out
- Fraud and corruption
- Cities Support Program
- Municipal Infrastructure Support Agency

The challenge for the private sector in supporting spheres of government, especially local authorities, could perhaps be addressed by the establishment of an agreed framework within which companies and organised business chambers could offer support.

3.2.5 We also look forward to the Infrastructure Summit which the President is planning to convene soon. The Presidential Infrastructural Coordinating Commission can play a leadership role in identifying projects and clarifying long term investment plans to drive economic change in ways which remove constraints that inhibit growth.

3.2.6 We welcome further tax relief for small business and micro-enterprises and the announcement that the tax regime for SMMEs will be simplified. It is the small and emerging business sector that has the greatest potential for job creation. Nonetheless, we need to examine why many small businesses remain labour "minimisers" because of other obstacles to employment.

3.2.7 Support for improved competitiveness is rightly referred to a number of times in the Budget Speech. We are aware that government has been working on a new approach to such support for some time and trust that the measures will be implemented this year. The tax rebate for energy efficiency savings which was announced in the 2012/11 budget speech is still not operational. As a year's worth of data is required to access this rebate it would be a pity to allow another tax year to pass without this being in place.

3.2.8 The Budget rightly emphasized that as a major mining economy we should be taking advantage of the buoyancy in commodity markets internationally.

3.2.9 Business supports the anti-fraud and anti-corruption initiatives that aim to combat these offenses through changes to procurement policies and practices. The role of the proposed Chief Procurement Officer in the National Treasury will be crucial in

this regard. The introduction of a national price reference system to detect deviation from acceptable prices in the tender system is welcomed. The possibility of using this system to allay fears of line departments who are not comfortable with the designation of locally manufactured goods for fear of price premiums having to be paid, could be usefully explored.

3.2.10 We are pleased to note that government will engage further before implementing the carbon tax. BUSA looks forward to the opportunity of making further inputs during the second round of public comment and consultation on the issue of carbon taxes, as well as engaging on the separate issue of special economic zones.

3.2.11 On the Gauteng tolls, we appreciate efforts to reduce the impact of the programme on the economy, but regret that the matter has now become "non-negotiable". The issue is not so much around the user-pays principle than the inordinately high administrative costs associated with this particular project. This has not been addressed in the proposed solution.

3.2.12 In view of the fact that about 60% of socio-economic delivery takes place at local level, BUSA endorses the emphasis placed in the Budget on support for local municipalities, which will serve to stimulate local economies if effectively implemented.

3.2.13 BUSA recognises that social security reform and the national health insurance are being realistically phased in within a framework of fiscus sustainability.

3.2.14 BUSA welcomes the emphasis in the Budget Speech on finalizing the Youth Wage Subsidy Scheme and hopes it will be implemented as soon as possible. The National Treasury estimates that 178 000 nett new jobs will be created at a cost per job of R28 000. The whole scheme will cost R5 billion over 3 years.

3.2.15 The usefulness of pre-budget consultation was enhanced by the willingness of the Minister of Finance to hold such a consultation with the Nedlac constituencies earlier this year. This proved to be a valuable exercise for both the National Treasury and the social partners.

BUSA therefore views the Budget through the prism of both the New Growth Path (NGP) and National Development Plan (NDP), which outline several of the levers of economic change supported in the latest budget. 2012 needs to be the year in which SA must see more tangible outcomes from key programmes like the NGP and NDP.

4. SOME VULNERABILITIES AND RISKS IN THE 2012 BUDGET

4.1 Keeping recurrent state spending under control

South Africa's headline fiscal ratios appear healthy but this can mask vulnerabilities. State debt costs remain the fastest growing item of state spending. Unless recurrent state expenditure is kept under control, any further accidents to growth (following a global recession, for example) and/or in interest rates (if the rand weakens suddenly) could push the ratio of gross debt to GDP to a danger limit of 50% (the generally accepted rule of thumb for emerging as opposed to developed economies). At these levels a debt trap becomes a significant risk and other development goals could be put in jeopardy.

4.2 Implementation of the Infrastructural Programme

4.2.1 The Achilles' heel of infrastructural and other development plans could be an eventual failure to create "a capable state focused on delivery". Delivery on infrastructural spending is essential, as under-spending has harmed growth potential. The Minister of Finance has acknowledged weakness in the rollout of large infrastructure projects. BUSA therefore supports the emphasis placed in the Budget Speech as well as in the NDP, on the need for professionalism in the public service. South Africa needs to focus "relentlessly" on building a professional civil service. As the NDP says, "It is necessary to build a skilled and professional public service from both the top and the bottom." The NDP proposals in this regard require urgent attention, and ways in which the private sector can assist should be explored.

4.2.2 While business supports the need for better infrastructure, the 'bunching up' and cumulative effect of excessive rises in administered prices is currently having a negative impact on our economic performance. Pricing decisions appear to have been ad hoc, with responses to individual SOE financial requirements being implemented without adequate consideration of the cumulative effect. We welcome the acknowledgement of the electricity price challenge in the State of the Nation Address. There needs to be a better planned and coordinated approach to the issues of affordability in decisions around administered prices and their effect on the cost of doing business in SA. Unless a better formula can be found for the pricing policies of certain SOEs, there is the risk that excessive tariff increases will further aggravate cost inflation and therefore have implications for interest rate policy. The Governor of the Reserve Bank Ms Gill Marcus has queried the need for Eskom to be given any further above-inflation increases, noting that "the determination of administered prices should not act as an inhibitor to growth and investment".

4.2.3 If SOEs are to be effective players in development it is essential that their role be appropriately defined and managed. The expected report from the Presidential Commission on the Performance of SOEs is due shortly and could be of assistance in

taking new decisions about the role and performance of SOEs. SOEs need to enlarge their investor base and develop more cost-effective financing models.

4.3 Tax and Related Changes

As there is usually no prior consultation on tax changes it is not always possible for the National Treasury to anticipate unintended consequences arising for the economy in general, or for sectors in particular, from tax decisions. The combined impact of the increase in the fuel levy, in the electricity levy, and the imposition of e-tolls could have a serious impact on sectors such as transport, travel and tourism. The Committee will need to interrogate these aspects with the sectors concerned as well as with the National Treasury. Recent changes to tax legislation have significantly increased the complexity of tax assessments.

4.4 Social Spending

It remains essential to maintain an effective social safety net system in SA to alleviate poverty and the social grant system has been very necessary in this regard. As the Budget Speech points out, social spending will comprise 58% of government expenditure next year, up from 49% a decade ago. About one third of the population receive a social grant of one kind or another. As the Minister of Finance nonetheless says in the Budget Speech, redistribution is "not a substitute for economic growth and job creation". The more SA can push up its levels of growth and employment, the less a large proportion of the population will be dependent on welfare.

5. CONCLUSION

As the recent debt-ceiling fiasco in the US, the continued haggling in the Eurozone over the Greek and Italian debt crisis and even the long-standing structural problems in the Japanese economy show, the most important lesson is the peril of procrastination. Unless a country uses its opportunities timeously to change its course through structural change, the options of policymakers to tackle the challenges narrow. The NGP, the NDP and the latest Budget must help to create an environment which encourages long-term thinking about SA's economic prospects by all stakeholders.

Now that the 2012 Budget Speech has been delivered, the next steps are for SA to implement effectively what has been agreed and funded, and to deliver on our promises by building on our economic strengths and addressing our weaknesses. BUSA has pledged itself to assist where it can to improve South Africa's economic performance and to work in partnership with government wherever possible. That is the overall message that business will promote as we move to the challenges of 2012.

28 February 2012
Cape Town