2019/20 SOUTH AFRICA YEARBOOK
Finance
and Economy
Entered main
carrier market
1st LTE-A
Commercial
launch in SA
1999
2005
2007
2014
2015

Finance and Economy

More rapid and sustained economic growth is the central requirement to building a prosperous and equitable South Africa. This remains government's core policy objective. Higher growth would also reduce pressure on the public finances. Achieving this requires decisive steps to build confidence, promote investment and employment, reduce anti-competitive practices and eliminate regulatory blockages.

Over the past year, economic growth has been weaker than forecast and is only expected to reach 0.9% in 2020, rising to just 1.6% in 2022. Electricity shortages have put the economy under great strain and demands from Eskom and other financially distressed state-owned companies (SOCs) drain public resources. In 2019/20, revenue collected was expected to be R63.3 billion lower than forecast in the 2019 Budget Review.

By 2022/23, gross government debt is expected to rise to 71.6% of the gross domestic product (GDP).The most immediate and crucial reform is to ensure adequate electricity supply for businesses and households.

The South African economy contracted by 1.4% in the fourth quarter of 2019, following a contraction of 0.8% (revised) in the third quarter. Transport and trade were the main drags on overall activity. Seven of the ten industries contracted in the fourth quarter. Finance, mining and personal services managed to keep their heads above water, but this was not enough to prevent the economy from sliding into its third recession since 1994.

A decline in both freight and passenger transport dampened growth in the transport and communication industry, which slumped by 7.2%. The transport and communication industry contributed the most to the 1.4% fall in GDP (-0.6 of a percentage point). Retail trade sales and restaurant trade were up in the fourth quarter, but this was insufficient to counteract the fall in motor trade, wholesale and accommodation, which dragged the trade industry lower by 3.8%. The industry was the second biggest drag on the GDP.

The country produced less motor vehicles and transport equipment in the fourth quarter, contributing to the 1.8% dip in manufacturing. Wood, paper and publishing production was also down, further hurting the industry. Petroleum production was up, however, as a result of recovery from plant maintenance in the previous quarter, but this was not enough to lift overall manufacturing growth into positive territory.

The prize for the longest losing streak goes to construction. With its sixth consecutive quarter of economic decline, the beleaguered industry has only seen one quarter of positive growth since the beginning of 2017. Non-residential construction fell sharply in the fourth quarter, with approvals for office space construction – in square metres – falling to its lowest point in two decades.

Agriculture experienced its fourth consecutive quarter of negative growth, falling by 7.6%. Late rains and heatwave conditions across the country – in particular the Eastern Cape and Free State provinces – affected the production of field crops. The country also produced less horticulture products in the fourth quarter. Ironically, as drought affected one industry, heavy rains damaged another. Flooding at some power stations and disruptions to coal deliveries, caused by rain, contributed to the electricity, gas and water supply industry's poor showing in the fourth quarter.

The industry didn't escape the shock of the heatwave either. Falling dam levels in various parts of the country resulted in water restrictions, reducing activity in the water supply industry.

The number of civil servants employed decreased across all levels of government, with the exception of municipalities. This dragged the industry lower by 0.4%. In particular, contracts for part-time employees came to an end across a number of higher education institutions. There were also a number of terminations and retirements across other spheres of government.

In contrast, three industries contributed positively to GDP growth in the fourth quarter. Personal services – which includes activities related to healthcare, social work, recreation and education – increased by 0.7%. Mining growth in the fourth quarter was driven largely by platinum group metals, iron ore and gold. Coal production fell in the quarter, mainly as a result of lower demand and heavy rains affecting production. Manganese and diamonds also pulled growth lower. The growth of 1.8% contributed only 0.1 of a percentage point to the growth of the economy.

The finance industry, once again, posted positive growth, showing resilience against tough economic conditions. The industry, which includes banking and insurance services, has enjoyed consistent growth over the last decade. The increase of 2.7% contributed 0.6 of a percentage point to overall growth.

The South African economy grew by 0.2% in 2019, the lowest reading since 2009 when the economy contracted by 1.5%. Agriculture was the main drag on growth in 2019, followed by construction, mining and manufacturing. Finance and government were the main positive contributors to growth.

Economic indicators

Domestic outlook

Real GDP growth slowed from 0.8% in 2018 to a projected 0.3% in 2019. The National Treasury forecasts economic growth of 0.9% in 2020, 1.3% in 2021 and 1.6% in 2022. Downward revisions to domestic and global demand mean that average growth is projected at 1.3% over the next three years, well below the 1.8% average from 2010 to 2018. With the population growing at 1.4% over the next three years, per capita GDP is set to decline.

Serious risks to the forecast include further deterioration in the financial condition of SOCs, with attendant demands on the fiscus; unreliable power supply; and policy inertia and slow implementation of structural reforms.

Household consumption

Household consumption growth averaged 1.1% in the first nine months of 2019, down from 2.1% in the same period of 2018. This was a result of weaker employment, low growth in disposable income, fragile consumer confidence and high administered prices. The consumer confidence index remained at -7 index points in the second half of 2019, its lowest level since late 2017. Real disposable income growth decelerated sharply in the third quarter to 0.1% as nominal compensation growth slowed in line with moderating inflation.

Annual growth in credit extended to households, which averaged 6.4% in 2019 compared to 4.6% in 2018, continued to support consumption. Reductions in the prime lending rate have not been fully matched by declining debt-service costs. This is likely driven by debt growth outpacing growth in disposable

income, and by rapid growth in costly unsecured credit (10.2%), compared with growth in secured credit (5.3%).

Over the next three years, household consumption is expected to recover gradually. A sustained increase in consumption requires faster growth in economic activity, employment and net wealth, and a reduction in household debt.

Global outlook

Global growth slowed to a post-crisis low of 3% in 2019, and will decelerate further in 2020. The COVID-19 outbreak has severely reduced output in the first quarter of the year, and the disruption was expected to intensify in the second quarter. After that, the outlook is uncertain, but most analysts expect a rebound which will push up growth by 2021, although more adverse scenarios are conceivable. In China, where the outbreak began, the economy likely contracted in quarter-on-quarter terms at the start of the year, but is now recovering. By contrast, in the euro area and the United States (US) – the other largest blocs in the global economy – the disease effects only became widespread towards the end of the first quarter, with the turning point not yet in sight. A number of other large economies have also locked down, often pre-emptively, which is prudent but will massively reduce economic activity in the short term. In the major economies, monetary policies have become even more stimulative. In particular, the US Federal Reserve has lowered its policy rate to just above 0%, completely unwinding the interest rate normalisation of 2015 – 2018, and restarted quantitative easing. Similarly, the Bank of England has cut interest rates to almost zero, while the European Central Bank has expanded its quantitative easing programme and established a new asset-purchase facility. Inflation in these economies is likely to slow further in 2020, having already been below targets in 2019 (at 1.5% in the US, 1.8% in the United Kingdom and 1.3% in the euro area). Advanced economy central banks are now, once again, all encumbered by the zero lower bound, which prevents interest rates from being lowered too far into negative territory. In the emerging markets, by contrast, interest rates have not dipped to zero and inflation has not persistently undershot targets, leaving these central banks with more policy space.

In April 2020, the government announced a massive social relief and economic support package of R500 billion – amounting to around 10% of the GDP to mitigate against the blow of COVID-19 in the country. President Cyril Ramaphosa announced the intervention as the country saw a rise of COVID-19 cases.

The package formed part of the second tier of the country's three phase economic response to stabilise the economy, address the extreme decline in supply and demand and protect jobs. The social relief and economic support package was to cater for an extraordinary health budget to respond to the pandemic, the relief of hunger and social distress, support for companies and workers and the phased re-opening of the economy. The third phase would be the economic strategy implemented to jumpstart the recovery of the economy as the country emerges from the pandemic.

In March and April 2020, the South African Reserve Bank (SARB) cut the repo rate by 100 basis, taking it down to 5.25% and 4.25%. respectively.

In addition to continued easing of interest rates, the bank took steps to ensure adequate liquidity in money and government bond markets, and to ease capital requirements to free capital for on lending by financial institutions. By June 2020 more than 18 million South Africans had received temporary COVID-19 grants which, along with other interventions for vulnerable households, costed about R41 billion. In its first few weeks of operation, the COVID-19 loan guarantee scheme had provided small businesses with over R10 billion worth of loans.

As of mid-June 2020, the Unemployment Insurance Fund (UIF) had provided R23 billion in COVID-19 relief to over 4.7 million workers. Balance sheets and operational capacity of the broader public sector were adjusted to form part of the national response. These included SOCs, the social security funds and public entities such as the National Health Laboratory Service and the South African Social Security Agency.

In addition, the government strengthened its working partnership with the private sector in response to the national emergency. The private health sector made valuable contributions, providing critical care beds at a favourable rate and complemented efforts to ramp up testing. The Solidarity Fund, a private-sector initiative, augmented government's efforts to procure medical and personal protective equipment. To support economic relief efforts, the banking sector extended nearly R12 billion in debt relief to over 124 000 small and medium-sized enterprises.

Commercial banks granted 90-day payment holidays to more than two million clients for relief, totalling R16.5 billion by August 2020. Initiatives such as the Sukuma Relief Programme and the South African Future Trust provided interest-free loans and grants to small and medium-sized firms.

Investment

Investment contracted by 0.7% in the first nine months of 2019, due to slowing private sector investment growth and continued contractions in public investment. Weak balance sheets have contributed to pervasive capital underspending, and the winding down of construction activity at Medupi and Kusile power stations has also reduced investment. Growth in private sector capital spending is expected to have declined from 2.1% in 2018 to 1.7% in 2019.

Private sector investment, which is expected to average 12.6% of GDP in 2019, is forecast to recover moderately, reaching 12.8% of GDP in 2022. This pattern will be supported by improved global growth, the need to replace capital stock and an uptick in confidence over the forecast period. Large investment projects, such as the renewable energy Bid Window 4 projects, provide further support.

Although investment in SOCs is expected to remain constrained, initiatives such as the Infrastructure Fund are expected to crowd in private and public investment towards the end of the forecast period.

Credit rating

In March 2020, Moody's Investors Service (Moody's) downgraded South Africa's long term foreign and local currency debt ratings to 'Ba1' from 'Baa3' and maintained the negative outlook – one notch below investment grade. According to Moody's, the key drivers behind the downgrade were:

- structurally very weak growth and constrained capacity to stimulate the economy; and
- inexorable rise in government debt over the medium term.

The negative outlook reflects the risk that economic growth will prove even weaker and the debt burden will rise even faster and further than currently expected, weakening debt affordability and potentially, access to funding.

In April 2020, Standard & Poor (S&P) also lowered South Africa's long term foreign and local currency debt ratings further into non-investment grade to 'BB-' and 'BB' respectively. The agency revised the outlook to stable from negative. According to S&P, the downgrade was a result of COVID-19 related pressures that would have significant adverse implications for South Africa's already deficient growth and fiscal outcomes. The stable outlook reflected the balance between pressures related to very low GDP growth and high fiscal deficits against the country's deep financial markets and monetary flexibility.

Employment

Job creation and wage growth are not easily achievable in the context of low economic growth. In 2019, formal non-agricultural employment fell 0.7%, bringing total employment to 11.3 million people. Annual private sector wage growth per worker was just 2.4% in the first nine months of 2019, compared with public sector wage growth of 7.2%. Total wage growth has outpaced profit growth since 2008.

Price inflation

Weak domestic demand continues to limit firms' ability to pass higher prices on to consumers – a trend reinforced by low global inflation. Consumer price index (CPI) inflation and core inflation averaged 4.1% in 2019. CPI inflation is expected to rise to 4.5% in 2020, mainly due to rising meat and electricity prices, and is forecast to remain about 4.6% over the medium term. Inflation expectations remain well-anchored.

There is a risk that higher administered prices and exchange-rate depreciation could put upward pressure on inflation. Downward pressure could emanate from weaker-than-expected global inflation and continued pressure on retailer margins.

Annual consumer price inflation was 4.6% in February 2020, up from 4.5% in January 2020. The CPI increased by 1.0% month-on-month in February 2020. The main contributors to the 4.6% annual inflation rate were food and non-alcoholic beverages; housing and utilities; transport; and miscellaneous goods and services. Food and non-alcoholic beverages increased by 4.2% year-on-year and contributed 0.7 of a percentage point to the total CPI annual rate of 4.6%. Housing and utilities increased by 4.7% year-on-year and contributed 1.2 percentage points. Transport increased by 6.2% year-on-year and contributed 0.9 of a percentage point. Miscellaneous goods and services increased by 6.3% year-on-year and contributed 1.0 percentage point. The annual inflation rates for goods and services were 4.9% and 4.3% respectively.

Government expenditure

Government spending remains highly redistributive, with 55.4% of the budget allocated to learning and culture, health and social development.

Total consolidated government spending is expected to be R6.14 trillion over the medium term. Main budget non-interest expenditure will grow from R1.54 trillion in 2020/21 to R1.65 trillion in 2022/23. Relative to the 2019 budget, main budget non-interest spending is reduced by R156.1 billion over the medium term. This is largely due to proposed measures, amounting to R160.2 billion, to reduce growth in the public-service wage bill.

The 2019 Medium Term Budget Policy Statement (MTBPS) noted that weak economic performance, revenue outcomes and balance sheets of several SOCs have necessitated reductions in government spending over the Medium Term Expenditure Framework (MTEF) period. The 2020 budget includes baseline reductions of R66 billion in 2020/21, R88.1 billion in 2021/22 and R106.8 billion in 2022/23. These include reductions to compensation ceilings and government programmes.

Cost pressures, including new and urgent priorities, have been funded through a combination of reallocations and reprioritisations over the MTEF period. Despite these fiscal measures, government debt as a share of GDP continues to increase. Debt-service costs remain the fastest-growing expenditure item at an annual average rate of 12.3% and will increase to R290.1 billion in 2022/23.

Total consolidated government spending is expected to grow at an average annual growth rate of 5.1%, from R1.84 trillion in 2019/20 to R2.14 trillion in 2022/23. Debt-service costs are the fastest-growing expenditure item over the medium term, rising at an annual average rate of 12.3% – more than double the average growth rate for total expenditure.

Despite proposed reductions in compensation ceilings, compensation of employees continues to account for the largest portion of total spending, at 32.7% over the medium term.

Transfers and subsidies, including transfers to local government and public entities, account for 33.1% of total spending. Public sector infrastructure spending remains proportionately low, as capital spending continues to be crowded out by rising consumption spending pressures, including the Public Service Wage Bill, and debt-service costs.

In June 2020, the National Treasury revised the 2020 Budget national share from R758 billion to R790 billion.

The revision of the budget would also see the provincial share decrease from R649 billion to R645 billion. The local government share increased from R133 billion to R140 billion due to its centrality in South Africa's response to the COVID-19 pandemic.

An additional R11 billion was allocated to local government through the equitable share. A further R9 billion was reprioritised within allocated conditional grants to fund additional water and sanitation provision and the sanitisation of public transport.

The National Treasury also announced that the country's economy was projected to contract by 7.2% in 2020 as a result of the COVID-19 pandemic – the largest contraction in nearly 90 years. Inflation was likely to register 3% in 2020. The February budget forecast growth of 0.9% and expected that the global economy would expand by 3.3% in 2020. The National Treasury now expects a global contraction of 5.2% – bringing about the broadest collapse in per capita incomes since 1870. It further elaborated that while the scenarios outlined in the special adjustments budget are intended to illustrate potential policy outcomes, data and projections may change significantly in the months ahead.

Special Adjustments budget

In June 2020, the government announced a special adjustments budget with the aim of reporting on the COVID-19 fiscal measures and the resulting adjustments to the division of revenue and departmental allocations; and setting out government's commitment to strengthen the public finances, and to position the economy for faster and inclusive growth.

The budget highlighted that in 2020, fiscal deterioration accelerated and for 2020/21, significant tax revenue underperformance was expected, and expenditure would increase as government reprioritised and allocated funds to contain COVID-19. The main budget deficit and gross borrowing requirement would increase sharply.

Gross national debt is expected to reach 81.8% of the GDP in 2020/21 compared to the 2020 budget estimate of 65.6%.

The National Treasury expected the economy to contract by 7.2% in 2020. Households and firms were grappling with the combined effects of economic restrictions and the continued spread of the virus. The public finances, which had reached an unsustainable position before the pandemic, were dangerously overstretched. Without urgent action in the 2021 budget process, a debt crisis would follow. Failure to arrest the debt trajectory could see debt-service costs consume around 31% of main budget revenue by 2024/25. The stock of debt could cross the 100% mark in 2023/24, reaching 140% in 2028/29.

A fiscal crisis could deduct more than R2 trillion from the GDP over the next decade. The special adjustments budget was a bridge to the October 2020 MTBPS. This would be followed by preparation of a set of far-reaching reforms which are expected to stabilise public debt, contain the budget deficit, and fully restore economic activity to build confidence, increase investment and promote job creation.

Spending was adjusted by removing funds underspent due to delays caused by the lockdown from the baselines of affected departments; suspending allocations for capital and other departmental projects that could be delayed or rescheduled to 2021/22 or later; suspending allocations to programmes with a history of poor performance or slow spending and redirecting funds towards the COVID-19 response within functions or towards government's fiscal relief package. In addition, the following measures were taken:

- A total of R40 billion would be drawn down from social security funds' cash surpluses to provide wage support to vulnerable employees due to the pandemic.
- Consolidated spending for 2020/21 has been revised from R1.95 trillion in the 2020 budget to R2.04 trillion, mainly due to additional funding of R145 billion allocated for government's COVID-19 response.

The allocations increase spending on transfers to almost 35% of total expenditure, while the share of all other components declines. Debt-service costs are now the fourth-largest spending item, similar in size to what government spends on health services.

The special adjustments budget for 2020 showed a tax revenue shortfall of R304.1 billion in 2020/21. The consequences of COVID-19 will lead to a drop in year revenue estimates compared to the prior budget. According to the budget, South Africans can expect a temporary shrinkage in tax base as businesses close and jobs are lost. Revenue shortfalls include tax relief measures amounting to R26 billion in foregone revenue. Improved tax collection and administration will be key to achieving fiscal stabilisation.

Trade, Industry and Competition

The Department of Trade, Industry and Competition (dtic) was established in June 2019 by merging the Department of Economic Development and the Department of Trade and Industry (dti).

The mandate of the department is to:

- lead economic development policy formulation and planning;
- facilitate access to sustainable economic activity and employment for all South Africans through an understanding of the economy, knowledge of economic opportunities and potential, and anticipation of future economic trends;
- catalyse economic transformation and development, and provide a predictable, competitive, equitable and socially responsible environment for investment, enterprise and trade for economic citizens; and
- contribute to achieving government's vision of an adaptive and restructured economy, characterised by accelerated economic growth, employment creation and greater equity.

The National Development Plan (NDP) presents a broad vision for sustainable industrialisation and economic development and transformation in South Africa and, by extension, Africa. This vision is expressed specifically in terms of Priority 1 (economic transformation and job creation) and Priority 7 (a better Africa and world) of government's 2019 – 2024 Medium Term Strategic Framework (MTSF). The work of the dtic is directly aligned with these priorities through its reimagined industrial strategy, which is premised on the development of sectoral master plans aimed at improving performance in identified sectors.

The strategy sets out the department's focus areas over the medium term. These are: providing industrial finance, developing industrial infrastructure, strengthening export capabilities and enhancing competition regulation.

Providing industrial finance

In support of job creation and economic transformation, activities in the Industrial Financing programme are aimed at growing sustainable and competitive enterprises through providing access to industrial finance, either directly or indirectly. Activities in the programme's Manufacturing Incentives subprogramme are informed by evidence-based programme designs and are expected to be achieved through the effective administration and monitoring and evaluation of manufacturing incentive programmes in labour-intensive sectors. These incentives include the Automotive Incentive Scheme, the Black Industrialist Scheme, the Agro-processing Support Scheme and the Aquaculture Development Enhancement programme. Allocations to the subprogramme account for 54.8% (R8.6 billion) of the Industrial Financing programme's total budget over the MTEF period.

Other planned activities in the Industrial Financing programme include development and implementation of various master plans, to stimulate various sectors of the economy, including: chemicals and plastics, clothing and textiles, steel and metals fabrication, furniture, sugar production and poultry.

In recognition of the need to accelerate growth in the manufacturing and internationally traded services sectors, the department aims to strengthen partnerships to leverage accessible industrial finance. In this regard, over the MTEF period, activities in the Industrial Financing programme are aimed at leveraging more than R45 billion in investments from the private sector by providing financial support to an estimated 1 950 enterprises or projects that will create approximately 56 500 jobs over the medium term.

Developing industrial infrastructure

The Infrastructure Investment Support subprogramme in the Industrial Financing programme provides grants for three industrial infrastructure initiatives: special economic zones (SEZs), industrial parks and the Critical Infrastructure programme. These initiatives are aimed at enhancing the development of industrial infrastructure that has the potential to increase investment and exports. Accordingly, over the medium term the dtic plans to continue its support programmes for SEZs and industrial parks with greater emphasis on the development of township and rural infrastructure. Allocations for SEZs in the Infrastructure Investment Support subprogramme are expected to increase at an average annual rate of 13%, from R1.1 billion in 2019/20 to R1.6 billion in 2022/23. Financial support to industrial parks is estimated to increase an average annual

rate of 2.8%, from R122.9 million in 2019/20 to R133.4 million in 2022/23, to support the refurbishment of 27 industrial parks across South Africa.

Strengthening export capabilities

The dtic plans to continue implementing the lintegrated National Export Strategy in line with its ongoing effort to build capacity for increasing the export of South African goods and services. Accordingly, over the MTEF period, more than 2 000 South African companies will be assisted to participate at organised national pavilions, trade missions and other export promotion initiatives that will be facilitated by the department.

These initiatives are aimed at increasing the participation of historically disadvantaged enterprises and individuals. To carry out these activities, R751.1 million is allocated over the medium term to the export marketing and investment assistance scheme in the Industrial Financing programme.

Enhancing competition regulation

The Competition Amendment Act, 2018 (Act 18 of 2018) expanded the mandates of competition authorities to include the initiation of market inquiries, a number of which have already commenced in key economic sectors. Over the medium term, the dtic plans to oversee the implementation of these expanded mandates. For this purpose, an additional R65 million is allocated over the MTEF period to the Competition Commission and the Competition Tribunal to enhance their capacity to investigate cartels, and elements of dominance and collusion in identified sectors.

Legislation

The mandate of the dtic is derived from a broad legislative framework, which includes:

- the Companies Act, 2008 (Act 71 of 2008);
- the Manufacturing Development Act, 1993 (Act 187 of 1993);
- the Broad-Based Black Economic Empowerment (BBBEE) Act, 2003 (Act 53 of 2003);
- the Consumer Protection Act, 2008 (Act 68 of 2008);
- the Industrial Development Act, 1940 (Act 22 of 1940);
- the Competition Act, 1998 (Act 89 of 1998), as amended; and
- the International Trade Administration Act, 2002 (Act 71 of 2002).

Budget

For the 2019/20 financial year, the dtic was allocated R10.6 billion.

Expenditure is expected to decrease at an average annual rate of 1.6%, from R11 billion in 2019/20 to R10.5 billion in 2022/23. Allocations to the Industrial Financing programme account for the bulk of the department's expenditure.

Spending in the programme is expected to decrease at an average annual rate of 4%, from R6 billion in 2019/20 to R5.3 billion in 2022/23. These decreases are due to Cabinet-approved reductions on the department's budget over the medium term.

Entities

Companies and Intellectual Property Commission (CIPC)

The CIPC was established in terms of Section 185 of the Companies Act of 2008 to register companies, close corporations, cooperatives, trademarks, patents, designs and copyright; and enforce rules and regulations. Over the medium term, the commission will focus on upgrading its information and communications technology (ICT) systems and creating a reputable business environment by effectively regulating the behaviour of companies and the intellectual property system.

In its endeavour to provide services globally and at all times, the commission plans to upgrade its ICT systems. The project accounts for an estimated 15% (R302 million) of expenditure over the medium term. The commission will further spend R302 million over the same period to create a reputable business environment.

Expenditure is expected to increase at an average annual rate of 6%, from R596.5 million in 2019/20 to R710.4 million in 2022/23. Spending on compensation of employees accounts for 61.9% (R1.3 billion) of the commission's total budget over the MTEF period. Revenue is expected to increase at an average annual rate of 6%, from R596.5 million in 2019/20 to R710.4 million in 2022/23, as the upgraded ICT system is expected to simplify the process of submitting annual returns.

An estimated 91.4% (R1.8 billion) of the commission's projected revenue over the medium term is generated by fees charged for the registration of companies, cooperatives, trademarks, patents and copyrights.

Regulatory and development finance institutions

Competition Commission

The Competition Commission is a statutory body constituted in terms of the Competition Act of 1998. It is empowered to investigate, control and evaluate restrictive business practices, including the abuse of dominant positions and mergers; and to promote the advocacy of competition issues to achieve equity and efficiency in the South African economy.

The commission's total budget for 2019/20 was R376.8 million.

Competition Tribunal

The Competition Tribunal was established in terms of the Competition Act of 1998. All large corporate mergers and allegations of restrictive practices are brought before the tribunal by the Competition Commission and interested parties for adjudication. The tribunal's total budget for 2019/20 was R59.7 million.

International Trade Administration Commission of South Africa (ITAC)

The ITAC is mandated to manage an efficient and effective trade administration system. It was established in terms of the International Trade Administration Act of 2002. The ITAC is mandated to foster economic growth and development to raise incomes and promote investment and employment in South Africa and within the Common Customs Union Area.

This is done by establishing an efficient and effective system for the administration of international trade, subject to this Act and the Southern African Customs Union (SACU) Agreement. The core functions are customs tariff investigations, trade remedies, and import and export control. The commission's total budget for 2019/20 was R108.9 million.

Industrial Development Corporation of South Africa (IDC)

The IDC is a national development finance institution established in terms of the Industrial Development Act of 1940 with the objective of leading industrial capacity development.

This entails aligning its priorities with those identified in terms of government policies and programmes related to industrial development, including relevant elements of the NDP, the New Growth Path (NGP) and the Industrial Policy Action Plan (IPAP).

Small Enterprise Finance Agency

The agency was established in 2012 and combines the operations of Khula Enterprise Finance, the South African Micro-Finance Apex Fund and the IDC's small business operations. The agency's total budget for 2019/20 was R461.4 million.

Industrial parks/SEZs

SEZs are geographically designated areas of a country set aside for specifically targeted economic activities, supported through special arrangements (that may include laws) and systems that are often different from those that apply in the rest of the country.

The purpose of the SEZ programme is to:

- expand the strategic industrialisation focus to cover diverse regional development needs and context;
- provide a clear, predictable and systemic planning framework for the development of a wider array of SEZs to support industrial policy objectives, the IPAP and the NGP;
- clarify and strengthen governance arrangements, expand the range and quality of support measure beyond provision of infrastructure; and
- provide a framework for a predictable financing framework to enable long-term planning.

There are currently five operating Industrial Development Zones (IDZs) in South Africa:

- The Coega is the largest IDZ in southern Africa. It was designated in 2001 and became South Africa's first IDZ. It lies in the Nelson Mandela Bay Metropolitan Municipality in the Eastern Cape, which is strategically located on the east-west trade route to service both world and African markets. The Coega IDZ leverages public sector investment to attract foreign and domestic direct investment in the manufacturing sector with an export orientation. It has attracted investment in the agro-processing, automotive, aquaculture, energy, metals logistics and Business Process Services (BPS) sectors. This has advanced socio-economic development in the Eastern Cape region through skills development, technology transfer and job creation.
- The Richards Bay IDZ is a purpose-built and secure industrial estate on the north-eastern South African coast. The N2 business corridor links the province's two major ports, Durban and Richards Bay, and connects with Maputo in Mozambique and, ultimately, areas of East Africa. It is linked to an international sea port of Richards Bay, tailored for manufacturing and storage of minerals and products to boost beneficiation, investment, economic growth and, most importantly, the development of skills and employment. First-world infrastructure allows for the full exploitation of the areas' natural and strategic advantages. Through the superb industrial infrastructure, well-established network of shipments, tax and duty-free incentives, the IDZ aims to encourage international competitiveness and the attraction of export-orientated manufacturing investment.
- The East London IDZ has become a prime industrial park in South Africa, renowned for its customised solutions for various industries, including automotive, agro-processing and aqua-culture. The IDZ offers growth-oriented companies a specialised manufacturing platform, innovative industrial and business solutions access to new markets and strategic industry networks. The IDZ, one of the country's leading specialised industrial parks, is located in Buffalo City, the municipal area which also incorporates Bhisho, the province's capital and King William's Town. It was one of the first IDZs in South Africa to become operational and represents an ideal choice for the location of exported manufacturing and processing. Its location provides investors with connections to major markets both locally and across the globe.
- The Saldanha Bay IDZ in the Western Cape is expected to serve as the primary oil, gas and marine repair engineering and logistics services complex in Africa, servicing the needs of the upstream oil exploration industry and production service companies operating in the oil and gas fields off sub-Saharan Africa. Situated approximately two hours north of Cape Town, the IDZ will include logistics, repairs and maintenance, as well as fabrication activities.
- The Dube TradePort is a catalyst for global trade and a portal between KwaZulu-Natal and the world. It is the only facility in Africa that brings together an international airport, a cargo terminal, warehousing, offices, a retail sector, hotels and an agricultural area. Located 30 km north of Durban, the Dube TradePort is positioned between the two biggest sea ports in southern Africa and linked to the rest of Africa by road and rail. The following two areas have been designated as comprising the IDZ: the Dube TradeZone and the Dube AgriZone. The Dube TradeZone aims to focus on manufacturing and value-addition primarily for automotive, electronics and fashion garments. The facility involves warehousing, manufacturing, assembling real estate resource, complete with a single facility in which all freight forwarders and shippers are located (Dube TradeHouse), which enjoys a direct link to the adjacent Dube Cargo Terminal via an elevated cargo conveyor system. The Dube AgriZone – a high-tech, future farming facility and host to the continent's largest climate-controlled growing area under glass – will focus on high-value, niche agricultural and horticultural products. The AgriLab will look into specialised tissue culture, greenhouses, flowers and plants, all of which require swift air transportation.

According to the 2018/19 – 2020/21 IPAP, SEZs have proven to be an effective policy instrument for propelling industrialisation in some of the world's leading developing economies.

A number of incentives are available to ensure SEZs growth, revenue generation, creation of jobs, attraction of foreign direct investment (FDI) and international competitiveness.

These SEZ incentives include:

- **Preferential 15% Corporate Tax**: Businesses (prescribed in Section 24 (4) of the SEZ Act, 2014 (Act 16 of 2014)) that are located in a SEZ may be eligible for tax relief, including the reduced rate of corporate income taxation. In addition to satisfying the requirements of the Act, further criteria for some

of the available tax incentives are stipulated in the Income Tax Act, 1962 (Act 58 of 1962.)

- **Building Allowance**: Businesses and operators (prescribed in Section 1 of the SEZ Act of 2014) operating within a SEZ may be eligible for tax relief, including the building allowance, subject to requirements contained in the Income Tax Act of 1962.
- **Employment Incentive**: Businesses and operators operating within a SEZ may be eligible for tax relief, including the employment tax incentive subject to requirements contained in the Employment Tax Incentive Act, 2013 (Act 26 of 2013).
- **Customs Controlled Area**: Businesses and operators located within a customs-controlled area of a SEZ will be eligible for tax relief as per the Value-Added Tax (VAT) Act, 1991 (Act 89 of 1991), the Customs and Excise Act, 1964 (Act 91 of 1964), the Customs Duty Act, 2014 (Act 30 of 2014) and the Customs Control Act, 2014 (Act 31 of 2014).
- **12i Tax Allowance**: The 12i Tax Incentive is designed to support Greenfield investments (new industrial projects that utilise only new and unused manufacturing assets), as well as Brownfield investments (expansions or upgrades of existing industrial projects). The new incentive offers support for both capital investment and training.

Black industrialists

The Black Industrialists Policy aims to leverage the government's capacity to unlock the industrial potential that exists within black-owned and managed businesses that operate within the South African economy through deliberate, targeted and well-defined financial and non-financial interventions as described in the IPAP and other government policies.

This policy targets entities that should have extensive experience, operations and track record in their respective or envisaged industrial sectors and value chains. It is expected that the entities supported will:

- expand their current operations or businesses to become major players in the domestic and/or global markets within 10 years of being in the programme;
- start a new operation or business that can enable them to become major players in the domestic and/or global markets within 10 years of being in the programme; and
- acquire an existing or new business that can enable them to become major players in the domestic and/or global markets within a specified period.

Such entities should be operating in the manufacturing sectors of the economy in line with the industrialisation path as articulated in the IPAP.

Black Business Supplier Development Programme

The Black Business Supplier Development Programme is a cost-sharing grant offered to black-owned small enterprises to help them improve their competitiveness and sustainability, to become part of the mainstream economy and create employment.

The programme provides grants to a maximum of R1 million: R800 000 for tools, machinery and equipment on a 50:50 cost-sharing basis; and R200 000 for business development and training interventions per eligible enterprise to improve their corporate governance, management, marketing, productivity and use of modern technology.

The objectives of the incentive scheme are to:

- draw existing Small, Medium and Micro Enterprises exhibiting potential for growth into the mainstream economy;
- grow black-owned enterprises by fostering linkages between black SMMEs and corporate and public-sector enterprises;
- complement current affirmative procurement and outsourcing initiatives of corporate and public-sector enterprises; and
- enhance the capacity of grant-recipient enterprises to successfully compete for corporate and public-sector tenders.

Role players

Presidential Infrastructure Coordinating Commission (PICC)

The PICC has the following 18 strategic integrated projects:

- Durban-Free State-Gauteng Logistics and Industrial Corridor;
- South Eastern node and corridor development;
- Unlocking economic opportunities in North West;
- Saldanha-Northern Cape Development Corridor;
- Integrated Municipal Infrastructure Project;
- Integrated Urban Space and Public Transport programme;
- Green Energy in Support of the South African Economy;
- Electricity Generation to Support Socio-economic Development;
- Electricity Transmission and Distribution for All;
- Agri-Logistics and Rural Infrastructure;
- Revitalisation of Public Hospitals and Other Health Facilities;
- Rational School-build Programme;
- Higher Education Infrastructure;
- Expanding Access to Communication Technology;
- Square Kilometre Array and MeerKat;
- Regional Integration for African Cooperation and Development; and
- Water and Sanitation Infrastructure Master Plan.

The main objective of the PICC awareness campaign is to promote infrastructure development initiatives across the country, whilst showcasing the tangible benefits in terms of job creation and mainstreaming access to social services.

Business Partners Limited

Business Partners Limited is a specialist risk-finance company that provides customised financial solutions, technical assistance, mentorship, business premises and other added-value services for formal small and medium enterprises in South Africa and selected African countries. The company is passionate about funding, supporting and mentoring entrepreneurs.

The company considers financing applications up to R50 million in all sectors of the economy — with the exception of on-lending activities, direct farming operations, underground mining and non-profit organisations — to those formal small and medium businesses whose gross assets are under R100 million, where annual turnover does not exceed R200 million and/or employees are less than 500 in number.

Applications for financing below R500 000 are usually not considered; and the company does not operate in the informal or micro enterprise sectors.

National Empowerment Fund (NEF)

The NEF was established by the NEF Act, 1998 (Act 105 of 1998), to promote and facilitate black economic equality and transformation.

The NEF provides finance and financial solutions to black businesses across a range of sectors. It also structures accessible retail savings products for previously disadvantaged people based on state-owned equity investments.

Its mandate and mission is to be government's funding agency in facilitating the implementation of BBBEE, in terms of the BEE codes of good practice.

The fund has five core divisions: small and medium enterprises, rural development, venture capital, corporate finance, and women empowerment funds.

South African Women Entrepreneurs' Network (SAWEN)

The SAWEN is a South African national network that facilitates and monitors the socio-economic advancement of women entrepreneurs and their positive impact on the country's economy.

The objectives of SAWEN are to:

- provide a national vehicle that brings women and women's groups together to address the challenges they face;
- lobby government, public and private institutions on such issues, but not limited to policy, legislation and/or proposed legislation affecting either directly and indirectly the trade and commerce activities of women entrepreneurs;
- align SAWEN with other bodies or organisations with similar business interests at both national and international level, and to leverage the relationships arising out of these alignments for the benefit of its members;
- facilitate access to business resources, information and opportunities for South African women entrepreneurs in a way that promotes their effective participation in the global economy; and
- profile and affirm women in business leadership positions in both public and private sectors.

Isivande Women's Fund (IWF)

The IWF is an exclusive fund that aims to accelerate women's economic empowerment by providing more affordable, usable and responsive finance than is currently available. The IWF assists with support services to enhance the success of businesses. It pursues deals involving start-up funding, business expansion, business rehabilitation, franchising and bridging finance.

The fund is managed by the IDC on behalf of the dtic through a development fund manager.

The Identity Development Fund (IDF) Managers is a small to medium enterprise financier aimed at supporting the creation of self-sustaining black-owned and women-owned businesses in South Africa by providing primarily financial and non-financial support to its investee companies.

The IDF Managers are responsible for reviewing eligible business plans requiring funding of R30 000 to R2 million.

The women-owned enterprises have to meet the following criteria:

- at least six months in operation;
- requires early stage, expansions and growth capital;
- 50% plus one share owned and managed by women;
- have potential for growth and commercial sustainability; and
- improved social impact in the form of job creation.

Programmes and projects

Industrial Policy Action Plan

The adoption of the National Industrial Policy Framework in 2007 introduced a very significant reorientation of South Africa's industrial policy landscape. Its main thrusts have been captured, developed and refined over the past 10 years in successive annual iterations of the IPAP. This has become the 'laboratory' for government's broad approach to industrialisation

Focus areas of the IPAP 2018/19 – 2020/21:

- public procurement and local content;
- industrial financing and incentives;
- developmental trade policy;
- african integration and industrial development;
- SEZs; and
- innovation and technology.

Sectoral focus areas

Automotives

The automotive industry remains an important pillar of South Africa's industrial landscape. The automotive sector has performed exceptionally well. The government has established a team of technical experts to develop a post-2020 Automotives Master Plan. The mandate of the team is to examine the entire automotive sector and not just the existing Automotive Policy Development Plan.

The purpose is to ensure that in the context of long-term policy certainty, a post-2020 master plan will create a framework to secure even higher levels of investment and production, higher exports, deepening localisation and expanding employment.

The dtic initiated the Medium and Heavy Commercial Vehicles Automotive Investment Scheme (MHCV-AIS), a subcomponent of the Automotive Investment Scheme (AIS), an incentive designed to grow and develop the automotive sector through investment in new and/or replacement models and components that will increase plant production volumes, sustain employment and/or strengthen the automotive value chain.

The MHCV-AIS provides for a non-taxable cash grant of 20% of the value of qualifying investment in productive assets by medium and heavy commercial vehicle manufactures and 25% of the value of qualifying investment in productive assets by component manufactures and tooling companies for MHCVs as approved by the dtic.

Some of the conditions are that the applicant must:

- be a registered legal entity in South Africa in terms of the Companies Act of 2008 (as amended); the South African Companies Act, 1973 (Act 62 of 1973) or the Close Corporations Act, 1984 (Act 69 of 1984), and must undertake manufacturing in South Africa;
- be a taxpayer in good standing and must, in this regard, provide a valid tax clearance certificate before the MHCV-AIS Grant is disbursed; the grant will only be applicable to investment in assets that will be used in the entity's South African operations; and
- submit a business plan with a detailed marketing and sales plan, a production plan, budget and projected financial income statement, cash-flow statement and balance sheet, for a

period of at least three years for the project submit a BBBEE certificate, ITAC registration certificate, projected financial income statement, cash-flow statement and balance sheet for a period of at least three years of the relevant division, cost centre or branch where the project is located, if applicable submit a cost benefit analysis for the project in cases where it cannot provide information in respect of a cost centre.

Clothing and textiles

After government set a 100% local content requirement, the clothing, textiles, leather and footwear sector saw the reintroduction of products where local production had been discontinued.

These include technical fabrics, protective footwear, protective fabrics and chambray fabrics.

This intervention, supported also by the Clothing and Textile Competitiveness Improvement Programme, has contributed to turning the sector around. In response to the flood of cheap clothing imports, government has increased the Import Duty on clothing to 45% in line with World Trade Organisation regulations.

Business Process Services

South Africa's BPS sector continued to maintain its status as a leading global outsourcing destination, while steadily moving up the value chain in terms of service offerings.

BPS already accounts for 200 000 jobs nationally and is one of the country's fastest-growing sectors, with double digit growth over the past five years.

South African Emerging Black Filmmakers Incentive Scheme

The South African Emerging Black Filmmakers Incentive is available to South African black-owned qualifying productions. It aims to nurture and capacitate emerging black filmmakers to take up big productions and contribute towards employment opportunities.

World Economic Forum (WEF) 2020

The 50th WEF took place from 21 – 24 January 2020 in Davos, Switzerland.

The 2020 theme for this international gathering was, "Stakeholders for a Cohesive and Sustainable World". The South African delegation reassured the international business community that the country is working on stabilising its power supply and fiscal management.

The WEF is an independent, international organisation whose aim is to contribute to more positive outcomes in the world by engaging business, political leaders, academia and other leaders of society to inform and shape the global, regional and industry agendas.

South African Premier Business Awards

The South African Premier Business Awards is an annual event hosted by the dtic in partnership with Proudly South African and Brand South Africa. The awards recognise business excellence and honour enterprises that promote the spirit of success and innovation as well as job creation, good business ethics and quality. These awards bring together all single sectored awards, among others technology, manufacturing and women in business.

The 6th South African Premier Business Awards ceremony was held in March 2019 at the Sandton Convention Centre in Johannesburg.

The winners were:

- Black Industrialist Award: Afro-zonke Projects and Investment.
- Enterprise Development Award: Saab Grintek Defence (Pty) Ltd.
- Exporter Award: Saab Grintek Defence (Pty) Ltd.
- Investor Award: Coega Development Corporation.
- Manufacturer Award: J Bunyan Timbercraft CC T/A Timbercraft.
- Proudly South African: Jane Massey Trading RSAMade.
- SMME Award: Eco Smart and Ndoukhulu Hydraulic and Mining Supplier.
- Women-owned Award: CTE Investments (Pty) Ltd Eco Smart.
- Play Your Part Award: Intercessor Army Franchising.
- Young Entrepreneur Award: Bathu Swag (Pty) Ltd.

International cooperation

The Investment and Trade Initiative (ITI) is part of the dtic's objective to create market penetration for South African value-added products and services, and to promote South Africa as a trade and investment destination.

The ITI focuses on showcasing South Africa's diverse range of capabilities to produce world-class products and services in the targeted sectors, which include agro-processing (rooibos tea, dried fruits, spices, sauces, frozen fish and sparkling 100% fruit juice), industrial chemicals and automotive components.

South African companies have developed highly specialised skills and products and there are various opportunities for them to market their expertise and collaborate in projects with their Brazilian counterparts.

The programme of the ITI includes trade and investment seminars, business-to-business meetings and sector-specific business site visits to companies in São Paulo and Porto Alegre.

Department of Public Enterprises (DPE)

The DPE is the shareholder representative for government with oversight responsibility for seven SOCs in its portfolio, namely the South African Airways (SAA), the South African Express Airways, Transnet, Eskom, Denel, the South African Forestry Company (SAFCOL) and Alexkor. The mandate of the DPE is to fulfil oversight responsibilities over these SOCs to ensure that they contribute to the realisation of government's strategic objectives, as articulated in the NDP, MTSF, the NGP and IPAP

SOCs are crucial to driving the State's strategic objectives of creating jobs and enhancing equity and transformation. The DPE does not directly execute programmes but seeks to use State ownership in the economy to support the achievement of these objectives.

In the current economic climate, SOCs have emerged as key instruments for the State to drive its developmental objectives of creating jobs, and for enhancing equity and transformation.

The SOCs in the DPE's portfolio form the cornerstone of the economy and their capacity would be strategically used to support the delivery of the NDP outcomes, making the strengthening of oversight tools for the SOCs crucial to socio-economic transformation.

A Presidential State-Owned Enterprises (SOEs) Council has been established to provide political oversight and strategic

management in order to reform, reposition and revitalise SOEs, so that they can play their role as catalysts of economic growth and development.

Where SOEs are not able to raise sufficient financing from banks, from capital markets, from development finance institutions or from the fiscus, other mechanisms, such as strategic equity partnerships or selling off non-strategic assets will be explored.

Chapter 13 of the NDP identifies the potential of SOCs to build a capable and developmental state. This is given expression by Priority 1 (economic transformation and job creation) of government's 2019 – 2024 MTSF, with which the mandates of SOCs are closely aligned. In overseeing SOCs' fulfilment of their mandates, over the medium term the DPE will continue to focus on enhancing reforms to stabilise these entities and strengthening its oversight capacity to ensure that the companies in its portfolio are sustainable and contribute to investment in key infrastructure.

By ensuring that these companies contribute to lowering the cost of doing business in South Africa, the department aims to reduce the burden of administered prices on the economy by reducing the cost of electricity and freight transport.

Enhancing reforms to stabilise SOCs

In 2018, Cabinet approved a number of reforms for SOCs. These include determining an appropriate shareholder ownership model and an overarching shareholder policy and developing a standardised approach to the appointment of boards. Accordingly, by 2020/21, the DPE expects to develop a state-owned enterprise Bill and a shareholder management policy. The legislation and policy will be drafted with the intention of improving the entities' overall performance in terms of setting explicit goals; ensuring that boards and management monitor performance effectively; and transparently and directly linking executives' performance incentives with desired results, including audit outcomes. Once a shareholder management policy is adopted and a performance evaluation framework is put in place, boards' performance will be evaluated annually.

The DPE's oversight activities are mainly funded in the SOCs Governance Assurance and Performance, and Business Enhancement, Transformation and Industrialisation programmes. The combined budget for these programmes is expected to decrease at an average annual rate of 67.6%, from R56.7 billion in 2019/20 to R1.9 billion in 2022/23. This is due to an additional R56.6 billion allocated in 2019/20 to settle SOCs' debts and provide working capital. Excluding provisional allocations to Eskom and the SAA over the medium term, additional allocations will be made, including R33 billion for Eskom in 2020/21; R9.9 billion for the SAA (R3.8 billion in 2020/21, R4.3 billion in 2021/22 and R1.8 billion in 2022/23); R576 million for Denel in 2020/21; and R164 million for South African Express Airways in 2020/21. Additional allocations will be used to settle government guaranteed debt and for working capital in certain instances, and are subject to conditions that include restructuring, the implementation of turnaround plans, the review of business models, the sale of non-core assets and the identification of strategic equity partners, among other things.

Over the MTEF period, the DPE intends to closely monitor and assist the SOCs in implementing and complying with these conditions.

Strengthening oversight capacity

In 2019/20, the DPE concluded an assessment to identify risk and governance shortfalls in SOCs. It intends to work with the companies to develop and implement a SOCs' Risk and Integrity Framework by 2021/22. The framework will be geared towards establishing minimum norms and standards as measures to restore good corporate governance within the entities.

With regards to specific SOCs, over the medium term, the department plans to oversee the implementation of the 2019 roadmap for Eskom in a reformed electricity supply industry, which aims to transform and stabilise the company. The DPE also plans to work closely with the business rescue practitioners for the SAA and monitor the implementation of their recommendations. The viability of the corporatisation of Transnet's National Ports Authority will also be assessed.

This is in line with findings from the World Bank suggesting that rail, ports and pipeline infrastructure managed by a single company could create conflicts of interest that negatively impact on the overall performance of a country's freight system.

Budget

The DPE's budget for the 2019/20 financial year was R56.9 billion. Total expenditure is set to decrease at an average annual rate of 66.6%, from R56.9 billion in 2019/20 to R2.1 billion in 2022/23. This is due to significant additional allocations made to SOCs in 2019/20. Excluding payments for financial assets, compensation of employees is the department's largest cost driver, spending on which is expected to increase at an average annual rate of 8.8%, from R170.2 million in 2019/20 to R219.1 million in 2022/23. However, in 2019/20 Cabinet approved baseline reductions amounting to R9.6 million over the MTEF period on the department's compensation of employees, and goods and services budget.

The DPE is in the process of implementing a realigned organisational structure, which is expected to enable it to be responsive and efficient in fulfilling its oversight and monitoring role.

State-owned companies

Alexkor

Alexkor mines diamonds in the Alexander Bay area, including marine mining and land mining. Alexkor was established in terms of the Alexkor Limited Act, 1992 (Act 116 of 1992) to mine marine and land diamonds in Alexander Bay.

The land-mining rights and 49% of the mining operations were ceded to the Richtersveld community following the conclusion of the land restitution agreement with government in 2007. Alexkor remains the owner of the sea-mining rights and 51% of the mining operations.

The mining operations with the land and sea-mining rights have been pooled into an unincorporated entity called the Alexkor Pooling and Sharing Joint Venture. The mining operations employ 250 people.

The settlement agreement included, among other things, the restoration of land and mineral rights, the formation of the pooling and sharing joint venture, environmental rehabilitation, and the establishment and development of the town at Alexander Bay.

As a result, since November 2013, the town has been made official and now forms part of the Richtersveld Municipality.

Progress to date includes the upgrade of residential properties' electrical and water reticulation systems, and the transfer of the mine operations restored with the land mining rights to the Richtersveld Mining Company. The implementation of the plan to rehabilitate mining areas has also begun.

The Alexkor Richtersveld Mining Company Pooling and Sharing Joint Venture commenced with the exploration of new shallow water channels which were previously unexplored. Over 6 000 carats were produced against a target of 5 000 carats at the shallow water operations.

Over the medium term, the company will continue to execute its remaining deed of settlement obligations, which include the transfer of public and residential properties to the Northern Cape government and the Richtersveld community. In 2019, the DPE appointed an administrator to oversee the business and ensure that the company is appropriately restructured. As such, the department's immediate focus is to review the current operating structures of Alexkor to restore the sustainability of its operations.

Denel

Denel is the largest manufacturer of defence equipment in South Africa and operates in the military aerospace and landward defence environment. Incorporated as a private company in 1992 in terms of the South African Companies Act of 1973, Denel's sole shareholder is the government. Denel is a national security asset, with the primary purpose of designing, developing, manufacturing and supporting defence materiel. It supplies the South African National Defence Force with strategic and sovereign capabilities. The company's broad focus over the medium term will be on restructuring, which entails optimising its cost structure and reviewing its business model to improve its global competitiveness. Emphasis will also be placed on the company's internal cost structure, efficiency, effectiveness, disposal of non-core businesses, improved supply chain policies and alignment of information technology infrastructure with its new organisational structure. In 2019/20, the company commenced with its restructuring process, which is focused on optimising labour, consolidating its group corporate structure, reviewing its property portfolio and plant utilisation, and introducing strategic sector participation.

The restructuring process was necessitated by the company's steady decrease in revenue over the past four years. Total revenue generated in 2018/19 was R3.8 billion compared to R8.2 billion in 2015/16. A loss of R1.7 billion was recorded in 2018/19 compared to a loss of R1.1 billion in the previous year. This decrease in revenue was mainly due to liquidity challenges that constrained operations and, in turn, affected sales. However, cost savings and restructuring initiatives that are already in place, as well as recapitalisation allocations from the department (R1.8 billion in 2019/20 and R576 million in 2020/21), are expected to stimulate revenue generation through the expansion of the company's export base and improvement of its access to markets. Accordingly, the company expects to increase its revenue to more than R7 billion by 2022/23.

Eskom

Eskom generates 95% of the electricity used in South Africa and 45% of the electricity used in Africa. It is governed by the Eskom Conversion Act, 2001 (Act 13 of 2001), and is mandated to generate, transmit and distribute electricity to industrial, mining, commercial, agricultural and residential customers and redistributors.

In response to the company's persistent financial, operational and structural challenges, the government announced that Eskom will be unbundled into three subsidiaries (generation, transmission and distribution) under a holding company, Eskom Holdings. The announcement led to the drafting and adoption of the 2019 roadmap for Eskom in a reformed electricity supply industry, which outlines actions to overcome the crisis, defines key steps in transforming the electricity supply system, addresses steps to restore the company's finances, identifies measures to reduce the company's cost structure and details the process of restructuring the entity.

However, while the roadmap has been adopted and a nine-point plan to improve generation is in place, Eskom's coal generation plants have been performing poorly due to an ageing fleet, poor maintenance practices and poor performance of new units within the Medupi and Kusile power stations. As a result, rotational load shedding has been implemented because of insufficient capacity to meet demand. Although some progress has been made, Eskom's operational performance remains inadequate, with persistent technical and plant faults. The company aims to address supply constraints through interventions as set out in the nine-point plan, which are short-term, medium-term and long-term in nature. These interventions primarily involve fixing new plant defects, reducing trips and full load losses, accelerating the return of serviced units on long-term forced outages, fixing partial load losses and boiler tube leaks, rebuilding coal stockpiles, increasing diesel stocks and recruiting critical staff for the generation division.

To stabilise Eskom's financial position in the short term, an additional R33 billion has been allocated to the company in 2020/21 through the Special Appropriations Act, 2019 (Act 25 of 2019) in addition to the provisional allocation of R23 billion. These allocations are subject to conditions, which include providing updates on strategies to manage municipal and other consumer debts, coal contract renegotiation and cost containment measures.

South African Airways

The SAA is the South African national flag carrier. It operates a full-service network in the international, regional and domestic markets. The airline is responsible for promoting air links with South Africa's key business, trading and tourism markets across the world, and contributing to key domestic air linkages.

In December 2019, the SAA was placed under business rescue to restore confidence in the airline and safeguard the company's assets. The business rescue process is also intended to restructure and reposition the company towards greater sustainability and attract strategic equity partners. Over the medium term, the airline's future will be guided by the recommendations of its business rescue practitioners. This is expected to take place in conjunction with the continued implementation of the company's long-term turnaround strategy, which aims to assist the airline in returning to solvency and profitability. The company refined its long-term turnaround strategy in 2019/20 to focus on: liquidity and balance sheet restructuring, revenue stimulation and network optimisation, organisational design, supply chain transformation, and business process transformation at SAA Technical.

In 2019/20, R5.5 billion was allocated to the SAA for repayment of debt and working capital. Over the MTEF period, R9.9 billion (R3.8 billion in 2020/21, R4.3 billion in 2021/22 and R1.8 billion in 2022/23) has been allocated to the airline for the repayment of government guaranteed debt and the provision of working capital. The airline is expected to continue relying on government support under business rescue.

South African Express

The South African Express Airways serves as a regional air carrier, providing transportation and other related aviation services on low-density domestic and African regional routes. The airline faced serious financial and liquidity challenges and was grounded by the South African Civil Aviation Authority in May 2016, May 2018 and August 2019. The airline's continuing liquidity challenges are driven by a number of factors, including unfavourable contracts entered into with service providers, an inability to raise financing facilities with local banks, suppliers placing the airline on a cash basis and demanding very stringent payment plans to settle old debt, and increased legal expenses due to disputes with suppliers where proper procurement processes were not followed.

The airline resumed operations in August 2018 with a new turnaround strategy focusing on governance, profitability, operations, customer service and human capital. The strategy mainly includes initiatives to optimise the airline's route network, cancel or renegotiate contracts and agreements, strengthen revenue collection and management, fill key positions and reduce employee costs, enhance its organisational culture and values, and improve schedule and aircraft reliability. The airlines' current business model is unsustainable and is being reviewed as part of the plan to consolidate the two state-owned airlines. The placing of the SAA under business rescue provides a structured opportunity to reorganise state aviation assets to better position them as sustainable and attractive to investors.

The airline received a recapitalisation allocation of R1.2 billion in 2018/19, which was earmarked for the repayment of government guaranteed debt, and an additional R300 million in 2019/20. These allocations temporarily restored the solvency of the airline. A total of R164 million has been allocated to eliminate government's contingent liability exposure relating to aircraft lease payments and letters of credit for the 2020/21 financial year.

South African Forestry Company

The SAFCOL was established in 1992 in terms of the Management of State Forests Act, 1992 (Act 128 of 1992). It is mandated to ensure the sustainable management of plantation forests, increase downstream timber processing, and play a catalytic role in rural economic development and transformation.

Over the medium term, the company plans to continue fulfilling its commitments to communities near its operations, and diversify its product offering by increasing its production of timber for public facilities, poles for the electricity distribution sector, and furniture. The company supports communities around its operations and is developing suitable land settlement models in partnership with the newly formed Department of Agriculture, Land Reform and Rural Development.

Its revenue is expected to increase to R1.6 billion in 2021/22 as a result of planned investments in new projects.

Transnet

Transnet is the largest freight transport company in the continent and most crucial part of the freight logistics chain that delivers goods in South Africa. The company's current operating model is geared towards lowering the cost of doing business in South Africa. As such, Transnet aims to improve the competitiveness of South African goods and services to stimulate economic growth, and ensure the security of supply in providing ports, rail and pipeline infrastructure in a cost-effective manner.

To sustain and expand its capacity, over the five-year period ending 2024/25, Transnet plans to invest R153.5 billion in capital expenditure, particularly in rail, port and pipeline infrastructure, across its operating divisions. The company is also addressing operational challenges with regards to rail and ports, with the aim of improving performance and increasing the volume of freight transported by rail. The DPE is investigating the implications of giving effect to the National Ports Act, 2005 (Act 12 of 2005), to ensure that this is done in a manner that is prudent and responsible.

Department of Small Business Development (DSBD)

The mission of the DSBD is to create a conducive environment for the development and growth of small businesses and cooperatives through the provision of enhanced financial and non-financial support services.

The DSBD creates a conducive environment for the development and growth of small businesses and cooperatives through the provision of:

- enhanced financial and non-financial support services;
- competitiveness, market access;
- promotion of entrepreneurship, advancing localisation; and
- leveraging on public and private procurement.

The DSBD leads an integrated approach on the promotion and development of small businesses and cooperatives, focusing on the economic and legislative drivers that would stimulate entrepreneurship to contribute to radical economic transformation.

Key elements of the NDP emphasise the importance of the contribution of SMMEs and cooperatives to inclusive economic growth and employment. This is given expression by Priority 1 (economic transformation and job creation) of government's 2019 – 2024 MTSF, with which the work of the department is directly aligned. Accordingly, over the medium term, the department plans to focus on increasing support for small enterprises and developing cooperatives.

Increasing support for small businesses and developing cooperatives

The DSBD provides direct and indirect support to small businesses through the Small Enterprise Development Agency (Seda), and support programmes such as the Black Business Supplier Development programme and the National Informal Business Upliftment Scheme. Accordingly, over the medium term, the department will focus on establishing a one-stop SMME platform for businesses to access financial and non-financial support; and improving access to finance by implementing the blended finance model in the Township Entrepreneurship Fund and extending blended finance to SMMEs and cooperatives.

Applying the model entails the mixture of grants and loans that ultimately lower the cost of capital for borrowers, and ensuring access to finance for SMMEs and cooperatives. In terms of developing cooperatives, over the medium term, the department will oversee the implementation and monitoring of the Integrated Cooperatives Strategy, which is intended to ensure the successful establishment of sustainable cooperatives through funding, training and providing access to markets. These activities are carried out in the Enterprise Development and Entrepreneurship programme, which receives allocations amounting to R6.9 billion over the MTEF period.

Developing the Small Enterprise Development Masterplan

To ensure the development of an enabling policy, legal and regulatory environment for small enterprises, the DSBD will develop the Small Enterprise Development Masterplan, which will enable small enterprises to realise their full potential. The masterplan will ensure the delivery of an integrated, targeted and effected support interventions aimed at promoting entrepreneurship as well as providing financial and non-financial support to qualifying small enterprises, using the life cycle approach.

Legislation and policies

The DSBD's mandate is guided by a legislative framework that includes:

- the National Small Business Act, 1996 (Act 102 of 1996);
- the National Small Business Amendment Act, 2004 (Act 29 of 2004);
- the Small Business Development Act, 1981 (Act 112 of 1981);
- the Cooperatives Act, 2005 (Act 14 of 2005); and
- the Cooperatives Amendment Act, 2013 (Act 6 of 2013).

Budget

For the 2019/20 financial year, the DSBD was allocated R8.15 billion. Expenditure is expected to increase at an average annual rate of 6.8%, from R2.3 billion in 2019/20 to R2.8 billion by 2022/23. The bulk of the department's spending over the medium term is on transfers to the Seda, amounting to R2.8 billion, and for the implementation of the Township Entrepreneurship Fund, amounting to R2.8 billion, as well as for internally administered incentives amounting to R1.5 billion.

Department of Public Works and Infrastructure (DPWI)

The DPWI is mandated to be the custodian and portfolio manager of national government's immovable assets.

Following the operationalisation of the Property Management Trading Entity in 2015/16, the DPWI's role consists of policy formulation, coordination, regulation and oversight relating to the provision of accommodation and expert-built environment services to client departments at the national level; and, through the entity, the planning, acquisition, management and disposal of immovable assets in the department's custody. The department is further mandated to coordinate and provide strategic leadership in initiatives for the creation of jobs through the implementation of the Expanded Public Works Programme (EPWP). Public works is constitutionally designated as a concurrent function exercised by the national and provincial spheres of government.

Over the medium term, the DPWI will continue to focus on creating work opportunities; providing better oversight, cooperation and service delivery; facilitating skills development in construction and property sectors; reviewing and developing policy; and improving governance and mitigating risk. These areas of focus contribute towards the realisation of the NDP's vision of facilitating job creation and improving public infrastructure, and Priority 1 (economic transformation and job creation) and Priority 6 (a capable, ethical and developmental State) of government's 2019 – 2024 MTSF.

Creating work opportunities

The DPWI will continue to lead and coordinate the EPWP. To date, through the programme, an estimated 4.5 million work opportunities have been created through the use of labour-intensive methods in the infrastructure, social, non-state, environmental and cultural sectors. The department will seek to generate a further three million work opportunities over the MTEF period through an allocation of R7.9 billion for transfers and subsidies, mainly to provinces, municipalities and non-profit organisations.

To provide and enhance the management and technical capacity of the 290 public bodies that implement the programme each year, the department has set aside R1.1 billion in the EPWP. An estimated R600 million of this amount is earmarked for compensation of employees for the administration of the programme, and R535.9 million for goods and services, particularly data capturing and verification, and monitoring and evaluation. The programme has a total budget of R9.1 billion over the MTEF period, increasing at an average annual rate of 6.4%, from R2.7 billion in 2019/20 to R3.2 billion in 2022/23.

Better oversight, cooperation and service delivery

Through the Property Management Trading Entity, the DPWI is authorised to provide office accommodation to client departments and ensure that its buildings are well maintained and that property rates are paid to municipalities. The entity's projected expenditure over the medium term accounts for an estimated 61.0% (R13.6 billion) of the department's total budget.

The DPWI also leads and coordinates policies and legislative frameworks that guide the implementation of the public works function at the provincial and municipal levels and oversees and manages the performance of provinces. In its continued efforts to monitor and support planning and performance management in provinces and municipalities, the department plans to increase the number of cooperation and protocol agreements for joint service delivery signed with provinces and municipalities per year; from 13 in 2018/19 to 15 in 2022/23. For the department to carry out this oversight role, R87.6 million over the MTEF period is allocated to the Intergovernmental Relations and Coordination subprogramme in the Intergovernmental Coordination programme, with spending on compensation of employees accounting for an estimated 80.5% (R70.5 million) of this amount.

Skills development in the construction and property sectors

To improve the delivery of infrastructure in the public works sector, the DPWI plans to increase the throughput of built environment graduates. This imperative is facilitated by the department's skills pipeline strategy, which makes provision for technical bursary schemes, internships, learnerships, property management training and artisan development, with structured workplace training to expedite professional development and registration. The department's investment in young built environment professionals extends to ensuring the participation of an estimated 1 200 beneficiaries per year over the medium term in the department and Property Management Trading Entity's skills development programme. An allocation of R99.9 million over the medium term for skills development activities is made available in the Professional Services subprogramme in the Intergovernmental Coordination programme.

Reviewing and developing policy

The DPWI is responsible for regulating the construction and property sectors and ensuring that they transform in line with the inclusive vision of the NDP. As part of its efforts to develop a public works Act to provide an overarching legislative framework for the sector, over the medium term, the department will continue to review the Construction Industry Development Board (CIDB) Act, 2000 (Act 38 of 2000); the Council for the Built Environment (CBE) Act, 2000 (Act 43 of 2000); the founding Acts for the six built environment professional councils; and the 1997 and 1999 White Papers on public works. The DPWI has engaged all relevant stakeholders, including the CIDB, the CBE and the six built environment professional councils, towards the finalisation of these reviews. These reviews are expected to culminate in a draft document in 2020/21 that will inform amendments to the CIDB Act of 2000 and the CBE Act of 2000 to ensure greater transformation and the inclusion of historically disadvantaged groups in the infrastructure sector, and to avoid the duplication of functions between the department and its entities. These amendment bills will ultimately inform the development of a public works Act.

Expenditure for activities related to the regulation and transformation of the construction and built environment sectors is expected to amount to R106 million over the medium term in the Property and Construction Industry Policy and Research programme. This programme has a total budget of R14.6 billion over the MTEF period, with expenditure set to increase at an average annual rate of 3.2%, from R4.6 billion in 2019/20 to R5.1 billion in 2022/23.

Improving governance and mitigating risk

To achieve greater efficiencies in service delivery and contribute towards good governance and ethical practices, the DPWI will continue to improve various internal policies, processes and systems, including the implementation of a holistic strategy aimed at preventing fraud. The strategy seeks to establish key controls that manage the risk of fraud by aligning internal financial and business control systems with the department's fraud risk management plan to increase awareness about the risk of fraud.

Through these measures, the DPWI aims to curtail fraud and corruption, ensure the efficient use of state resources, and improve service delivery and stakeholder confidence. To carry out governance, risk and compliance activities, an estimated R162.6 million over the medium term is allocated in the Management subprogramme in the Administration programme.

Legislation and policies

The DPWI's mandate is guided by a legislative framework that includes:

the Government Immovable Asset Management Act, 2007 (Act 19 of 2007);

- the Infrastructure Development Act, 2014 (Act 23 of 2014);
- the Land Affairs Board Act, 1987 (Act 101 of 1987;
- the CIDB Act of 2000;
- the CBE Act of 2000;
- the State Land Disposal Act, 1961 (Act 48 of 1961);
- the Municipal Property Rates Act, 2004 (Act 6 of 2004);
- the Spatial Planning and Land Use Management, 2013 (Act 16 of 2013);
- the National Environmental Management Act, 1998 (Act 107 of 1998);
- the Integrated Coastal Management Act, 2008 (Act 24 of 2008);
- the Occupational Health and Safety Act, 1993 (Act 181 of 1993);
- the National Building Regulations and Building Standards Amended Act, 1984 (Act 36 of 1984);
- the Water Services Act, 1997 (Act 108 of 1997);
- the Critical Infrastructure Protection Act, 2019 (Act 8 of 2019);
- the Public Finance Management Act (PFMA), 1999 (Act 1 of 1999);
- the Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000)
- the Public Service Act,1994 (Act 30 of 2007) as amended;
- the Promotion of Equality and Prevention of Unfair Discrimination Act, 2000 (Act 4 of 2000);
- the Employment Equity Act, 1998 (Act 55 of 1998);
- the Public Administration Management Act, 2014 (Act 11 of 2014);
- the Basic Conditions of Employment Act, 1997 (Act 75 of 1997);
- the BBBEE Act of 2003;
- the Labour Relations Act, 1995 (Act 66 of 1995) as amended;
- the Protected Disclosure Act, 2000 (Act 26 of 2000);
- the Promotion of Access to Information Act, 2000 (Act 2 of 2000); and
- the Promotion of Administrative Justice Act, 2000 (Act 3 of 2000).

Budget

For the 2019/20 financial year, the DPWI's budget allocation was R7.9 million.

An estimated 86.7% (R22.4 billion) of the department's total budget over the MTEF period is allocated to transfers and subsidies for the operations of its entities, and conditional grants to provinces and municipalities for the implementation of the EPWP. An estimated 7.2% (R1.9 billion) of the department's budget over the period ahead is earmarked for spending on compensation of employees. The number of personnel in the department is expected to decrease from 840 in 2019/20 to 769 in 2022/23 mainly, due to contracts not being renewed for

contract employees. Despite this, spending on compensation of employees is expected to increase from R557.8 million in 2019/20 to R662.5 million in 2022/23 at an average annual rate of 5.9%.

Role players

Property Management Trading Entity

The Property Management Trading Entity was established following a decision that costs related to accommodation be devolved from the DPWI to client departments. The entity performs the immovable asset management function on behalf of the department, including the provision of residential and office accommodation for user departments at the national government level; and acquires, manages, operates, maintains and disposes of immovable assets in the department's custody. The entity was established to apply professional business approaches in managing and optimising the State's immovable asset portfolio for maximum return. On a cost recovery basis, the entity finances the purchase, construction, refurbishment and maintenance of nationally owned government properties; and manages the leases of privately-owned properties accommodating national departments.

Over the medium term, the entity will focus on developing precincts to support efficient and integrated government planning by grouping departments that provide similar services to make service delivery more efficient; refurbishing and maintaining government buildings in its portfolio; and developing 12 small fishing harbours. To achieve these objectives, the entity plans to spend R61.2 billion over the MTEF period, increasing at an average annual rate of 9.3%, based on projections that there will be an increase in services provided to client departments, from R16.7 billion in 2019/20 to R21.8 billion in 2022/23. An estimated 80.4% (R49.5 billion) of the entity's total budget is allocated to goods and services, mainly for repairs and maintenance of state-owned buildings, and lease payments.

A key component of the entity's funds will be channelled towards improving access for people with disabilities. As such, the entity intends to complete 58 accessibility infrastructure projects over the medium term. These include the construction of new office buildings for 24 departments; and 77 refurbishment projects, including at correctional centres, police stations, courts, office buildings and prisons.

The execution of these projects is projected to cost R7.4 billion over the MTEF period. A further R4.5 billion has been allocated over the medium term for ad hoc building maintenance. The entity generates revenue mainly through charging management fees for the payment of municipal services and charging rental fees to user departments for accommodation. Some of the entity's revenue consists of transfers from the department. Transfers account for an estimated 18.3% (R13.6 billion) of total projected revenue of R76.9 billion over the medium term. Total revenue is expected to increase at an average annual rate of 8.6%, from R21.4 billion in 2019/20 to R27.4 billion in 2022/23.

Construction Industry Development Board

The CIDB provides leadership to stakeholders; stimulates the growth, reform and improvement of the construction sector; and enhances the industry's role in the South African economy.

Council for the Built Environment

The CBE is an overarching body that coordinates the six built-environment professional councils – architecture, engineering, landscape architecture, project and construction management, property valuation and quantity surveying – to promote good conduct within the professions, transform them and advise government on built-environment related issues.

The CBE is also an appeal body to ensure protection of the public interest. As such, the CBE and the six councils for the professions maintain and apply standards for built environment professionals' conduct and practice to effectively protect the interests of the public

Agrément South Africa

The board is mandated to certify non-standardised or unconventional built environment construction products, materials and systems through technical assessments that verify whether such products, materials and systems are fit for purpose.

Independent Development Trust (IDT)

The IDT has evolved from a grant-making organisation into a responsive development agency with a well-established footprint across South Africa.

Department of Employment and Labour

The Department of Employment and Labour was created in recognition of the need to respond to increasing levels of unemployment, inequality and poverty in South Africa.

It plays a significant role in reducing unemployment, poverty and inequality by pursuing the objectives of decent work through employment creation and enterprise development; setting of standards and the protection of rights at work, including the facilitation of equal opportunities and social dialogue; and the provision of social protection.

The mandate of the department is to regulate the labour market through policies and programmes developed in consultation with social partners. These aim to:

- improve economic efficiency and productivity;
- facilitate the creation of decent employment;
- promote labour standards and fundamental rights at work;
- provide adequate social safety nets to protect vulnerable workers;
- promote and enforce sound labour relations;
- promote equity in the workplace;
- eliminate inequality and unfair discrimination in the workplace;
- enhance occupational health and safety awareness and compliance in the workplace; and
- give value to social dialogue in the formulation of sound and responsive legislation and policies to attain labour market flexibility for the competitiveness of enterprises, balanced with the promotion of decent employment.

By facilitating the resolution of workplace disputes, improving labour relations, enhancing occupational health and safety, and facilitating job creation, the Department of Employment and Labour supports the realisation of the NDP's vision of eliminating poverty and reducing inequality. In giving effect to this vision, Priority 1 (economic transformation and job creation) of government's 2019 – 2024 MTSF provides the overall strategic direction for the department's work. Over the medium term, the

department will focus on providing support to work seekers, increasing safety and fairness in the workplace, and regulating the workplace to establish minimum working conditions and fair labour practices.

Supporting work seekers

The country's unemployment rate is among the highest in the world. In June 2019, according to the official definition, it reached 29%; according to the expanded definition, 38.5%. Young people aged between 15 and 35 are the most affected group, with an unemployment rate of 41% according to the official definition and 52% according to the expanded definition. More than half of unemployed youth find it difficult to access opportunities in the labour market because of their low levels of education and skills, lack of experience, and other social and economic factors.

In response to some of these challenges, the 2018 Presidential Jobs Summit delivered a framework agreement consisting of high-impact actions aimed at driving job creation, job retention and economic growth. This agreement is an enabler for the creation of an estimated 275 000 jobs per year over the medium term. Cabinet has approved budget increases of R16 million over the MTEF period for transfers to the National Economic Development and Labour Council (Nedlac) to fund the establishment of the Presidential Jobs Summit Secretariat, which will support the effective implementation, monitoring and evaluation of the agreement. To leverage this momentum, the department plans to develop an employment policy, in line with the International Labour Organisation guidelines, to coordinate all employment initiatives. This will be funded from the existing budget allocations of the Work Seeker Services and Employer Services subprogrammes. In addition, an employment schemes framework will be developed to facilitate the provision of short-term employment in response to the oversupply of labour and the lack of available opportunities for adequate employment. This framework, set to be implemented within the MTEF period, aims to provide short-term employment, especially for young people, to stimulate the economy through multiple strategies that will allow participants to generate their own income.

The establishment of four youth employment centres within existing labour centres over the MTEF period will create an enabling environment for the accelerated employment of young work seekers. These centres will be equipped with free internet, curriculum vitae drafting facilities, and self-help and assessment facilities, and will provide a mobile platform through which registered work seekers can be dynamically matched to available job opportunities registered on the Employment Services of South Africa database. Through the platform, work seekers will be profiled so that those who require less intervention and job preparation can be fast-tracked to job opportunities, thereby availing career counsellors to focus on work seekers who require more assistance and enhancing their prospects of securing employment. It is estimated that each youth employment centre will cost R3 million to set up. This expenditure is in the Work Seeker Services subprogramme in the Public Employment Services programme. The number of work seekers registered on the Employment Services of South Africa database is set to increase from 700 000 in 2019/20 to 800 000 per year from 2021/22 due to a planned increase in advocacy campaigns and the number of employment counsellors employed. Employment counselling will be provided to an estimated 690 000 registered work seekers over the medium term at a projected cost of R45 million in the Work Seeker Services subprogramme.

Through these advocacy campaigns targeted at potential employers, the department also hopes to increase the number of work seekers placed in registered employment opportunities and reduce the time it takes to facilitate placement. To streamline the placement process, the employment services system will be integrated with the systems of the UIF and the Compensation Fund (CF), as well as the national learners record database.

The Department of Employment and Labour will also play a more active role in facilitating job creation by establishing partnerships with stakeholders such as the Department of Higher Education and Training, the DPWI, the National Youth Development Agency, municipalities and the private sector. To ensure stakeholders remain able to provide employment to work seekers, the department will work closely with Productivity South Africa in implementing the training layoff scheme, the workplace challenge, business recovery and turnaround solutions, and job-saving programmes.

As a result of these efforts, the number of registered employment opportunities filled by registered work seekers is expected to increase from 90 000 in 2019/20 to 105 000 in 2022/23 at an estimated cost of R140.4 million over the medium term in the Work Seeker Services subprogramme.

Increasing safety and fairness in the workplace

The Department of Emplyment and Labour aims to ensure that employers adhere to employment equity plans and decent workplace principles, and that vulnerable workers are protected. Key to achieving this is the inspection of workplaces for compliance with employment law. In its efforts to create healthy and safe workplaces and respond to persistent non-compliance by employers, the department has amended the Occupational Health and Safety Act of 1993 to introduce compulsory provisions such as permitting inspectors to administer fines, permitting health and safety representatives in the service of employers to check for compliance through routine inspections, and allowing employees to leave the workplace if conditions are unhealthy or unsafe. The amended Act is targeted for implementation in 2020/21.

To provide improved services to employees and employers, and ensure that the most vulnerable employees are protected, the department will collaborate with the CF to increase the number of compliance inspections conducted from 218 732 in 2019/20 to a targeted 220 692 in 2022/23. For the inspection and enforcement of employment law, R1.7 billion is allocated over the medium term in the Compliance, Monitoring and Enforcement Services subprogramme in the Inspection and Enforcement Services programme.

Regulating the workplace to establish minimum working conditions and fair labour practices

To accelerate the attainment of the NDP's vision of reducing unemployment, poverty and inequality, the Department of Employment and Labour, with social partners at the Nedlac, will continue to set standards, institute minimum wages for vulnerable workers, and monitor compliance with the

Employment Equity Act of 1998. The National Minimum Wage Commission and secretariat established in 2019 will be responsible for reviewing, adjusting and monitoring the social and economic impact of the national minimum wage, which is set at R20 per hour. The commission is funded as part of the budget allocation of R100 million over the medium term in the Employment Standards subprogramme in the Labour Policy and Industrial Relations programme.

To assess the impact of policies and programmes aimed at increasing the protection of vulnerable workers, research will be conducted on the national minimum wage, employment policy, migration policy, transformation in the labour market, and occupational safety. For this purpose, R5 million has been budgeted for in 2020/21 in the Research, Policy and Planning subprogramme in the Labour Policy and Industrial Relations programme.

Legislation and policy

The Department of Employment and Labour derives its legislative mandate from the Constitution of the Republic of South Africa, 1996 particularly the Bill of Rights, which is given effect through a number of Acts that regulate labour matters in South Africa. The most important of these are:

- the Labour Relations Act of 1995;
- the Basic Conditions of Employment Act of 1997;
- the Employment Equity Act of 1998;
- the Occupational Health and Safety Act of 1993; and
- the Employment Services Act, 2014 (Act 4 of 2014).

Role players

Compensation Fund

The CF is mandated to administer the Compensation for Occupational Injuries and Diseases Act, 1993 (Act 130 of 1993), which makes provision for the compensation of employees with disabilities resulting from occupational injuries or sustain or contract diseases, or the compensation of the nominated beneficiaries of employees who die from such injuries or diseases. The fund's main focus over the medium term will be on restoring its reputation as a trusted provider of social services to workers. It plans to do this by improving access to social insurance for workers; providing an efficient and effective safety net that strengthens social protection, particularly for vulnerable workers, by rehabilitating, reintegrating and returning to work employees who have been injured or have contracted work-related diseases; and enhancing its capacity to deliver services by improving performance, administration and operational efficiency.

In line with the fund's increased focus on improving operational efficiency, expenditure on claims and pension benefits is expected to increase from R946.3 million in 2019/20 to R1.3 billion in 2022/23 at an average annual rate of 10%. Total expenditure on benefits is expected to increase at an average annual rate of 7.2%, from R3.8 billion in 2019/20 to R4.7 billion in 2022/23. Included in this amount is expenditure for 4 200 university bursaries and 800 bursaries to technical and vocational education and training colleges to upskill unemployed workers who have suffered occupational injuries.

The cost of administering the fund, paying compensation benefits and medical expenses, and rehabilitating and reintegrating injured and diseased workers is funded through levies paid by registered employers and revenue earned from investments. The fund's total revenue in 2019/20 is expected to be R13.2 billion, increasing at an average annual rate of 5.4% to a projected R15.4 billion in 2022/23.

Unemployment Insurance Fund

The mandate of the UIF is to alleviate poverty by providing effective short-term unemployment insurance to all workers who qualify for unemployment and related benefits, as legislated in the Unemployment Insurance Act, 2001 (Act 63 of 2001). Over the medium term, the fund will focus on providing social insurance benefits and improving coverage to vulnerable groups and contributors.

The fund will review all claims affected by the changes created by the retrospective implementation date of the Unemployment Insurance Amendment Act, 2016 (Act 10 of 2016). Applications from an estimated 1.7 million claimants lodged between 19 January 2017 and 31 December 2018 that were assessed and paid at a lower rate based on the old Act, need to be reassessed and paid based on the amended Act. The UIF plans to finalise the reassessment and payment of these retrospective claims by 2020/21. As a result, expenditure on the payment of claims is expected to be R30.6 billion in 2020/21, R24.9 billion in 2021/22 and R27.4 billion in 2022/23.

To ensure the retention and smooth re-entry of contributors into employment, the fund has budgeted an estimated R7.5 billion over the medium term for the implementation of labour activation programmes such as training and business development aimed at enhancing the employability of contributors.

To reduce the time spent by clients in labour centres, the UIF has set aside R6.7 million per year over the medium term for the maintenance of the queue management system. A self-service application that can be used on smartphones and unstructured supplementary service data will be implemented in 2020/21 at a projected cost of R2.3 million in an effort to enable clients to use the fund's services without having to visit its offices. A further R10 million has been allocated in 2020/21 for the digitisation of documents, and R85 million for the implementation of systems applications and products in data processing.

An estimated 20% of the fund's investment portfolio (R33 billion) has been set aside for socially responsible investment in employment creation initiatives in agriculture, education, renewable energy, financial services, health, housing, agro-processing, mining and beneficiation, construction, petroleum, student accommodation, road infrastructure and technology. The Public Investment Corporation (PIC) manages this investment on behalf of the UIF. The fund is financed through contributions from employees and employers, as legislated in the Unemployment Contributions Act, 2002 (Act 4 of 2002), and through interest earned on investments. Over the medium term, the fund expects to receive an estimated 63.5% (R66.8 billion) of its total revenue through unemployment contributions. Income earned through returns on investments is expected to increase from R11 billion in 2019/20 to R13.9 billion in 2022/23.

Commission for Conciliation, Mediation and Arbitration (CCMA)

The CCMA aims to promote social justice and economic development in the world of work, and to be the best dispute management and dispute resolution organisation. The commission's total budget for 2019/20 was R1 billion.

National Economic Development and Labour Council
The Nedlac requires organised labour, organised business, community-based organisations and government to work as a collective to promote the goals of economic growth, and social and economic equity. The council's total budget for 2019/20 was R41.5 million.

Productivity South Africa
Productivity South Africa aims to improve the productive capacity of the economy through interventions that encourage social dialogue and collaboration between government, labour and business. The entity's total budget for 2019/20 was R232.5 million.

Employment figures
According to the Quarterly Labour Force Survey (QLFS) by Statistics South Africa, unemployment in South Africa rose to 30.1% in the first three months of 2020. In the quarter, employment decreased by 38 000 to 16.4 million.

The number of unemployed persons increased by 344 000 to 7.1 million. As a result, the official unemployment rate increased by 1 percentage point to (30.1%) compared to the fourth quarter of 2019.

During this period, the South African working-age population increased by 147 000 to 38.9 million and the labour force increased by 306 000 to 23.5 million.

The percentage of South Africans aged 15 – 64 years with jobs (the absorption rate) has declined by 0.3 of a percentage point to 42.1%, and the labour force participation rate increased by 0.5 of a percentage point to 60.3% in the first quarter of 2020 compared to the fourth quarter of 2019. The number of discouraged work-seekers increased by 63 000 and those who were not active in the labour market for other reasons, other than discouragement, decreased by 222 000, resulting in a net increase of 107 000 in the number of those who were not economically active.

The QLFS showed that a net decline in total employment in the first quarter of 2020 was mainly driven by decreases in the number of people employed in the formal sector (50 000) and agriculture (21 000). Increases in employment were observed in the informal sector (3 000) and private household (30 000) during this period.

The report highlighted that industries experienced job losses in the first quarter of 2020 compared to the fourth quarter of 2019.

During this period, finance shed the most jobs (50 000), followed by community and social services (33 000), agriculture (21 000), transport (17 000), manufacturing (15 000), construction (7 000) and utilities (4 000) industries.

Year-on-year, there was a net increase of 91 000 in total employment, with community and social services (185 000), agriculture (27 000) and mining (18 000) being the largest contributors to the observed increase. There were approximately 10.3 million persons aged 15 – 24 years in quarter 1:2020.

The proportion of these young people, who were not in employment, education or training, increased by 2.1 percentage points from 32.0% in quarter 4:2019 to 34.10% (3.5 million) in quarter 1:2020. Of the 20.4 million young people aged 15 – 34 years, 41.7% were not in employment, education or training in quarter 1:2020 – an increase of 1.6 percentage points compared to quarter 4:2019.

According to the Quarterly Employment Survey (QES) for the first quarter of 2020, total employment decreased by 3 000 quarter-on-quarter, from 10 234 000 in December 2019 to 10 231 000 in March 2020. This was largely due to decreases in the following industries: trade (-17 000 or -0.7%), construction (-14 000 or -2.4%) and manufacturing (-2 000 or -0.2%).

The electricity industry remained unchanged. However, there were increases in the following industries: community services (17 000 or 0.6%); business services (8 000 or 0.3%), mining (3 000 or 0.7%) and transport (2 000 or 0.4%). Total employment increased by 3 000 or 0.0% year-on-year between March 2019 and March 2020.

Full-time employment decreased by 37 000 or -0.4% year-on-year between March 2019 and March 2020. Part-time employment decreased by 21 000 or -2.0% quarter-on-quarter, from 1 059 000 in December 2019 to 1 038 000 in March 2020. This was largely due to decreases in the following industries: trade (-16 000 or -6.6%), business services (-8 000 or -3.3%), construction (-5 000 or -7.1%); manufacturing (-3 000 or -3.9%) and transport (-1 000 or -4.8%). The electricity industry remained unchanged. However, the community services industry reported a quarterly increase of 12 000 or 2.9%.

Part-time employment increased by 40 000 or 4.0% year-on-year between March 2019 and March 2020. Total gross earnings paid to employees decreased by R46.7 billion or (-6.0%) from R777.0 billion in December 2019 to R730.3 billion in March 2020. This was largely due to decreases in the following industries: community services (R10.8 billion or -4.3%), manufacturing (R8.2 billion or -10.2%), trade (R8.2 billion or -7.3%), business services (R8.0 billion or -3.9%), transport (R5.5 billion or -12.2%), construction (R4.5 billion or -12.2%) and electricity (R1.6 billion or -16.5%). However, the mining industry reported quarterly increase R22 million or 0.1%.

The QES showed that year-on-year, total gross earnings increased by R30.3 billion or (4.3%). Bonus and overtime paid to employees decreased by R42.4 billion (-40.9%) from R103.7 billion in December 2019 to R61.3 billion in March 2020. Year-on-year, bonus and overtime payments increased by R0.7 billion or (1.2%).

Average monthly earnings paid to employees in the formal non-agricultural sector decreased by -0.2% quarter-on-quarter and increased by 5.4% year-on-year.

Youth Employment Service (YES)
In 2018, President Ramaphosa launched the YES. The initiative aims to see more than one million young South Africans being offered paid work experience over three years.

This is a collaborative effort between government, business, labour and civil society. YES is informed by research, which has shown that one year of work experience, coupled with a curriculum vitae and reference letter, increases a young person's chances of finding employment by three times.

The programme has three channels through which employment opportunities can occur:

- Corporate work experiences: businesses that participate in the programme create one-year paid positions for youth aged between 18 and 35, in addition to these organisations' current employment numbers, YES is an additive.

- SMME host placements: businesses that do not have the capacity to place more people in their organisations, have the option of sponsoring the salary for a one-year placement in small and medium enterprises (in year one for seven to 10 months)
- SMME development: young people are empowered to start and grow their own businesses, with support from YES in the form of training, seed funding and value-chain integration.

Finance

The National Treasury's legislative mandate is based on the Constitution, which calls for the establishment of a national treasury to ensure transparency, accountability and sound financial controls in the management of the country's public finances.

This role is further elaborated in the PFMA of 1999. The department is mandated to:

- promote national government's fiscal policy and the coordination of its macroeconomic policy;
- ensure the stability and soundness of the financial system and financial services;
- coordinate intergovernmental financial and fiscal relations;
- manage the budget preparation process; and
- enforce transparency and effective management in respect of revenue and expenditure, assets and liabilities, public entities, and constitutional institutions.

The NDP details a vision of building an inclusive economy that advances social equality. This vision is supported by Priority 1 (economic transformation and job creation), Priority 2 (education, skills and health), Priority 4 (spatial integration, human settlements and local government), Priority 6 (a capable, ethical and developmental state) and Priority 7 (a better Africa and world) of government's 2019 – 2024 MTSF. The work of the National Treasury is closely aligned with these priorities, particularly in its aim to address the challenges of inequality and poverty. In giving expression to these guiding policies over the medium term, the National Treasury will focus on reviewing tax policy and strengthening regulation in the financial sector, supporting sustainable employment, supporting infrastructure development and economically integrated cities and communities, making government procurement more efficient, strengthening financial management in government, and facilitating regional and international cooperation.

Reviewing tax policy and strengthening regulation in the financial sector

To improve fairness in the tax system, over the medium term, the National Treasury plans to propose amendments to tax policy that seek to meet government's revenue requirements and eliminate tax loopholes. In working towards this, the department will conduct research on appropriate tax designs for all proposed amendments, prepare discussion documents, hold workshops and meetings with affected parties, and prepare draft tax legislation before any legislation is introduced in Parliament. It will also advise the Minister of Finance on amendments to tax rates and thresholds, which are announced each year in the annual budget. Recent proposals for amendments to tax policy have included the implementation of the carbon tax from 1 June 2019, and adjustments to the Personal Income Tax (PIT) and the Excise Duty. These activities will be carried out in the Tax Policy subprogramme in the Economic Policy, Tax, Financial Regulation and Research programme. Allocations to the subprogramme account for 21.4% (R107.8 million) of the programme's total budget over the medium term.

The Financial Sector Laws Amendment Bill and Financial Matters Amendment Bill were published for public comment in 2018/19. These bills provide for the licensing of state banks, the orderly curatorship and resolution of banks in distress, and the establishment of a deposit insurance scheme at the SARB. A deposit insurance corporation will be established to administer the scheme as an entity within the bank, and will be mandated to establish, maintain and administer a deposit insurance fund to protect the deposits of bank customers in the event of a bank failure. The department will support these bills through relevant parliamentary processes over the medium term.

The National Treasury will also aim to table a financial sector levies Bill during this period. To streamline regulations applicable to financial institutions, a new Bill for the proportionate regulation of the market conduct of all institutions in the financial sector will be developed over the medium term. Furthermore, the department intends to introduce the National Payment System Amendment Bill in Parliament in 2020/21, which seeks to, among other things, provide the SARB with clear legal, regulatory, supervisory and oversight powers in respect of the national payment system in the National Payment System Act, 1998 (Act 78 of 1998). All activities for the development and introduction of proposed legislation will be carried out in the Financial Sector Policy subprogramme in the Economic Policy, Tax, Financial Regulation and Research programme. Allocations to the subprogramme account for 16.4% (R84.1 million) of the programme's total budget over the medium term.

Supporting sustainable employment

The Jobs Fund was launched in 2011 with a total operating budget of R9 billion to create 150 000 permanent jobs. As at 30 September 2019, the fund's 133 contracted projects reported that 118 867 new permanent jobs had been created, 56 660 previously unemployed people had been placed in permanent employment, and 250 124 people had benefitted from work-readiness and technical training interventions. After eight funding rounds since 2011/12, the fund has allocated the full R9 billion to a portfolio of 153 projects, 20 of which are still contracting phase and are expected to be fully implemented by 2025. A total of R14.1 billion has been committed to these 153 projects in the form of matched funding from Jobs Fund partners.

The National Treasury anticipates spending R2.5 billion over the medium term in the Government Technical Advisory Centre subprogramme in the Public Finance and Budget Management programme on activities related to the creation of sustainable employment. These activities include supporting innovative and partnership-based approaches to employment, enterprise development and providing support to work seekers.

Supporting infrastructure development and economically integrated cities and communities

The National Treasury facilitates conditional grants and provides financial incentives for infrastructure planning and development. This support is provided to municipalities through the Local Government Financial Management Grant, the Neighbourhood Development Partnership Grant, the

Integrated City Development Grant, and the Infrastructure Skills Development Grant. Transfers to the grants and programmes for the development of infrastructure that facilitates the establishment of economically and socially integrated cities and communities amount to a projected R4.9 billion over the MTEF period in the Facilitation of Conditional Grants subprogramme in the Public Finance and Budget Management programme.

Making government procurement more efficient

Over the medium term, the Office of the Chief Procurement Officer will continue to monitor government procurement to identify malpractices that result in procurement irregularities. The office will aim to ensure compliance by analysing and monitoring the procurement plans of organs of state; and reviewing, investigating and reporting on various bids. The process for finalising the Draft Public Procurement Bill will be accelerated over the medium term, with public consultations expected to be held in 2020/21 subject to the bill's approval by Cabinet. Once effected, the legislation will introduce a series of governance reforms to the public procurement process and improve access to opportunities for SMMEs.

The National Treasury will continue to support government institutions in strategic procurement over the medium term, and guide institutions, particularly in the health, education and travel sectors, through procurement and delivery management processes. To formalise this support, the rollout of the Framework for Infrastructure Delivery and Procurement Management is expected to be completed in 2020/21. These activities will be carried out in the Office of the Chief Procurement Officer subprogramme in the Financial Accounting and Supply Chain Management Systems programme. Allocations to the subprogramme account for 7.2% (R233.5 million) of the programme's total budget over the MTEF period.

Strengthening financial management in government

The government's integrated financial management system is designed to enhance the effectiveness of back-end public service functions by improving access to information, raising the quality of data, eliminating the duplication of systems and resources, and limiting the use of manual processes through modernisation and streamlining. By the end of 2020/21, a template for the system's software interface is expected to be designed and implemented at the National Treasury and the Department of Public Service and Administration. Key stakeholders at these pilot sites have been trained to participate in the design process. Spending on these activities is expected to amount to R807.3 million over the medium term in the Financial Systems subprogramme in the Financial Accounting and Supply Chain Management Systems programme.

Facilitating international and regional cooperation

The New Development Bank was established in 2014 to strengthen cooperation among the Brazil, Russia, India, China, South Africa group of countries, and complements the efforts of multilateral and regional financial institutions for global development. As at January 2020, South Africa had made capital contributions to the bank amounting to R18.5 billion, with further capital contributions amounting to R9.2 billion expected over the medium term. By the end of December 2019, the bank had approved almost US$2 billion to fund South Africa's development initiatives in the energy, transport and logistics sectors. In addition, an estimated US$1.5 billion per year is available for funding South Africa's infrastructure build programme over the medium term.

To facilitate regional cooperation, compensation to member countries of the Common Monetary Area (Namibia, Lesotho and Eswatini) for the use of the rand currency amounts to R4 billion over the medium term in the African Integration and Support subprogramme in the International Financial Relations programme. As part of the National Treasury's multilateral development commitment to institutions that continue to be strategic partners in the region's development agenda, transfers for the recapitalisation of the International Bank for Reconstruction and Development, a member institution of the World Bank Group, are projected to amount to R261.1 million over the MTEF period, and transfers for the recapitalisation of the African Development Bank and African Development Bank Fund are projected to amount to R1.3 billion. This expenditure is allocated in the International Development Funding Institutions subprogramme in the International Financial Relations programme.

Improving government services

Public procurement reforms

Initiatives led by the Office of the Chief Procurement Officer aim to deliver lower-cost goods and services more efficiently and transparently through streamlined processes, strategic sourcing, transversal tenders and improved use of technology. The goal is to reduce bureaucratic inertia and red tape and stamp out corrupt procurement practices.

Central Supplier Database (CSD)

The CSD maintains a database of organisations, institutions and individuals who can provide goods and services to government.

It serves as the single source of key supplier information for organs of state, providing consolidated, accurate, up-to-date, complete and verified supplier information to procuring organs of State.

This is expected to reduce the administrative and cost burden of procurement, as the requisite documents will only need to be submitted once for a predetermined period.

eTender Publication Portal

The portal provides a single point of entry to identify business opportunities with government. Utilisation of the eTenders Publication Portal has improved. There are more than 37 500 tenders published on the portal. More than 14 500 tenders were published by public entities, more than 5 400 by provincial departments, more than 3 600 by national departments and more than 7 000 by municipalities.

Vulekamali Portal

In an effort to ensure that its services are accessible to the broader South African society, the National Treasury launched an online portal that makes information on the country's budget more accessible to ordinary South Africans. The portal, called Vulekamali, presents information in a simplified format and shows citizens how public resources are generated and used.

The portal enables the public to make their inputs, not only in influencing government policy directive as articulated through the budget but also having access to the budget process and the information contained in the budget.

The portal is a private-public partnership between Imaliyethu and the National Treasury. It is a good platform for young South Africans, especially the academia, to access budgeting information to help them gain critical insights.

Legislation and policies

The National Treasury's mandate is guided by a legislative framework that includes:

- the PFMA of 1999, which ensures that public funds are managed by a less rigid environment for financial management, with a stronger emphasis on the prudent use of state resources, improved reporting requirements and the use of management information to enhance accountability;
- the Municipal Finance Management Act, 2003 (Act 56 of 2003), which applies to all municipalities and municipal entities, and national and provincial organs of state, to the extent of their financial dealings with municipalities;
- the Cooperative Banks Act, 2007 (Act 40 of 2007) provides for the establishment of the Cooperative Banks Development Agency (CBDA) as a public entity under the executive authority of the Minister of Finance;
- the SARB Act, 1989 (Act 90 of 1989);
- the Division of Revenue Act, 2012 (Act 5 of 2012);
- the Appropriation Act, 2012 (Act 7 of 2012);
- the Rates and Monetary Amounts and Amendment of Revenue Laws Act, 2012 (Act 13 of 2012);
- the Adjustments Appropriation Act, 2012 (Act 17 of 2012);
- the Division of Revenue Amendment Act, 2012 (Act 18 of 2012);
- the Financial Markets Act, 2012 (Act 19 of 2012);
- the Tax Administration Laws Amendment Act, 2012 (Act 21 of 2012);
- the Taxation Laws Amendment Act, 2012 (Act 22 of 2012);
- the Credit Rating Services Act, 2012 (Act 24 of 2012);
- the Development Bank of Southern Africa (DBSA) Act, 1997 (Act 13 of 1997);
- the Land and Agricultural Development Bank Act, 2002 (Act 15 of 2002);
- the Financial Advisory and Intermediaries (FAIS) Act, 2002 (Act 37 of 2002);
- the Financial Intelligence Centre (FIC) Act, 2001 (Act 38 of 2001);
- the PIC Act, 2004 (Act 23 of 2004);
- the South African Revenue Service (SARS) Act, 1997 (Act 34 of 1997);
- the Tax Administration Act, 2011 (Act 28 of 2011);
- the Lotteries Act, 1997 (Act 57 of 1997);
- the National Gambling Act, 2004 (Act 7 of 2004);
- the Lotteries Amendment Act, 2013 (Act 32 of 2013); and
- the National Credit Act (NCA), 2005 (Act 34 of 2005).

Budget

For the 2019/20 financial year, the National Treasury was allocated R753.5 billion.

The department's total budget over the medium term is R2.6 trillion, with transfers to provincial governments for the provincial equitable share accounting for 65.5% (R1.7 trillion) of this amount. Cabinet has approved reductions on the department's baseline amounting to R21.4 billion over the medium term mainly on the provincial equitable share, and increases to the department's baseline amounting to R30.9 billion over the same period mainly to service government's debt. With this additional allocation, the department anticipates spending 28.9% (R777.9 billion) of its total budget over the medium term to service debt. Distributing the General Fuel Levy to metropolitan municipalities is the department's third-largest cost driver, amounting to R45.3 billion over the medium term. Cabinet has approved a baseline increase of R240 million over the medium term to defray costs associated with retirement without penalisation of pension benefits in the Public Service. The National Treasury will use this allocation to pay penalties on behalf of departments to the Government Employees Pension Fund (GEPF) for the early withdrawal of pension funds. This allocation is in response to calls for a sustainable public wage bill through reducing government spending on compensation of employees.

Entities

A total of 16 entities report to the Minister of Finance through governance arrangements that give them autonomy but also enable them to align their strategies with government policy.

Nine of these entities receive transfers from the National Treasury. The remaining seven are self-funded and generate their own revenue. Each entity develops and reports on its own strategic and corporate plan.

Entities receiving transfers are the:

- Accounting Standards Board (ASB).
- FIC.
- Government Technical Advisory Centre.
- Independent Regulatory Board for Auditors (IRBA).
- Office of the Ombud for Financial Service Providers (FSPs).
- Office of the Pension Funds Adjudicator.
- SARS.
- CBDA.
- Financial and Fiscal Commission (FFC).

Entities not receiving transfers are the:

- DBSA.
- Government Pensions Administration Agency (GPAA).
- Land and Agricultural Development Bank of South Africa (Land Bank).
- PIC Limited.
- South African Special Risks Insurance Association (SASRIA).

Development Bank of Southern Africa

The DBSA was reconstituted in terms of the DBSA Act of 1997 as a development finance institution with the primary purpose of promoting economic development and growth. The bank also promotes the development of human resources and institutional capacity building by mobilising financial and other resources from national and international private and public sector partners for sustainable development projects and programmes in South Africa and other Southern African countries.

Over the medium term, the bank will focus on:

- driving financial and non-financial investments and support in the education, energy, health, housing, transport, water and communications sectors;

- accelerating the financing of infrastructure in South Africa, paying particular attention to municipalities, SOCs, independent power producers and public-private partnerships; and
- providing infrastructure support in the rest of Africa targeted at SOCs and public-private partnerships.

It also aims to play a role in supporting economic infrastructure project planning and financing. The bank plans to increase the total value of disbursements to infrastructure projects from R13.5 billion in 2019/20 to R18.7 billion in 2022/23. To complement these activities, as part of the bank's development finance programme, R127 million per year over the MTEF period is set aside to subsidise interest repayments and support the planning and implementation of infrastructure projects in more than 20 selected municipalities with capacity constraints. In 2019/20, the bank disbursed R7.3 billion to municipalities for investments in water and sanitation, energy, transport and roads infrastructure. The bank expects to receive R300 million from government over the medium term to assist with the preparation of catalytic projects, which will be submitted to the budget facility for infrastructure for financing.

Total expenditure is expected to increase at an average annual rate of 7.3%, from R6.1 billion in 2019/20 to R7.6 billion in 2022/23. The bulk of the bank's spending is on interest, which is expected to increase at an average annual rate of 4.8%, from R4.1 billion in 2019/20 to R4.7 billion in 2022/23, in line with the expected increase in disbursements. To ensure that the bank has adequate capacity to deliver on its mandate, its number of personnel is expected to remain constant over the medium term. Spending on compensation of employees is expected to increase at an average annual rate of 6.7%, from R890.4 million in 2019/20 to R1.1 billion in 2022/23.

The bank mainly derives its revenue from interest income and fees from investment income and is expected to increase at an average annual rate of 9.8%, from R8.6 billion in 2019/20 to R11.4 billion in 2022/23. This is due to the anticipated increase in disbursements and more effective management of the nonperforming loan book, which is expected to improve net loan impairments.

Government Pensions Administration Agency

The GPAA provides pension administration services to the GEPF in terms of the Government Employees Pension Law (1996). Post retirement medical subsidies are administered, as provided for, and regulated by resolutions of the Public Service Coordinating Bargaining Council; military pensions are administered in terms of the Military Pensions Act, 1976 (Act 84 of 1976); injury-on-duty payments are administered in terms of the Compensation for Occupational Injuries and Diseases Act of 1993; and special pensions are administered in terms of the Special Pensions Act, 1996 (Act 69 of 1996).

The agency will continue to focus on its modernisation project, which is aimed at improving service delivery by enhancing information technology infrastructure, optimising office space and employing new personnel as client service agents. Outdated and obsolete systems and applications will be replaced to enhance staff productivity, speed up the processing of claims and effectively manage pension queries. Core pension administration functions, including benefit payments and membership maintenance processes, are also expected to be improved. The project is expected to be completed over the MTEF period. Accordingly, the agency's expenditure on ICT is expected to increase from R54.5 million in 2019/20 to R77 million in 2022/23.

Expenditure is expected to increase at an average annual rate of 5%, from R1.1 billion in 2019/20 to R1.3 billion in 2022/23, driven by an increase in spending on consultants for the Modernisation programme. Spending on compensation of employees is expected to increase at an average annual rate of 7.6%, from R514.2 million in 2019/20 to R640.6 million in 2022/23, in line with an increase in the number of personnel over the period. Revenue, which is derived mainly from administration fees, is in line with spending over the period ahead.

Land and Agricultural Development Bank of South Africa

As a development finance institution, the mandate of the Land Bank of is to address agricultural and rural development in South Africa. The bank operates in the primary agriculture and agribusiness sectors and is regulated by the Land and Agricultural Development Bank Act of 2002 and the PFMA of 1999.

The bank plays a pivotal role in advancing agriculture and rural development. The Land and Agricultural Development Bank Act of 2002 promotes:

- the equitable ownership of agricultural land, particularly by historically disadvantaged people;
- agrarian reform, land redistribution or development programmes for historically disadvantaged people;
- land access for agricultural purposes;
- productivity, profitability, investment and innovation in agriculture;
- the growth of agricultural sectors and better use of land;
- rural development and job creation;
- commercial agriculture; and
- food security.

The bank's loan book is expected to increase from R45.2 billion in 2019/20 to R49 billion in 2022/23. In line with this increase, total operating expenses are expected to increase at an average annual rate of 3.2%, from R4.8 billion in 2019/20 to R5.3 billion in 2022/23, and expenses related to funding liabilities are expected to increase at an average annual rate of 4.1%, from R3.7 billion in 2019/20 to R4.2 billion in 2022/23.

The bank's number of personnel is expected to increase in 2022/23 as it fills vacant positions. This will contribute to an increase in spending on compensation of employees at an average annual rate of 6.7%, from R424.6 million in 2019/20 to R515.3 million in 2022/23.

Revenue is expected to increase at an average annual rate of 3.7%, from R5 billion in 2019/20 to R5.6 billion in 2022/23, in line with projected growth in the loan book. Interest income is expected to account for 97.4% (R15.7 billion) of the bank's total revenue over the MTEF period.

Public Investment Corporation

The PIC, established by the PIC Act of 2004, is a registered financial services provider wholly owned by government, with the Minister of Finance as its shareholder representative. The corporation is mandated to invest funds on behalf of its clients,

as agreed upon with each client and approved by the Financial Sector Conduct Authority. The corporation's clients are public sector entities, most of which are pension, provident, social security, development and guardian funds.

The corporation makes investments through the Isibaya Fund under the guidance of the Developmental Iinvestment Framework of the GEP. This requires the corporation to find a balance between financial returns and support for long-term economic, social and environmental outcomes. The corporation's developmental investments are focused on economic and social infrastructure; sustainability projects; enterprise development; and SMMEs in the manufacturing, tourism, mining and agro-processing sectors.

Over the medium term, the corporation plans to commit R9 billion towards development property investments, including new developments, refurbishments and upgrades, and developments in rural areas. Through these investments, the corporation aims to make favourable returns on its clients' portfolios and contribute towards the growth and transformation of South Africa's economy. At least 30% of the corporation's approved unlisted property transactions for new developments or acquisitions will be compliant with black economic empowerment regulations, targeted at 50% representation by women.

As the corporation intensifies its investment activities, the value of the assets under its management is expected to increase from R2.3 trillion in 2019/20 to R2.8 trillion in 2022/23. This will necessitate the appointment of an estimated 18 additional asset managers. As a result, spending on compensation of employees is expected to increase at an average annual rate of 7.3%, from R864.9 million in 2019/20 to R1.1 billion in 2022/23. Total expenditure is expected to increase from R1.4 billion in 2019/20 to R1.7 billion in 2022/23, at an average annual rate of 6.9%.

The corporation derives its revenue mainly through the fees it charges for managing its clients' assets, including the GEPF; board fees; and interest. Revenue is expected to increase at an average annual rate of 7%, from R1.7 billion in 2019/20 to R2.1 billion in 2022/23, mainly due to an anticipated increase in management fees, growth in the equities portfolio, and an increase in assets under management for the CPI.

South African Special Risks Insurance Association

The SASRIA was established in 1979 and was registered in terms of Section 21 of the Companies Act of 1973. In line with the amendments of the SASRIA Act, 1998 (Act 134 of 1998) and the Companies Act of 2008, government became the company's sole shareholder. The association is mandated to support the insurance industry by providing cover for special risks such as riots, strikes, political unrest, terrorist attacks, civil commotion, public disorder and labour disturbances.

Over the medium term, the association will focus on the sustainability of its business by establishing new distribution channels; enhancing customer service by conducting a needs analysis to understand its clients better; and improving brand awareness and product development by creating awareness of the industry, collating market intelligence and conducting research.

Over the MTEF period, expenditure is expected to increase at an average annual rate of 8.5%, from R2.5 billion in 2019/20 to R3.2 billion in 2022/23. This is mainly due to projected increases in administrative, marketing and underwriting expenses. In response to the anticipated increase in claims, additional regulatory requirements and the development of new products, its number of personnel is expected to increase over the period ahead. Accordingly, spending on compensation of employees is expected to increase at an average annual rate of 8.4%, from R216.8 million in 2019/20 to R276.1 million in 2022/23. Similarly, spending on goods and services is expected to increase at an average annual rate of 8.6%, from R2 billion in 2019/20 to R2.6 billion in 2022/23. Revenue is expected to increase at an average annual rate of 8.3%, from R3 billion in 2019/20 to R3.8 billion in 2022/23. The association expects to derive 79.9% of its revenue over the medium term through underwriting premiums.

South African Revenue Service

The SARS is mandated to collect all revenue due to the State and administer trade to support government in meeting its key developmental objectives for growth. This involves facilitating legitimate trade, protecting South Africa's ports of entry, and eliminating illegal trade and tax evasion.

As its principal contribution to South Africa's economic and social development, the revenue service's focus over the medium term will continue to be on providing government with more than 90% of the revenue it requires to meet its policy and delivery priorities. It aims to do this by modernising its ICT systems to encourage eFiling, improve the experience of taxpayers, monitor compliance and make tax collection more efficient. These improvements are expected to enable the revenue service to keep up with the evolving tax and customs legislative environment, and lead to changes in compliance behaviour by responding to the needs and expectations of taxpayers. An additional allocation of R1 billion over the medium term will be made available to execute strategic projects over the medium term, with a significant portion of this amount (R844 million) allocated for implementing the generally recognised accounting practice system.

The revenue service's total expenditure is expected to increase at an average annual rate of 7.4%, from R11.1 billion in 2019/20 to R13.8 billion in 2022/23. As the revenue service requires a diverse skill set to expand its footprint, improve compliance and revenue collection, and drive key initiatives, its number of personnel is expected to increase over the medium term. Accordingly, expenditure on compensation of employees is expected to increase at an average annual rate of 6.8%, from R7.6 billion in 2019/20 to R9.2 billion in 2022/23. The revenue service aims to ensure this increase in expenditure remains modest by filling only critical vacancies and recruiting scarce and high-end skills only in key areas. Revenue is expected to increase at an average annual rate of 4.7%, from R10.2 billion in 2019/20 to R11.7 billion in 2022/23. The service's revenue is derived mainly from transfers from government, which account for 96.3% of total revenue over the MTEF period.

It is also responsible for administering the South African tax system and customs service. By encouraging tax and customs compliance, the SARS also aspires to contribute to the building of fiscal citizenship reflected by a law-abiding society.

Tax administration

The National Treasury is responsible for advising the Minister of Finance on tax policy issues that arise in local, provincial

and national government. As part of this role, the National Treasury must design tax instruments that can optimally fulfil their revenue-raising function and policy objectives. These tax instruments must be aligned to the goals of government's economic and social policies.

A single, modern framework for the common administrative provisions of various tax Acts administered by the SARS, generally excluding customs and excise, was established by the Tax Administration Act of 2011. The Act simplifies and provides greater coherence in South African tax administration law. It eliminates duplication, removes redundant requirements and aligns disparate requirements that previously existed in different tax acts administered by the SARS.

The Act provides for common procedures across the various tax Acts and strives for an appropriate balance between the rights and obligations of the SARS and the rights and obligations of taxpayers in a transparent relationship.

Office of the Tax Ombud

The Office of the Tax Ombud is intended to provide taxpayers with an impartial and low-cost mechanism to address service, procedural or administrative difficulties that taxpayers have not been able to resolve through the SARS's complaints management channels.

South African tax system

South Africa has a residence-based income tax system. Residents are, subject to certain exclusions, taxed on their worldwide income, irrespective of where their income was earned. Non-residents are taxed on their income from a South African source, subject to relief under Double Taxation Agreements (DTAs). Foreign taxes are credited against South African tax payable on foreign income.

The PIT, Company Income Tax (CIT) and VAT in aggregate, remain the largest sources of tax revenue and comprise about 80.7% of total tax revenue collections.

Taxes on income and profits

This category comprises taxes on persons and individuals; taxes on companies – both inclusive of Capital Gains Tax and withholding tax on royalties; interest on overdue Income Tax; Dividends Tax (DT) and withholding tax on interest.

Personal Income Tax

The PIT is a tax levied on the taxable income of individuals and trusts. It is determined for a specific year of assessment. Taxable capital gains form part of taxable income. The main contributors to the PIT are employment income from salary and wage earners, pensioners, income generated from sole-proprietor activities and partnerships, and other income such as rental, interest above a certain threshold. The tax rates applicable to PIT-related taxable income are progressive, marginal rates ranging from 18% to 45%.

As a means of collecting the PIT from salary, wage and pension income, a mechanism known as Pay-As-You-Earn (PAYE) is in operation that enables employers to withhold tax due to the SARS from employees and pay this over to the authority monthly and reconciled biannually.

Company Income Tax

The CIT is a tax levied on the taxable income of companies and close corporations and cooperatives. After the PIT and VAT, the CIT has been the largest contributor to total tax revenue for the past decade.

Although the current headline CIT rate is 28%, some sectors of the economy have different effective tax rates due to sector-specific tax dispensations and deductions.

Exceptions to the 28% flat rate are the lower, progressive tax rates that apply to qualifying small and micro enterprises, as well as a reduced tax rate that applies to companies operating in designated SEZs.

Dividends Tax

The DT is a final tax at a rate of 20% on dividends paid by resident companies and by non-resident companies in respect of shares listed on the Johannesburg Stock Exchange (JSE). Dividends are tax exempt if the beneficial owner of the dividend is a South African company, retirement fund or other exempt person.

Non-resident beneficial owners of dividends may benefit from reduced tax rates in limited circumstances. The tax is to be withheld by companies paying the taxable dividends or by regulated intermediaries in the case of dividends on listed shares.

The tax on dividends in kind (other than in cash) is payable and is borne by the company that declares and pays the dividend.

Taxes on payroll and workforce

Taxes on payroll and workforce include the Skills Development Levy (SDL) and the UIF contributions. The SDL is a compulsory levy intended to fund training costs incurred by employers.

Skills Development Levy

Affected employers contribute to a skills development fund that is used for employee training and skills development.

This SDL is payable by employers at a rate of 1% of the total remuneration paid to employees. Employers paying annual remuneration of less than R500 000 are exempt from the payment of this levy.

Taxes on property

Taxes on property comprise the Donations Tax, Estate Duty, Securities Transfer Tax (STT) and Transfer Duty.

Donations Tax

The Donations Tax is levied at a rate of either 20% or 25% on the value of the donation, depending on the aggregate value of the property being disposed of in a specific tax year. An annual exemption of R100 000 is available to natural persons.

Estate Duty

The Estate Duty is levied at a rate of 20% and at 25% on the dutiable amount of the deceased estate that exceeds R30 million. Specific deductions and abatements are allowed from the total value of the estate.

Securities Transfer Tax

The STT is levied at a rate of 0.25% on the transfer of listed or unlisted securities. Securities consist of shares in companies or members' interests in close corporations.

Transfer Duty

The Transfer Duty is levied on the acquisition of property at progressive rates from 0% to 13% for all persons including companies, close corporations and trusts.

The marginal rate of 13% applies to the portion of the value of property exceeding R11 million from 1 March 2020.

Domestic taxes on goods and services

Domestic taxes on goods and services comprise the VAT, specific excise duties, ad valorem excise duties, Fuel Levy, Road Accident Fund (RAF) Levy, environmental levies and Health Promotion Levy. The VAT is the largest source of revenue in this category.

Value-Added Tax

The VAT is levied at a rate of 15% on goods and services with some exemptions and zero-ratings and is also levied on the importation of goods and services into South Africa. The quoted or displayed price of goods and services must be VAT-inclusive.

A person who supplies goods or services is liable to register for VAT, if the income (taxable supply) earned is more than R1 million in a 12-month period, or when there is a reasonable expectation that the income will exceed this amount.

A person can also register voluntarily for VAT, if the income earned from supplying goods or services for 12 months exceeded R50 000.

Fuel taxes

The General Fuel Levy is imposed on petrol and diesel (including biodiesel) manufactured in or imported into South Africa. The Fuel Levy is not earmarked, but it implicitly increases the cost of road transport to encourage more efficient and sustainable road use.

The increased General Fuel Levy is R3.70/litre (l) for petrol and R3.55/ litre for diesel from 1 April 2020. The RAF Levy is imposed on petrol and diesel manufactured in or imported into South Africa. The RAF Levy funds the RAF's motor vehicle accident insurance scheme. The increased RAF Levy is R2.07/l for both petrol and diesel from 1 April 2020.

Environmental levies

The government has responded to the serious global challenge of environmental pollution and climate change by introducing several environmental taxes that are intended to modify behaviour of the country's citizens for sustainable development of the economy.

International Air Passenger Departure Tax

Passengers departing on flights to Botswana, Lesotho Namibia and Eswatini (known as the BLNS countries) pay a departure tax of R100 per passenger while passengers on other international flights pay R190 per passenger.

Plastic Bag Levy

The Plastic Bag Levy was introduced to reduce litter and encourage plastic bag reuse. It is charged at 25 cents per bag as from 1 April 2020.

Electricity Generation Levy

The levy was introduced to encourage sustainable electricity generation and use. The levy is applied to electricity generated from non-renewable sources and costs 3.5 cents per kilowatt hour.

Incandescent Bulb Levy

The levy was introduced to promote energy efficiency by discouraging the use of incandescent light bulbs. It is charged at R10 a bulb from 1 April 2020.

Carbon dioxide (CO_2) Motor Vehicle Emissions Levy

The CO_2 Motor Vehicle Emissions Levy on passenger and double-cab vehicles was introduced to encourage the manufacture and purchase of more energy efficient motor vehicles. It is charged at R120 for every gram (g) above 95gCO_2/kilometre (km) for passenger vehicles and R160 for every gram above 175gCO_2/km for double cab vehicles.

Tyre Levy

The levy on new pneumatic tyres was introduced to encourage efficient tyre use. Although the Tyre Levy is not earmarked, it indirectly supports the responsible recycling of obsolete tyres. The current rate is R2.30/kilogram.

Health Promotion Levy

The levy applies to specific sugary drinks and concentrates used in the manufacture of sugary drinks to combat obesity and promote healthier consumer beverage choices.

The current rate is 2.21cent/g of the sugar content that exceeds 4g/100 millilitres.

Diamond Levy

A diamond export levy on unpolished diamonds exported from South Africa was introduced, effective from November 2008 at a rate of 5% of the value of such diamonds.

Trade agreements

The SARS administers a number of trade agreements or protocols or other parts or provisions thereof, and other international instruments, in terms of the Customs and Excise Act of 1964, which are enacted into law when published by notice in the Gazette. The full texts of these types of agreements contain the following:

- Treaty of the Southern African Development Community (SADC) and protocols concluded under the provisions of Article 22 of the Treaty.
- Agreement between South Africa and the US regarding mutual assistance between their Customs Administrations.
- Southern African Customs Agreement between the governments of the Botswana, Lesotho, Namibia, South Africa and Eswatini.
- Memorandum of Understanding between South Africa and China on promoting Bilateral Trade and Economic Cooperation.
- Free Trade Agreement between the European Free Trade Association states and the SACU states.
- Common Market of the South comprising of Argentina, Brazil, Paraguay and Uruguay and the SACU comprising of Botswana, Lesotho, Namibia, South Africa and Eswatini which was implemented on 1 April 2016.
- Economic Partnership Agreement between the SADC

Economic Partnership Agreement states, of the one part, and the European Union and its member states of the other part which was implemented on 10 October 2016.

Southern African Customs Union

The SACU Secretariat is located in Windhoek, Namibia. The union was established in 1910, making it the world's oldest customs union. Negotiations to reform the 1969 agreement started in 1994, and a new agreement was signed in 2002. The member states form a single customs territory in which tariffs and other barriers are eliminated on substantially all the trade between the member states for products originating in these countries; and there is a common external tariff that applies to non-members of the SACU.

Excise duties

Excise duties are levied on certain locally manufactured goods and their imported equivalents. Specific excise duties are levied on tobacco and liquor products. Ad valorem excise duties are levied on products such as motor vehicles, cellular telephones, electronics and cosmetics.

Customs duties

Customs duties are imposed by the Customs and Excise Act of 1964. Ordinary Customs Duty is a tax levied on imported goods and is usually calculated on the value of goods imported and collected by the customs unit within the SARS. Customs Duty rates in Part 1 of Schedule 1 and trade remedies relating to the importation of goods – anti-dumping, countervailing and safeguard duty are set out in Schedule 2 of the schedules to the Act and are determined through trade policy in terms of the International Trade Administration Act of 2002 administered by the International Trade Administration Commission.

The Customs Control Act of 2014 and the Customs Duty Act of 2014 were promulgated in July 2014 to provide a platform for the modernisation of customs administration that achieves a balance between effective customs control, the secure movement of goods and people into and from South Africa and the facilitation of trade and tourism.

In addition, the VAT is also collected on goods imported and cleared for home consumption.

Rates on property

Property-related taxes include municipal rates and charges for refuse and sewerage which are collected by municipalities.

Compliance levels

Tax Register

The SARS continues to broaden the tax base and expand its taxpayer and trader register. Contributing positively to the ease of registration are bulk registrations at places of employment and an online facility to register staff when submitting their monthly PAYE returns. The SARS registration policy stipulates that everyone formally employed regardless of their tax liability must be registered for the PIT. If employees are not registered, it is the duty of the employer to register them with the SARS.

Tax compliant

Tax compliance is mirrored in the tax collected from the various types of tax. It is the duty of every taxpayer to ensure that they are registered for the necessary taxes, that all tax returns are submitted by the relevant due dates and that all taxes are paid as and when is required.

Payment channels

The majority of taxpayers are now using electronic payment platforms which significantly improve turnaround times. Cash collections at branches have been reduced because of the risks associated with them. From 1 May 2020, cheque payments in South Africa may not be in excess of R50 000. Payment methods other than branch payments are:

- eFiling: this requires a taxpayer to register as an eFiling client in order to make electronic payments using this channel; and
- payments at banks: taxpayers can make either an internet banking transfer or an over-the-counter (OTC) deposit.

Voluntary Disclosure Programme

A permanent Voluntary Disclosure Programme (VDP) was introduced in terms of the Tax Administration Act of 2011, in October 2012. The permanent VDP is part of a package of compliance measures aimed at encouraging non-compliant taxpayers to regularise their tax affairs.

International tax treaties

South Africa has a number of DTAs and tax information exchange agreements. In 2014, the Organisation for Economic Cooperation and Development, working with the group of twenty countries and other stakeholders, developed the Standard for Automatic Exchange of Financial Account Information – the Common Reporting Standard (CRS).

The CRS requires the reporting to tax authorities by certain financial institutions of information in relation to financial accounts they hold for non-resident taxpayers. This information is then automatically exchanged between tax authorities each year in order to tackle cross-border tax evasion. South Africa is an early adopter of the CRS. The USA Foreign Account Tax Compliance Act Intergovernmental Agreement is also in force between the governments of the USA and South Africa to exchange information automatically under the provisions of the DTA between the two countries.

Other entities

Accounting Standards Board

The ASB develops uniform standards of generally recognised accounting practice for all spheres of government in terms of Section 216(1)(a) of the Constitution and the PFMA of 1999. A further function of the board is to promote transparency in and the effective management of revenue, expenditure, assets and liabilities of the entities to which the standards apply. The board's total budget for 2019/20 was R14.7 million.

Cooperative Banks Development Agency

The CBDA was established in terms of the Cooperative Banks Act of 2007, as amended, with the SARB as the sole supervisor of cooperative banks. The agency is mandated to provide for the registration and supervision of deposit-taking financial services cooperatives, and savings and credit cooperatives, collectively referred to as cooperative financial institutions. The agency also facilitates, promotes and funds the education and training

of these institutions. The agency's total budget for 2019/20 was R23 million.

Financial and Fiscal Commission

The FFC derives its mandate from the FFC Act, 1997 (Act 99 of 1997). The commission's legislative mandate is to advise the relevant legislative authorities on the financial and fiscal requirements for the national, provincial and local spheres of government in terms of Section 220 of the Constitution.

Financial Intelligence Centre

The FIC was established by the FIC Act of 2001 and began operations in 2003. The Act mandates the centre to identify the proceeds of unlawful activities, combat activities related to money laundering, combat the financing of terrorist and related activities, exchange information with law enforcement and other local and international agencies, supervise and enforce compliance with the Act, and facilitate effective supervision and enforcement by supervisory bodies. The organisation's total budget for 2019/20 was R311.5 million.

Financial Sector Conduct Authority

The Financial Sector Conduct Authority is an independent institution established by statute to oversee the South African non-banking financial services industry in the public interest. The authority's legislative mandate is primarily derived from the Financial Sector Regulation Act, 2017 (Act 9 of 2017). Its total budget for 2019/20 was R829.3 million.

Government Technical Advisory Centre

The Government Technical Advisory Centre is mandated to assist organs of state in building their capacity for efficient, effective and transparent financial management. Its overarching objectives are to render consulting services to government departments and other organs of state; provide specialised procurement support for high-impact government initiatives; render advice on the feasibility of infrastructure projects; and provide knowledge management for projects undertaken and any ancillary support. The centre's total budget for 2019/20 was R381.3 million.

Independent Regulatory Board for Auditors

The IRBA develops and maintains auditing and ethical standards that are internationally comparable, provides an appropriate framework for the education and training of properly qualified auditors, inspects and reviews the work of registered auditors, and investigates and takes appropriate action against registered auditors who do not comply with standards and are guilty of improper conduct. The board's total budget for 2019/20 was R142.2 million.

Office of the Ombud for Financial Services Providers

The Office of the Ombud for Financial Services Providers is mandated to consider and dispose of complaints against financial services providers, primarily intermediaries selling investment products. The organisation's total budget for 2019/20 was R58.1 million.

Office of the Pension Funds Adjudicator

The Office of the Pension Funds Adjudicator investigates and determines complaints lodged in terms of the Pension Funds Act, 1956 (Act 24 of 1956). The office ensures a procedurally fair, economical and expeditious resolution of complaints and has jurisdiction only over funds that are registered under the Act. The organisation's total budget for 2019/20 was R70.4 million.

Role players

National Gambling Board

The NGB is governed by the National Gambling Act of 2004. The Act makes provision for the coordination of concurrent national and provincial legislative competence over matters relating to casinos, racing, gambling and wagering; and provides for the regulation and development of uniform norms and standards.

The NGB maintains a national gambling database that contains information on national gambling statistics such as turnover, gross gambling revenue, gambling taxes and levies, as well as returns to players and punters.

Provincial licensing authorities are required to submit statistics to the NGB quarterly for consolidation and reporting on the national status.

Responsible gambling

The NGB has a legislated responsibility to educate the public about gambling and the negative socio-economic impact of the gambling industry on society.

The National Responsible Gambling Programme (NRGP) integrates research and monitoring, public education and awareness, training, treatment and counselling.

The NRGP is managed by the South African Responsible Gambling Foundation. The main thrust of the NRGP's prevention programme is to educate gamblers, potential gamblers and society as a whole about responsible gambling.

The NRGP has various operational components, such as public awareness and prevention, the toll-free counselling line, a countrywide treatment network for outpatient counselling and therapy, research and monitoring initiatives, training for regulators and industry employees, a crisis line service available to gambling industry employees and management, as well as the Taking Risks Wisely life-skills programme – a teaching resource for grades 7 to 12.

National Lotteries Commission (NLC)

The NLC was launched in June 2015 with the mandate to regulate the National Lottery as well as other lotteries, including society lotteries to raise funds and promotional competitions.

The NLC evolved out of the National Lotteries Board. The NLC members are also trustees of the National Lottery Distribution Trust Fund, into which the National Lottery proceeds that are intended for allocation to good causes are deposited.

The NLC does not adjudicate applications for funding or make allocations to organisations. This is done by committees known as distributing agencies which are also appointed by the Minister of Trade, Industry and Competition, in conjunction with other relevant Ministers, after a process of public nomination. The NLC provides administrative support to the distributing agencies.

Auditor-General of South Africa (AGSA)

The AGSA strengthens South Africa's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

The AGSA is one of the Chapter 9 institutions mandated by the Constitution to fulfil certain functions. These institutions are not part of government and do not have a duty to be part of the mechanisms of cooperative government. The independence of the AGSA is, therefore, respected and strengthened.

As mandated by the Constitution and the Public Audit Act, 2004 (Act 25 of 2004), the AGSA is responsible for auditing national and provincial departments and administrations, all municipalities and any other institution or accounting entity required by national and provincial legislation to be audited by the AGSA.

Various business units provide auditing services, corporate services and specialised audit work, such as performance audits, information system audits and audit research and development. The AGSA also has an international auditing complement.

Financial sector

South African Reserve Bank

The primary purpose of the SARB is to achieve and maintain price stability in the interest of balanced and sustainable economic growth in South Africa. Together with other institutions, it also plays a pivotal role in ensuring financial stability.

The SARB is the central bank of South Africa. It was established in 1921, in terms of a special Act of Parliament and the Currency and Banking Act, 1920 (Act 10 of 1920), which was the direct result of abnormal monetary and financial conditions that had arisen during and immediately after World War I.

The SARB is governed by the SARB Act of 1989, as amended. In terms of the Constitution, it has been given an important degree of autonomy in the execution of its duties.

Since its establishment, the SARB has always had private shareholders who have limited rights. It has more than 700 shareholders. Its shares are traded on the OTC share-trading facility managed by the SARB. Its operations are not motivated by a drive to return profits, but to serve the best interests of all South Africans.

The SARB's head office is in Pretoria and it has cash centres in Cape Town, Durban and Johannesburg. The SARB must submit a monthly statement of its assets and liabilities to the National Treasury and an annual report to Parliament. The Governor of the SARB holds regular discussions with the Minister of Finance and appears before the Parliamentary Portfolio and other select committees on finance, from time to time.

The SARB has a unique position in the economy, as it performs various functions and duties not normally carried out by commercial banks. Although the functions of the SARB have changed and expanded over time, the formulation and implementation of monetary policy has remained one of the cornerstones of its activities.

The SARB publishes monetary policy reviews, and regular regional monetary-policy forums are held to provide a platform for discussions on monetary policy with broader stakeholders from the community.

Functions

The primary function of the SARB is to protect the value of South Africa's currency. In discharging this role, it takes responsibility for, amongst others:

- ensuring that the South African money, banking and financial system as a whole is sound, meets the requirements of the community and keeps abreast of international developments;
- assisting the South African Government, as well as other members of the economic community of southern Africa, with data relevant to the formulation and implementation of macroeconomic policy; and
- informing the South African community and all stakeholders abroad about monetary policy and the South African economic situation.

System of accommodation

The SARB's refinancing system is the main mechanism used to implement its monetary policy. Through its refinancing system, the SARB provides liquidity to banks, enabling them to meet their daily liquidity requirements. Liquidity refers to the banks' balances at the central bank, which are available to settle their transactions with one another, over and above the minimum statutory level of reserves that they have to hold.

The main instrument for managing liquidity in the money market is repurchase (repo) transactions conducted at the prevailing repo rate. The repo rate is the price at which the SARB lends cash to the banking system and is the key operational variable in the monetary-policy implementation process. The objective of the Monetary Policy Implementation Framework is to ensure that the money market interest rates are aligned to changes in the repo rate.

The refinancing system also provides for supplementary and automated standing facilities in the end-of-day square-off to bridge the banking sector's overnight liquidity needs, as well as a concession to banks to use their cash-reserve balances with the SARB to square off their daily positions.

Creating a liquidity requirement

To promote price discovery in the domestic money market, the SARB calculates the South African Benchmark Overnight Rate (Sabor) on deposits and the average rate on funding in the forward foreign exchange market, the Overnight Foreign Exchange Rate, on a daily basis, in addition to conducting surveillance on the calculation of the Johannesburg Interbank Average Rate (Jibar).

The refinancing system, or Monetary Policy Implementation Framework, together with the toolkits used to manage money market liquidity, is currently under review, in terms of its effectiveness and efficiency.

To enhance the price transparency in the money market, and for the SARB to better monitor the interest rate transmission, additional initiatives involve the improvement and broadening of existing money market benchmark and reference rates according to global guidelines. The SARB also engages with other stakeholders to promote the efficient functioning of markets.

Promoting the efficient functioning of domestic financial markets

To promote price discovery in the domestic money market, the SARB calculates the Sabor and the average rate on funding in the forward foreign exchange market, the overnight foreign exchange rate, on a daily basis, in addition to conducting surveillance on the calculation of the Jibar.

To keep the refinancing system effective, the SARB stays abreast of market and other structural developments.

Following the review of the rate setting of the Jibar and the subsequent code of conduct, additional initiatives involve the improvement and broadening of existing money-market benchmark and reference rates according to global guidelines.

The SARB also engages with other stakeholders to promote the efficient functioning of markets.

Special liquidity assistance and stability in the financial sector

In terms of its "lender-of-last-resort", the SARB may, in certain circumstances, provide liquidity assistance to banks experiencing liquidity problems, for example to provide liquidity against a broader range of collateral as was the case in 2007. The type and conditions of emergency assistance will vary according to specific conditions.

Also, as part of the broader mandate of the SARB and the upcoming Financial Sector Regulations Bill, resolution planning, crisis preparedness and monitoring systemic risks in the financial sector are priority, all aimed at protecting and enhancing financial stability, as well as to deepen South Africa's resilience to external shocks.

In view of the interrelationship between price and financial system stability, the bank monitors the macro-prudential aspects of the domestic financial system. The objective of financial stability is to prevent costly disruptions in the country's financial system.

Service to government

The SARB manages the country's official gold and foreign exchange reserves. In addition, the SARB provides portfolio management, debt issuance, and custody and settlement services to the government and other clients/counterparties, while also managing the inherent market and operational risks associated with these services.

Gold and foreign-exchange reserves

The bank is the custodian of the country's official gold and foreign-exchange reserves. Subsequent to the conversion of the negative net open foreign currency position in May 2003 into a positive position, foreign reserves grew until 2011 and have remained stable since then.

The accumulation and management of reserves is guided by the risk tolerance of the bank through the Strategic Asset Allocation, which seeks to ensure capital preservation, liquidity, and return.

Banker and adviser to government as well as funding agent

As the funding agent for government, the main services provided are administering the auctions of government bonds and Treasury Bills, participating in the joint standing committees between the SARB and the National Treasury, and managing the flow of funds between the exchequer account and tax and loan accounts. The SARB also acts as banker to government and as such, manages the Exchequer and Paymaster General Accounts in the books of the SARB.

Administration of exchange control

The SARB is responsible, on behalf of the Minister of Finance, for the day-to-day administration of exchange controls in South Africa.

Provision of economic and statistical services

The bank collects, processes, interprets and publishes public information, economic statistics and other information, and uses this information in policy formulation.

Prudential Authority (PA)

The passing of the Financial Sector Regulation (FSR) Act, 2017 (Act 9 of 2017) was the culmination of collaboration on financial sector reform by the SARB, the National Treasury and the Financial Services Board (FSB), and marked an important milestone on the journey towards a safer and fairer financial system that is able to serve all citizens.

The Act gave effect to three important changes to the regulation of the financial sector:

- It gave the SARB an explicit mandate to maintain and enhance financial stability.
- It created a prudential regulator, the PA. The authority is responsible for regulating banks, insurers, cooperative financial institutions, financial conglomerates and certain market infrastructures.
- It established a market conduct regulator, which is located outside of the SARB.

The PA is a juristic person operating within the administration of the SARB and consists of four sections: Financial Conglomerate Supervision; Banking, Insurance and Financial Market Infrastructurel Supervision; Risk Support; and Policy, Statistics and Industry Support.

The national payment system

The bank is responsible for overseeing the safety and soundness of the national payment system. The main aim is to reduce interbank settlement risk, with the objective of reducing the potential of a systemic risk crisis emanating from settlement default by one or more of the settlement banks.

Banker to other banks

The bank acts as the custodian of the cash reserves that banks are legally required to hold or prefer to hold voluntarily, with the bank.

Banknotes and coins

The South African Mint Company, a subsidiary of the SARB, mints all coins on behalf of the bank. The South African Bank Note Company, another subsidiary of the SARB, prints all banknotes on behalf of the bank.

Banknotes are distributed to the commercial banks through the bank's three branches. Coins, however, are distributed by SBV. It is the responsibility of the SARB to ensure that there is an adequate supply of new banknotes available to meet peak demand, and also to replace unfit banknotes. The SARB is responsible for the quality of banknotes in circulation.

Monetary policy

The SARB is responsible for monetary policy in South Africa. Its constitutional mandate in this regard is to protect the value of the currency in the interest of balanced and sustainable economic growth.

To give effect to this mandate, the SARB uses a flexible inflation targeting framework with a continuous target for consumer price inflation of 3 – 6%. The SARB has expressed its preference for inflation expectations to converge towards the mid-point of the target range, so as to minimize the risk of prolonged deviations from target in the event of unexpected price shocks.

According to the Monetary Policy Review (April 2020), the 2019 inflation came out well below expectations, ultimately averaging 4.1% for the year. This was a rare instance of inflation in the bottom half of the target range: since 2010, monthly inflation has been at or above the 4.5% midpoint of the target range for 77% of the time. Notable contributors to this relatively low inflation rate were food prices, which remained below longer-run averages, as well as housing inflation, which decelerated to an all-time low of 2.2% in December. Inflation picked up temporarily at the end of the year, as anticipated, on base effects from oil price weakness the year before. The inflation prints were 4.5% for January and 4.6% for February 2020.

Inflation was expected to remain well contained within the target range across the forecast horizon. Recent Monetary Policy Committee forecasts show inflation in the bottom half of the target range again 2020, averaging 3.8%, before recovering to 4.6% in 2021 and 4.4% in 2022. The main driver of low inflation is fuel prices, following a collapse in world oil prices. Weaker demand is also exerting downward pressure on inflation, partly offset by the more depreciated exchange rate. The distribution of risks to this forecast, as captured in the inflation fan charts, indicates a high probability that inflation will be within the target range throughout this period, with 92% of the probability distribution between 3% and 6%. The chance of target misses is quite small, with 4% of the distribution above the upper bound and 4% under it, over the forecast period (2020 – 2022). The chance of a target undershoot is marginally higher in 2020, however, with 5% of the distribution under the lower bound of the target range.

Banking entities registered in South Africa	
	2019
Banks[1]	19
Local branches of foreign banks	16
Mutual banks	4
Cooperative banks	4
Representative offices	30

[1]Includes active banks and banks exempted by the Registrar of Banks (with effect from 1 July 1996) in terms of the Supervision of Financial Institutions Rationalisation Act 32 of 1996 and Section 1(cc) of the Banks Act, 1990 (Act 94 of 1990).

Inflation expectations were well within the target range, having declined steadily in recent years. The average two-year-ahead expectation measure was down to 4.8%, from around 6% in 2016, while current-year expectations have fallen to 4.4% – a 14-year low.

The COVID-19 outbreak would provide a test of whether expectations are resistant to shocks, helping reveal how firmly they are anchored. Expectations were better positioned than they were historically, because they awere no longer close to, or above, the top of the target range. This means the SARB has monetary policy space at a moment of crisis, which was a major objective of the strategic initiative, begun in 2017, to anchor expectations closer to 4.5%.

The banking industry

As at the end of December 2019, 35 banking institutions were registered and supervised by the PA of the SARB:

- 19 banks, and
- 16 local branches of international banks.

South Africa's banking sector is dominated by the five largest banks, which collectively held 90.4% of total banking sector assets as at 31 December 2019. Local branches of international banks contributed 5.6% as at 31 December 2019. The remaining banks operating in South Africa represented 4.0%.

In addition, as at the end of December 2019, four mutual banks and four cooperative banks were registered and supervised by the PA. At that date, there were also 30 authorised representative offices of international banks in South Africa:

Furthermore, the PA has taken over the regulatory oversight of cooperative financial institutions (CFIs) from the CBDA and is currently supervising 22 CFIs.

The insurance industry

As at the end of December 2019, 169 insurance institutions were registered and supervised by the PA of the SARB:

- 76 life insurers,
- 84 non-life insurers, and
- Nine professional reinsurers.

South Africa's life insurance sector is dominated by the five largest insurers, which collectively held 72.5% of the total assets, while the non-life insurance sector is dominated by eight large insurers, which held 56.0% of gross premiums as at December 2019. All nine professional reinsurers are foreign-owned and constitute less than 2% of the total insurance industry assets.

In addition to the above, the PA was also regulating the RAF and the South African branch of Lloyd's.

Financial Market Infrastructures

The PA is also responsible for the prudential supervision of Market Infrastructures (MIs) which includes exchanges, central securities depositories, clearings houses, central counterparties, and trade repositories.

Exchange rates

South Africa's total external debt decreased from US$180.6 billion at the end of June 2019 to US$177.7 billion at the end of September, mainly as a result of a decrease in market value of domestic non-resident bond holdings. South Africa's gross external debt, expressed in rand terms, increased from R2 555 billion to R2 700 billion over the same period. Foreign currency-denominated external debt increased from US$87.4 billion at the end of March 2019 to US$93.2 billion at the end of September. This increase was mainly due to the issuance of two international government bonds. Rand-denominated external debt, expressed in US dollars, decreased from US$93.2 billion at the end of June 2019 to US$84.5 billion at the end of September. Although the external debt of all sectors decreased, it mainly reflected a decrease in market value in domestic non-resident bond holdings and a decline in the US dollar value of rand-denominated external debt due to the depreciation in the exchange rate of the rand over the period.

Exchange controls

Exchange control regulations are administered by the SARB, on behalf of the Minister of Finance. The Minister has delegated to the Financial Surveillance Department of the SARB the responsibility of appointing certain banks to act as authorised dealers in foreign exchange, as well as certain entities to act as authorised dealers in foreign exchange with limited authority, which gives them the right to buy and sell foreign exchange, subject to conditions and within limits prescribed by the department. Authorised dealers are not agents for the Financial Surveillance Department, but act on behalf of their customers.

As at the end of February 2020, a total of 25 banks were authorised to act, for the purposes of the regulations, as authorised dealers; two banks as restricted authorised dealers in respect of permissible credit card transactions and 19 entities as authorised dealers in foreign exchange with limited authority. In terms of exchange control policy, there are no limitations as to how much money may be brought into South Africa, but there are certain limitations on the amount of money that may be transferred out of South Africa.

For all non-South Africans, there is no limitation on transferring money out of South Africa that has been previously introduced into the country. Up to R25 000 in cash, per resident (natural person), may be taken when proceeding on visits outside the Common Monetary Area, to meet travellers' immediate needs on return to South Africa. Foreign visitors to South Africa may introduce foreign currency in any amount and in any form (e.g. foreign bank notes, travellers' cheques) and may export any funds originating from instruments of foreign currency (including foreign bank notes) imported into South Africa on their arrival. No more than R25 000 may be exported in SARB notes.

South Africans (including emigrants and South African residents who are temporarily abroad), for example, are currently able to transfer up to R10 million, per calendar year, out of the country for investment purposes, subject to a Tax Compliance Status (TCS) Personal Identification Number (PIN) letter being provided.

The authorised dealer must verify the individual's tax compliance status via the TCS system on the SARS eFiling through the use of the TCS PIN. In addition, South Africans can transfer up to R1 million abroad for any legal purpose, including investments, without the requirement to obtain a TCS PIN letter. Requests by individuals to transfer additional funds are considered by the Financial Surveillance Department. As of 31 October 2019, South Africans may individually or collectively acquire up to 40% equity and/or voting rights, whichever is the higher, in a foreign target entity, which may in turn hold investments and/or make loans into the Common Monetary Area (the so called 'loop structure'). Loop structures created prior to the date and loop structures in excess of 40% still have to be regularised with the Financial Surveillance Department.

Non-residents living and working in South Africa may now be granted lending facilities (i.e. mortgage bonds) for residential property, subject to normal lending criteria. Companies may transfer up to R1 billion per calendar year for outward FDIs. South African entities listed on any South African authorised exchange may register with the Financial Surveillance Department and transfer funds from the parent company to a Domestic Treasury Management Company (DTMC) – a South African holding company for African and offshore operations, incorporated in South Africa and with its effective management place in South Africa – up to R3 billion a calendar year. Up to this amount, there is no restriction on transfers in and out of the holding company, provided such transfers are not undertaken to avoid tax.

Additional amounts of up to 25% of the listed company's market capitalisation are considered, on application to the Financial Surveillance Department, provided there are demonstrated benefits to South Africa. Unlisted entities may establish one DTMC for African and foreign operations, subject to certain administrative requirements. Annual transfers up to R2 billion a calendar year into a DTMC may be effected. In addition, companies operating in the financial sector, such as banks and insurance companies may also apply to the Financial Surveillance Department for the DTMC dispensation, provided they meet certain set criteria. Transfers from the parent company to the DTMC up to R3 billion a calendar year may be effected. Additional amounts may be considered, on application, to the Financial Surveillance Department and the PA.

South African companies investing in countries outside of the Common Monetary Area are required to obtain a minimum of 10% of equity and/or voting rights in a foreign target entity. South African companies wishing to make bona fide new outward foreign portfolio investments may acquire less than 10% of the equity and/or voting rights in a foreign target entity. Such companies may also acquire up to 40% equity and/or voting rights in a foreign target entity, which may hold investments and/or make loans into the loop structure.

Institutional investors are all retirement funds, long-term insurers and collective investment scheme management companies. Investment managers may elect to register with the Financial Surveillance Department as institutional investors. The limit on foreign portfolio investments by institutional investors is applied to an institutional investor's total retail assets under management. The foreign exposure of retail assets may not exceed 30% in the case of retirement funds and the underwritten (non-linked) policy business of long-term insurers. Investment managers registered as institutional investors, collective investment scheme management companies and the investment-linked business of long-term insurers are restricted to 40% of total retail assets. It should be noted that compliance with the foreign portfolio investment limit does not preclude an institutional investor from also having to comply with any relevant prudential regulations as administered by the Financial Sector Conduct Authority. In addition to the foreign portfolio investment allowance, institutional investors also qualify for an additional 10% African allowance.

Since 2014, South African listed companies have been permitted to secondary list on foreign exchanges and/or list depository receipt programmes in the offshore market to facilitate local and offshore FDI expansions, subject to certain administrative requirements.

Non-resident entities, local authorised dealers and the JSE Limited (Ltd) are allowed to issue inward listed instruments referencing foreign assets on the JSE Ltd. Local collective investment scheme management companies registered with the Financial Sector Conduct Authority and regulated under the Collective Investment Scheme Control Act, 2002 (Act 45 of 2002) are allowed, with the prior approval of the Financial Surveillance Department, to inward list exchange traded funds referencing foreign assets on the JSE Ltd.

In 2017, the Minister of Finance announced South Africa's undertaking to review and benchmark its capital flows management framework against best practices in other developing economies and other fast-growing markets.

Following the outcome of the review and benchmarking exercise, the Minister announced in the 2019 MTBPS that, in order to promote investment and reduce unnecessary burdensome approvals, the SARB would propose a more modern, transparent and risk-based approvals framework for cross-border flows.

As stated in the Budget Review 2020, over the next 12 months, a new capital flow management system will be put in place. All foreign-currency transactions will be allowed, except for a risk-based list of capital flow measures and/or transactions that pose a high risk in respect of illegitimate cross border financial flows. This change will increase transparency, reduce burdensome and unnecessary administrative approvals, and promote certainty.

Some of the main features of the new capital flow management are:

- a shift from exchange controls to capital flow management measures to regulate cross-border capital flows;
- stronger measures to fight illegitimate financial cross-border flows and tax evasion;
- strengthening cooperation between the FIC, SARB, SARS and other law enforcement agencies; and
- enhanced cross-border reporting requirements.

Foreign exchange

The Foreign Exchange Operations section within the Financial Markets Department is entrusted with the responsibility of conducting foreign exchange operations of the SARB and monitoring foreign exchange activities of authorised dealers and the broader market participants. This function also involves engaging with various market participants locally and offshore, including official institutions to gather market information and intelligence to support internal decision-making in the implementation of monetary policy, exchange rate policy and management of the SARB's foreign exchange reserves. To this end, the Foreign Exchange Section performs the following functions:

- conducting spot and forward foreign exchange transactions for the purpose of accumulating foreign exchange reserves;
- conducting foreign exchange swap transactions in the domestic forward market for domestic liquidity management;
- management of the foreign exchange reserves working capital portfolio by investing funds in term deposit accounts with foreign banks and official institutions;
- servicing the foreign exchange needs of the SARB and its clients, including the government;
- conducting research and analysis into movements and trends across financial markets;
- analysing the impact of the SARB's foreign exchange operations;
- promoting the effective function of the domestic financial markets by monitoring and gathering of market information and market intelligence in developments in the local and international markets;
- providing management information on the foreign exchange markets to the Senior Management of the department as well as the Executive Management of the SARB; and
- performing administrative function of the South African Foreign Exchange Committee, which has been established under the sponsorship and leadership of the SARB.

The microlending industry

The then dti introduced the NCA of 2005 to allow the credit market to function in a robust and effective manner.

The NCA of 2005 replaced the Usury Act, 1968 (Act 73 of 1968), and the Credit Agreements Act, 1980 (Act 75 of 1980).

The Act regulates the granting of consumer credit by all credit providers, including micro-lenders, banks and retailers.

The NCR and the NCT play a vital role in ensuring enforcement, promoting access to redress and adjudicating contraventions of the Act. Out of a population of over 54 million, South Africa has over 18 million credit-active consumers.

The NCR is responsible for regulating the South African credit industry. Its mandate includes:

- carrying out education, research and policy development;
- registering industry participants;
- investigating complaints; and
- ensuring that the Act is enforced.

In terms of the Act, the NCR has to promote the development of an accessible credit market to meet the needs of people who were previously disadvantaged, earn a low income or live in remote, isolated or low-density communities.

The National Consumer Tribunal adjudicates various applications and hears cases against those who contravene the Act. The Act provides for the registration of debt counsellors to assist over-indebted consumers. Debt counsellors are required to undergo training approved by the NCR through approved training service providers appointed by the regulator.

Other financial institutions

Collective investment schemes

These are investment structures where individual investor funds are pooled with those of other investors. Qualified asset managers regulated by the FAIS Act of 2002 invest these funds on behalf of the investor. Each investor owns units (participatory interest) in the total fund.

Recognised representative bodies

Section 6(3)(iii) of the FAIS Act of 2002 provides for the Registrar of FSPs to delegate any of its powers, in terms of the Act, to anybody recognised by the Act.

Two such functions, the consideration of applications for licences under Section 8 and the consideration of applications for approval of compliance officers under Section 17(2) of the Act, were delegated to two recognised representative bodies. As recognised examination bodies, another four bodies are responsible for developing and delivering the regulatory examination.

Advisory Committee on FSPs

The Minister of Finance appointed the Advisory Committee on FSPs, whose function is to investigate and report, or advise on any matter covered by the FAIS Act of 2002.

The advisory committee comprises a chairperson, a representative of the Council for Medical Schemes, established by Section 3 of the Medical Schemes Act, 1998 (Act 131 of 1998), persons representative of product suppliers, FSPs and

clients involved in the application of this Act. The members of the advisory committee, except for the Registrar and Deputy Registrar, who are *ex officio* members, hold office for a period determined by the Minister.

Licensing of FSPs

The Registrar of FSPs authorises and renders ongoing supervision of the following FSPs:

- financial advisers and intermediaries who provide financial services without discretion;
- those who offer discretionary intermediary services, in terms of financial product choice, but without implementing bulking;
- hedge-fund managers;
- investment administrators specialising mainly in the bulking of collective investments on behalf of clients (linked investment services providers); and
- those who represent assistance business administrators who render intermediary services, in terms of the administration of assistance business (funeral policies), on behalf of an insurer to the extent agreed to in a written mandate between the two parties.

Insurance companies

Insurance is an agreement between a policyholder and an insurance company. It is divided into long and short-term insurance.

In terms of the Long-Term Insurance Act, 1998 (Act 52 of 1998) and the Short-Term Insurance Act, 1998 (Act 53 of 1998), all insurance companies must be registered by the FSB and must comply with the provisions of these Acts.

The insurance industry has appointed a short-term and long-term insurance Ombudsman to mediate dispute resolution between insurers and policy holders.

Retirement funds

The purpose is to encourage South Africans to save more. Employer contributions to retirement funds have become an employee fringe benefit for tax purposes. Individuals will be able to receive a tax deduction on employer and employee contributions to a pension fund, provident fund or retirement annuity fund up to 27.5% of the greater of remuneration and taxable income. An annual cap on deductible contributions of R350 000 apply.

In addition, government is exploring ways to increase retirement fund coverage to all workers.

Government bonds

The National Treasury has been working with the JSE, the SARB, Share Transactions Totally Electronic (STRATE), primary dealer banks and the World Bank to develop an electronic trading platform for government bonds.

The rise in non-resident holdings is partly a result of extremely low interest rates in advanced economies, which has prompted global investors to look for higher yields in developing countries. South Africa's sophisticated capital markets and strong institutions also support continued investment flows.

As a category, international investors remain the largest holders of domestic government bonds, with 37.1% of the portfolio. Moreover, foreign holdings increased by R95 billion in 2019, relative to an increase of R8 billion in 2018, showing global investors remain positive about South African assets despite concern about sovereign credit risk.

Domestic long-term borrowing

Domestic long-term borrowing consists of fixed-rate, inflation-linked and retail savings bonds. Between April 2019 and January 2020, government raised R250.6 billion by issuing domestic long-term debt. Fixed-rate bonds accounted for 82.6% of bond issuances, with inflation-linked instruments making up the remainder. Fixed-rate bonds were issued across a range of maturities. About half were issued for between four and 15 years, as the bond exchange programme created space to issue more bonds in the short-to-medium term. In 2019/20, interest rates on long-term bonds increased compared with the previous year. Government was able to issue more bonds in the short to-medium term, lowering its average borrowing costs. For instance, in 2018/19, fixed-rate bonds were funded at an average interest rate of 9.3% while in 2019/20, they were funded at an average interest rate of 9.1%. Over the medium term, domestic long-term borrowing will increase from R298.9 billion in 2019/20 to R385.8 billion in 2022/23.

International borrowing

Government issues debt in global capital markets to meet part of its foreign-currency commitments, set benchmarks and diversify funding sources.

The rand equivalent of these loans and interest payments changes with the exchange rate. To manage this risk, portfolio benchmarks limit foreign-currency debt to 15% of the portfolio.

Over the medium term, borrowing in global markets will average US$2 billion per year.

The government started to fully finance its foreign currency commitments in 2017 – by borrowing in global capital markets. This marked a shift from previous practice. The rand value of this international debt fluctuates with exchange rates, which is why the strategic risk portfolio benchmark limits foreign currency debt to 15% of the total portfolio.

The government's foreign-currency bonds, mainly denominated in dollars and euros, are issued to meet foreign currency commitments. In 2019/20, favourable pricing and continued investor interest allowed the government to raise US$5 billion in 10-year and 30-year bonds, compared with the US$4 billion required for the year. Over the medium term, an additional US$8.5 billion will be raised in global capital markets.

Government debt

Over the past year, government's gross borrowing requirement, the budget balance plus maturing loans, increased by 21.4% to R407.3 billion. Borrowing is expected to reach R497.5 billion in 2022/23. The steep increase is the result of weak economic growth, the deteriorating fiscal position, an increase in domestic bond redemptions and large-scale support to distressed SOCs. About 90% of government debt is rand-denominated, shielding government from some volatility in debt costs due to fluctuations in the exchange rate. However, higher yields, especially on longer-dated domestic bonds, have increased borrowing costs. Debt and debt-service costs will continue to rise over the medium term. Gross loan debt is estimated to increase from R3.18 trillion (61.6%) in 2019/20 to R4.38 trillion (71.6%) in 2022/23. Net loan

debt is estimated to increase from R2.94 trillion (57% of GDP) in 2019/20 to R4.15 trillion (67.8% of GDP) in 2022/23. Contingent liabilities, mainly guarantees to SOCs, were projected to reach R979.9 billion on 31 March 2020. The government's long record of prudent debt management has enabled the National Treasury to consistently match higher borrowing requirements without dramatically increasing the cost of debt. Nonetheless, prudent debt management cannot substitute for sustainable public finances, or for a growing economy. Debt is not expected to stabilise over the medium term.

Johannesburg Stock Exchange

The JSE Ltd is privately owned, and funded and governed by a board of directors. Its activities are licensed and regulated by the Stock Exchanges Control Act, 1985 (Act 1 of 1985), which governs the equities markets, and the Financial Markets Control Act, 1989 (Act 55 of 1989), which governs the derivatives markets.

In keeping with international practice, the JSE Ltd regulates its members and ensures that markets operate in a transparent way, ensuring investor protection. Similarly, issuers of securities must comply with the JSE Ltd listings requirements, which ensure sufficient disclosure of all information relevant to investors.

The role of the JSE Ltd includes regulating applications for listing and ensuring that listed companies continue to meet their obligations. It monitors applications for alterations to existing listings, and scrutinises company disclosures to the public. It also provides the Stock Exchange News Service through which company news, including price-sensitive information, is distributed to the market.

The JSE Ltd has been bold in restructuring, in view of increasingly tough global competition, adopting new technologies and outsourcing aspects of its business.

The JSE Ltd opened to corporate membership, resulting in a stampede by foreign banks, which have bought out most of the major local broking firms, using these as platforms for other financial services, such as corporate and government advisory work.

The electronic settlement system, STRATE, has replaced the previous manual settlement method. STRATE is the licensed Central Securities Depository for the electronic settlement of financial instruments in South Africa.

The JSE Ltd's trading and information systems were replaced with the London Stock Exchange's (LSE) Sequence and the London Market Information Link systems, branded JSE SETS and InfoWiz, respectively.

The trading engine and information dissemination feed-handler is hosted in London and connected remotely to the JSE Ltd 9 000 km away, via a transcontinental undersea cable and an innovative, integrated solutions design. More than 1 500 traders and information users access the system, using a sophisticated application service provider with sub second response time.

The JSE Ltd has also aligned its equities trading model with that of Europe, and reclassified its instruments in line with the Financial Times of London Stock Exchange (FTSE) Global Classification System. This has led to the introduction of the FTSE/JSE Africa Index Series that makes the South African indices comparable to similar indices worldwide.

One of the most reliable trading platforms worldwide serves the investment community. The LSE can now disseminate trade information about instruments listed on the JSE Ltd to more than 104 000 trading terminals around the world, raising the profile of the JSE Ltd among the members of the international investor community.