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## MOODY'S DOWNGRADING SA TO 'BA 1' (JUNK STATUS)

Moody's Investors Service flipped the switch late on Friday night, downgrading SA to junk status, coinciding with the country's first full day of a three-week lockdown aimed at slowing the spread of the coronavirus.

The move was expected in the face of SA's poor GDP growth performance and fragile fiscal position, even before the onset of the pandemic.

Business Unity SA Cas Coovadia BUS A notes with dismay the decision by Moody's Investors Service to downgrade SA to "junk status".

This rating downgrade comes at a time that the country is in the midst of pulling all its resources and capacity together to mitigate the impact of Covid-19 across economic, social and health sectors. The country's resources and capacity are being stretched in addressing this extraordinary situation and the downgrade opens another major challenge for SA.

This is not the time for pointing fingers or starting blame games. We need to concentrate all the resources and capacity of our country towards the compact that is coming together to beat this virus. We recognise the urgency with which SA must respond to the Moody's downgrade, but we do, as a country, need to mitigate the immediate economic impact of Covid-19. If we fail in our endeavours to mitigate the negative impact of Covid-19 on our economy, we will be in a far worse position to resuscitate our economy post the Covid-19 crisis, thus making it virtually impossible to rebuild our economy to be rated again as investment grade.

So, we must commit to working together to deal with Covid-19, but also commit to work together to rebuild our economy post Covid-19. We have come together as a country in the last few weeks to fight the Covid-19 outbreak. This "compact" must form the platform from which we now address the crisis of the downgrade. We have now got to channel all our resources and capacity to addressing these two crises. The critical component for this is decisive and urgent leadership from the President, his Cabinet and government. BUS A stands ready to work with stakeholders under such leadership.

📍BUS A site: <https://.org.busaza/>; Twitter, @BusinessUnitySA; and Facebook, @BusinessUnitySouthAfrica

## **BUSA PRESIDENT SIPHO PITZYANA URGES GREATER ROLE FOR SMES IN ECONOMIC GROWTH**

BUSA President Siphon Pityana has called for greater attention to be paid to the plight of small and medium businesses – including paying them on time – to ensure they are able to drive economic growth.

“Not paying SMEs on time is a violation of the rules of fair trade,” he told the Black Business Council’s summit in Johannesburg. “Imagine successfully delivering goods or services and then being slowly starved to death due to delayed payment.

“Both governments and corporations must pull up their socks in this regard.”

Pityana referenced a recent World Economic Forum survey of 260 entrepreneurs across 20 African countries, including South Africa, which indicates that red tape and poor payment practices are key factors standing in the way of SMEs scaling up and operating across Africa’s borders.

“The research is telling us that most respondents are yearning for more dedicated SME funding programmes, easier procurement processes, and the faster payment of invoices.

“The SMEs are also calling for more transparent funding options, easier access to mentors, more networking events, business skills training and easier access to support programs.

“We will need to do better in turning exciting ideas into strong commercial products and services — and this requires investment in skilling our people. We must strive to build an Africa that lives on the digital frontier.”

Pityana – who also co-chairs the regional stewardship council for WEF’s Africa Growth Programme (AGP) — said Africa could achieve a lot more if all of stakeholders acted in concert to create jobs.

The AGP has set a target of 100-million SMEs and startups by 2025. “It is in all our interests to have a thriving small business sector: more people get employed, the market gets bigger, incomes grow, poverty reduces, social cohesion is enhanced. “We will all have to work together to enable an inclusive and diverse business environment, equipping the next generation with the tools to make a meaningful impact on Africa’s future and the future of the world.”

Pityana said it was “common cause” that SMEs contribute significantly to economic development and are associated with discovering new markets and exploiting them to their advantage.

“Likewise, SMEs are the heart of founding new ventures and a source of income and employment for millions of Africans,” he said. “This means SMEs are central to wealth creation by stimulating demand for goods, investment and trade.

“Africa has an estimated population of more than 1,3 billion that’s growing at over 2% annually in most countries, with more than 50% of the people in many countries below the age of 25. This population has a growing need for the services, jobs and economic growth provided by locally based SMEs. In the OECD countries, over 90% of businesses are SMEs, employing between 60% and 70% of the working population and contributing roughly two thirds to GDP. In our emerging market peers including Brazil and India, small businesses are the backbone of the economy. “All of this tells us we need to transcend the thinking that small enterprises exist only to be part of the supply chains of larger businesses. We should enable high growth small businesses to be disruptors that will create whole new industries and jobs. These are the next generation of corporations.

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## **BUSINESS FULLY SUPPORTS RAMAPHOSA'S COVID-19 PLAN**

Organised business has pledged its full support for the measures announced on the 15 March 2020 by President Cyril Ramaphosa to combat Covid-19 and has called on its members to make the maximum possible contribution to contain the virus.

“The President has made it clear what needs to be done, and we are all compelled to support him, as well as to reinforce the excellent leadership and management shown by Health Minister Zweli Mkhize and key health stakeholders such as the World Health Organisation.

“We are urging our member organisations to ensure that the President’s measures are implemented as speedily as possible, and to increase awareness and positive action wherever possible.

The President also referred to the potentially damaging impact on our economy that the Covid-19 virus will have. This will exacerbate the economic crisis we are already experiencing, and business will work with government and labour to pull resources and capacity together to mitigate the economic, health and social risks posed by the virus.

BUSA has also committed the resources of its Covid-19 task team — which has developed a detailed business response to the virus — in support of government’s measures.

“Covid-19 is top of the agenda for today’s meeting of the Nedlac Exco, and business will be there to play its part to ensure we all do whatever is possible. We also look forward to the further detail that is due to be provided today in government’s inter-ministerial media briefing, and will ensure our members are kept fully aware of how the campaign against Covid-19 is to be implemented – particularly in terms of how it impacts on workers, users of public transport, and South Africans in general.”

Pityana added: “It is essential that we flatten the curve of infection to delay the peak of the outbreak and reduce its height by spreading it over a longer period of time.

“There can be no doubt about the scale of what we are confronting. We need fundamental behavioural change – in particular, better hygiene and social distancing — if we are to overcome this massive challenge.

“The measures announced by the President will disrupt all our lives and no doubt have a massive impact on economic activity, but we have no other choice but to act, and to act in unison.”





## **BUSINESS COLLABORATES TO REDUCE COVID-19 RISK AND ECONOMIC IMPACT**

Business Unity South Africa (BUSA), along with the Black Business Council (BBC) and other companies and business associations, has established a Project Management Office, to ensure collaboration with government and to use the available business resources and capacity to support public sector initiatives.

In a unique collaboration across public and private sectors, this will see business being aligned with government in putting the needs of South Africa first.

Task teams have been set up to proactively assess and implement business initiatives to deal with the impact of Covid-19 in health, the labour market and the broader economy, all three of which will be assisted by a communications task team.

The **health workstream** is focused on mobilising resources to contribute to Covid-19 tracing, tracking, testing, monitoring and pathology labs; communicating around Covid-19; hospital responses and Personal Protective Equipment (PPE), medicines and medical devices; and support the National Health Department with capabilities to enable more specific demographic resource deployment.

The **economic workstream** will, inter alia, identify critical sectors in the national response; help develop policy and industry specific interventions, including tax and loan relief; ensure security of critical supplies and energy; model the economic impact of Covid-19 and combat predatory pricing, rent seeking and panic buying. To tackle the impact of the necessary quarantines and lockdowns and the subsequent substantial decline in consumer activity, other areas the team is working on, include:

- Mitigating the risks of inconsistent electricity supply and other infrastructural constraints;
- Assessing the impact on technology, media and telecommunications services and networks, given the urgency for remote working;
- Mitigating the risks from the public transport system and identifying alternative mass commuter services; and
- Identifying necessary import substitution requirements and optimising local manufacturing accordingly.

The **labour workstream** will look at the impact of Covid-19 on employers and employees; developing advice on issues such as short working hours, Unemployment Insurance Fund (UIF) claims and special leave. It will identify and address blockages such as seeking adjustments to the Disaster Management Regulations and other aspects of the regulatory framework. It will also be encouraging good practise to preserve and support employees; environment and workplace hygiene, and collaboration with regulators especially in high risk sectors.

Business unreservedly supports the Presidency and the recently established National Command Council. It is working closely with the national departments of health, employment and labour, and trade and industry, as well as in the National Economic Development and Labour Council (Nedlac).

BUSA's vice president, Martin Kingston, said: "Desperate times demand desperate measures. We have embarked on this major collaboration – among South African businesses and with government – to share best practice, reduce risk wherever possible, and implement practical measures to ease the hardships caused by this global catastrophe. We will see through this pandemic by preparing effectively, adapting where necessary and acting decisively."



## EconPol

BUSA sub-committee on TAX scheduled to take place on **03 March 2020** took place chaired by Paul Bondi in the Chair opened the meeting and welcomed those present at the end of the meeting he indicated that the next sub-committee was scheduled for 6 May 2020, 13:00 – 15:00, and adjourned the meeting at 15:00.

## DISCUSSION ON THE NATIONAL BUDGET

- 1.Olivier Serrão provided an overview of the 2020 Budget and specifically the feedback from the Nedlac Executive Council Engagement on 28 February 2020 with the Minister of Finance. The presentation from Treasury to Nedlac that was attached as annexure 1 of the draft minutes. BUSA's response to the Budget, and input to the Nedlac Executive Council engagement, was attached as annexure 2 of the draft minutes.
- 2.Olivier Serrão reported that the response from Organised Labour was that the only appropriate forum to discuss the public sector wage bill was the Public Sector Bargaining Council. Labour would moreover oppose any effort to renegotiate the current public sector collective bargaining agreement. Labour furthermore called on business to make constructive contributions to growing the economy and resolving fiscal challenges over and above its call for fiscal consolidation.
- 3.Olivier Serrão further reported that Nedlac social partners had agreed that a high-level session with the Minister of Finance would be convened in June to proactively engage on the National Budget.
4. The sub-committee agreed that the tax proposals in the Budget were generally positive, specifically the proposal to decrease corporate taxes over time and retaining existing CIT, VAT and PIT (broadly) rates. Disappointment was, however, expressed that National Treasury had not provided detail on the quantum and timing around reducing corporate taxes.
5. Regarding the proposals around reviewing tax incentives, Kyle Mandy expressed the view that consideration of the specific details will be important and that there would be clear winners and losers arising from the process. Nevertheless, the proposals sought to align South Africa with best practice internationally. An ideal scenario would be the elimination of tax incentives entirely – excepting in instances where a specific market failure is being addressed – combined with lower overall corporate taxes. The Section 12L energy efficiency tax incentive was identified as a specific example of a tax incentive that should be retained in the current context.

### Action 1:

The sub-committee agreed to establish a task team consisting of tax sub-committee members to develop proposals in advance of the June 2020 engagement with the Minister of Finance and Nedlac social partners on tax policy and public finances. A possible alternative forum for tabling the position would be the Presidential Working Committee of the Jobs Summit, which met monthly with the President, Deputy President and various Cabinet Ministers. The task team would consist of:

- Suren Dharamlall;
- Yvonne van der Westhuizen;
- Paul Bondi; and
- Olivier Serrão.

## **BUSA sub-committee on TAX continues**

6. The sub-committee agreed that the following high-level topics would be put forward for engagement by BUSA:

- Corporate tax review;
- Improving efficiencies in SARS' capacity to collect revenue;
- Widening the tax net;
- Reviewing tax incentives, including the impact thereof; and
- Advocating for aspects of the Davis Tax Committee Reports to be implemented by Treasury.

### **Action 2:**

Following a discussion on the re-establishment of the Davis Tax Committee (DTC) and a lack of information in the public regarding the mandate of the Committee, it was agreed that BUSA would invite the DTC to the next BUSA tax sub-committee meeting.

## **RENEWAL OF THE BUSA / SARS MoC AND OUTCOMES OF THE BUSA / SARS LEADERSHIP MEETING**

1. Olivier Serrão provided a report of the meeting held between BUSA and the SARS Executive on 12 November 2019 and called on members of the sub-committee to propose topics of engagement in working groups provided for in the draft Memorandum of Cooperation (MoC).

### **Action 3:**

BUSA to write to the SARS Commissioner with a view to concluding the MoC and proposing an engagement on cooperative compliance, an area which the SARS Commissioner had been publicly advocating in recent months. Marcus Botha and Yvonne van der Westhuizen would contribute to the development of the BUSA position and participate in the engagement with SARS.

## **BIAC POLICY GROUPS: TAXATION AND FISCAL POLICY COMMITTEE**

1. Yvonne van der Westhuizen provided feedback from the Business at the OECD ("BIAC") Policy Committee on Taxation & Fiscal Policy Committee, specifically the BIAC media release on improving business and financing conditions for SMEs, and a BIAC "thought-starter" on trade finance. The documents are attached as annexures 3 and 4 respectively of the draft minutes.

## **BUSA sub-committee on TAX continues**

### **CUSTOMS FEEDBACK**

1. The sub-committee agreed to remove customs from the agenda of the tax sub-committee going forward, noting that the topic was adequately covered by BUSA's trade, transport & logistics sub-committee and economic policy standing committee.

### **ANY OTHER BUSINESS**

#### **Action 4:**

Following concerns raised about the increasing infeasibility of continuing South Africa's contributions arising from the SACU Revenue Sharing Formula, it was agreed that BUSA should table the matter at the Nedlac Public Finance & Monetary Policy Chamber and propose a study to advocate for a review of the formula from an appropriate evidence base.

#### **Action 5:**

BUSA to circulate the terms of reference of the sub-committee to afford members an opportunity to identify appropriate members from their respective organisations to participate in the BUSA tax sub-committee. The terms of reference are attached as annexure 5 of the draft minutes.

■ The End!



■ CONTACTS

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