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## THE MEDIUM-TERM BUDGET POLICY STATEMENT (MTBPS)

The Finance Minister Tito Mboweni delivered an ambitious Medium-Term Budget Policy Statement on the 28<sup>th</sup> of October, with a hope that it will shift government's priorities, and slash spending.

BUSA CEO Cas Coovadia said the MTBPS issued by the Minister of Finance today does not instil confidence. We commend the Minister for giving an honest assessment of the crisis SA is in. We also recognize that this MTBPS could not convey a good story. Unfortunately, the budget could only be bad news! Debt continues to increase; the revenue shortfall continues to increase and there is no sign of the structural reforms sorely needed to create an environment for investment. We are concerned that, even though we are borrowing R 2,1 billion per day, money is diverted into projects, like SAA, that have no chance of providing an economic or social return. This money could be better used to improve the lives of the poorest amongst us.

The Minister has committed to dealing with the public sector wage bill, one of the largest expenditure items. The budget commits to an increase of 1,8% in the current year and 0,8% over the 2021 medium term expenditure framework. We now need government to stay the course on this and ensure all of government is fully aligned behind the MTBPS.

The MTPBS refers to critical actions that need to be implemented immediately. These include:

- Improving the ease of doing business
- Creating a stable and predictable policy framework
- Adapting to a new way of work
- Issuing the RFP for the next tranche of renewables

BUSA has been urging government to implement these for several years, so this is not new! We urge government to move urgently to implement these and other actionable items identified in a social partner agreed document handed to the President on 15th September.

This MTBPS is valuable in that it is a very honest depiction of the socioeconomic crisis SA is in. The MTBPS should spur government on to action that will urgently create an environment for the private sector to lead inclusive economic growth. BUSA has committed the private sector to investing to enable growth, provided government pulls the levers in its control to create the necessary environment.

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## THE ECONOMIC RECOVERY & RECONSTRUCTION PLAN BY PRESIDENT CYRIL RAMAPHOSA

President Cyril Ramaphosa presented the government's economic reconstruction and recovery plan on 15th October 2020. Thursday.

Business Unity South Africa CEO Cas Coovadia said BUSA welcomes the release of an Economic Recovery and Reconstruction Plan (the plan) by President Cyril Ramaphosa at a joint sitting of Parliament and the National Council of Provinces on 15th October 2020. We commit to continue engaging government and working with social partners to do what we can do encourage government to urgently implement critical areas of the plan that can be actioned immediately! These include the issuing of an RFP for the 5th tranche of renewable energy projects, the release of spectrum, intervention at the Durban port to increase efficiencies and resolving licensing issues for mining exploration. Urgent action on these, and others, will begin to create the environment for the private sector to invest and kick-start economic growth!

BUSA has been a central part of the engagement at Nedlac to produce a document, presented to the President on 15th September, that identified the critical immediately actionable areas. We are now appealing to government to work with social partners to resume these engagements, so that we can jointly track progress in implementation of the plan and, very critically, engage on the fundamental structural economic reforms necessary to enable investment, profitable business growth, ease of doing business and improving our competitiveness. These are critical elements to put our country onto a sustained and inclusive economic growth trajectory. We are also keen on resuming the engagements so that we can address our severe fiscal crisis.

The President made several commitments in the plan, but there is no indication of how these commitments will be funded. Our economy was in recession pre-Covid and SARS had forecasted a R 200 billion shortfall in tax revenues for the 2020 fiscal year. The Covid crisis has exacerbated our economic situation and the revenue shortfall is significantly bigger. We are also rated as a sub-investment grade country. We will thus have difficulty raising funds in capital markets and will be competing for these funds with other emerging countries also seeking to rebuild their economies. The engagements on the fiscal crisis will also have to take tough decisions on reductions in government expenditure.

Our country has come together to manage the social, health and economic impacts of Covid-19 and a compact of sorts has taken shape. We need to continue working together to now re-purpose our economy to be inclusive, competitive, and business and investment friendly. These are the recipes for sustained growth, which must include the majority of our people in the fruits of such economic growth. We welcome the plan, but the issues raised above are critical and urgent! We have run out of time and further delays in implementing the short-term actions and resolving the structural and fiscal conundrums will make the rebuilding of our economy exponentially more difficult!

We urge the President to lead the country on this critical path. We urge government to continue engaging with, and consulting, social partners, but, we also urge that government takes decisions urgently after such consultations and acts decisively to create the environment for investment, growth and fiscal discipline, all critical to sustained inclusive socio-economic growth!

**BUSA welcomed the release of an Economic Recovery and Reconstruction Plan (the plan) by President Cyril Ramaphosa at a joint sitting of Parliament and the National Council of Provinces on 15th October 2020. We commit to continue engaging government and working with social partners to do what we can do encourage government to urgently implement critical areas of the plan that can be actioned immediately!**



## #MTBPS2020

### What's your say on the MTBPS?

**Gina Schoeman**  
Economist,  
CitiBank



**Anthea Gardner**  
CEO, Cartesian  
Capital



**Sifiso Skenjana**  
Chief  
Economist, IQ  
Business



**Cas Coovadia**  
CEO, Busa



**Mike Schussler**  
Chief Economist,  
economists.co.za

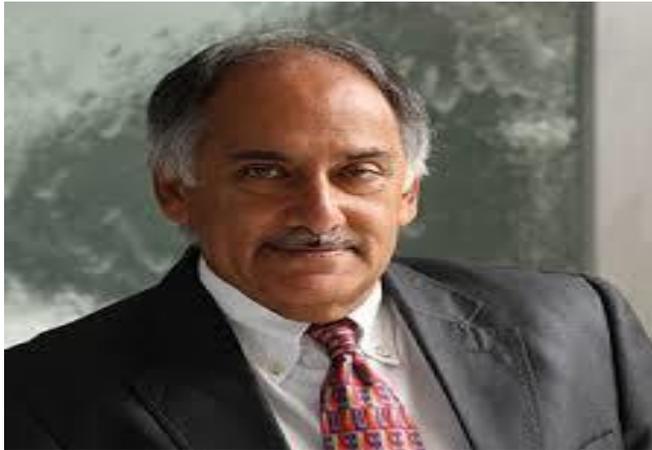


Business Unity South Africa Cas Coovadia ,Gina choeman,AntheaCartesian ,Sifiso Skenjana and Mike Schussler shared their opinions on MTBPS2020 moneyweb news.



Business Unity CEO Cas Coovadia on SAfmRadio Market Update had a panel discussion with Annabel Bishop and Zweli Mabhoza to unpack the MTBPS2020.

## **BUSA: Day Zero looms for small business in South Africa unless we act now.**



*Cas Coovadia is co-convenor of Business for South Africa (B4SA), head of Business Unity South Africa (Busa) and a member of the Sukuma expert advisory panel.*

President Cyril Ramaphosa's economic recovery plan includes a focus on growing small business, the backbone of the economy and the sector where most of our workers are employed. He also warns that the coronavirus will be with us for some time, that the World Health Organisation says a new wave of infections may occur, and that measures to control the spread of the virus will have to be intensified. That combination may not be good news for small businesses. Despite the president's very welcome undertaking to speed up relief payments to those affected, and to include small business in as many aspects of the planned economic recovery as possible, the coronavirus pandemic has already done massive harm to the small business sector.

The reality that the government and private sector relief organisations must face is that the ongoing economic devastation caused by Covid-19 is so great that we are not going to be able to save all of the businesses and the jobs that they provide. That in turn means a focus on the small businesses most likely to survive now and thrive in the future, either because of the type of business or the strength and entrepreneurship of its leaders. It is a form of economic triage – choosing those with the best chance of recovery. State and private sector support organisations do not have unlimited funding, and they will have to decide which relief measures work best, which businesses to help and which to let go. It will be tough, because jobs and livelihoods are involved, and hardship is inevitable.

It will be necessary, because without this triage to prioritise those most likely to benefit, huge amounts of money will be wasted, and thousands more jobs will be lost than if the businesses most likely to survive and grow, get the most support.

Propping up poor businesses and weak management will put the whole sector at risk because it seems likely that things will worsen. The indications are that there is more pain ahead.

While South Africa's Covid-19 level 1 easing of restrictions might bring a sense of a return to normal, we are far from it.

The sobering reality is we haven't seen the worst of it when it comes to the economy – and the bloodletting is greatest in small business which by one estimate used to employ 47 percent of the workforce and contribute 20 percent of gross domestic product.

Statistics SA already tells us that 2.2 million people lost their jobs in the second quarter of the year, but that too is the tip of the iceberg.

The government's recovery plan says estimations are that the economy will contract by about 7 percent for the year 2020, with a potential loss of 3 million jobs affecting both large businesses and SMMEs.

We are in a serious economic crisis and we are not yet out of the lockdown crisis. We must plan on the assumption that there will be a second wave of infections, exacerbating the economic impact as has happened elsewhere. This will only serve to deepen our woes.

This is a time for cold, hard decisions. Compassion is needed, of course, but dispassion too. We may have to accept that not everything can be saved. We must focus on saving what we can before more businesses go to the wall. This is one of the ways to create the right conditions for new economic growth.

Some of this triage in prioritising relief recipients is already happening. The Sukuma Fund, with which I am associated, has been focusing only on formal small businesses, and within that sector on those likely to survive the crisis, in order to maximise its impact with the relief funding it has available. It has provided nearly R1 billion in relief funding to these small businesses, saving some 32 000 jobs.

The banks administering government's R200 billion loan guarantee schemes have also performed been selective, perhaps for different reasons, which may be why only R16 billion of that money has been disbursed.

There have been calls for a relaxation of the conditions for these government-backed loans. Given the recession and the ongoing need for financing of SME's, there is an opportunity for government's relief fund to partner with Sukuma for the distribution of the more than R180 billion it still has available to lend to small businesses.

Despite the president's job-creation focus, the short-term outlook for small business is not good. The Organisation for Economic Co-operation and Development (OECD), an international policy think tank, has published a detailed study on the impact of coronavirus on small business worldwide, and the policies that various countries have implemented to save jobs and businesses.

The OECD estimates that global economic contraction will rise to 7.8 percent from 6 percent on the back of a second wave of coronavirus infections. South Africa is likely to suffer more than the average – the OECD now estimates that the South African economy will contract by 11 percent this year thanks to the pandemic. Those are frightening statistics. They tell us that we must plan now for continuing economic misery ahead. The dark clouds have some silver linings. The SME sector is part of government's recovery plan, and small businesses will benefit in several ways. There will be a boost from the focus on localisation, which includes local procurement, import substitution and support for local businesses, from manufacturing to township and village economies.

This will ease the pain for small businesses, but it will not make it go away with the economy in deep recession and jobless numbers continuing to rise. A recent StatsSA study surveying 700-odd businesses revealed that 40 percent of entities were unable to continue operating and 54 percent would close without turnover for two months.

The key to saving small businesses is being prepared and able to act swiftly. As a country our record on acting fast to keep small business going has not been a sterling one despite some exceptions, such as relief organisations like the Sukuma Fund.

The OECD study of 160 countries provides evidence that more focused strategies of support can be more impactful. Without a proper focus on trying to save viable businesses, a country could incur significant fiscal cost for a far more limited impact – i.e. spend worth 1.1 percent of GDP could save more businesses and jobs than almost double that amount done with less of a laser focus on who might benefit.

The small business sector is in crisis, and a second wave of coronavirus infections will make things worse. We may have to accept that not all ships will float when the economic tide starts to rise. What is important is that we start getting the tide to rise, and that means supporting businesses that will survive and create jobs.

## **EconPol**

BUSBA sub-committee on TAX virtual meeting scheduled to take place on **22 October 2020** took place chaired by Robert Legh he opened the meeting and welcomed those present at the end of the meeting he indicated that the next sub-committee was scheduled for 2 February 2021, 13:00 – 15:00.

### **1. MATTERS ARISING FROM THE MINUTES AND NOT ADDRESSED ELSEWHERE ON THE AGENDA**

#### **1.1. SACU REVENUE SHARING FORMULA**

##### **Action (1)**

Following discussions and concerns raised about the increasing infeasibility of continuing South Africa's contributions arising from the SACU Revenue Sharing Formula, it was agreed that Paul Bondi table this matter at the Nedlac Public Finance and Monetary Policy Chamber for engagement.

#### **2. THE FUTURE OF THE DAVIS TAX COMMITTEE AND THE SARS CAPACITATION PROJECT**

2.1. Dennis Davis reported that the main objective of the Davis Tax Committee is to assess South Africa's tax policy framework and its role in supporting the objectives of inclusive growth, employment, development, and fiscal sustainability.

2.2. Dennis Davis indicated that the future of the Davis Tax Committee was uncertain as there had not been any communication with the Minister of Finance.

2.3. Dennis Davis further reported that to date the Davis Tax committee had completed three (3) reports on the Wealth Tax, VAT report and the report on the Tax Collection Gap to be released toward the end of the month and will be shared with BUSBA.

2.4. Dennis Davis reported that SARS had no capacity to do its work effectively and the capacity level it has was not good.

2.5. Dennis Davis further reported that the DTC was working with SARS on the SARS Capacitation Project to put people/employees in an organisational framework by defining their jobs specifications and raising money to fund SARS' projects and its human resources constraints.

##### **Action (2)**

BUSBA to circulate the Davis Tax Committee Reports on Wealth Tax, VAT and Tax Collection Gaps once they had been made available by the Davis Tax Committee.

##### **Action (3)**

Dennis Davis requested the private sector (BUSBA) to lobby the National Treasury to support the work and the initiatives of the Davis Tax Committee and ensure that the committee has continuity.

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

### Action (4)

Following discussions tax collection gap and policies, Dennis Davis undertook to request a meeting with the SARS Commissioner, DTC and BUSA to engage and or discuss on the South African Taxation System and on how it can properly function.

## **3. SARS TAXPAYERS SERVICE CHARTER**

Olivier Serrão reported that SARS had sent BUSA the draft SARS Taxpayer Service Charter for comment.

### Action (5)

Following the discussion on the SARS Taxpayers Service Charter, it was agreed that BUSA set up a small team to look at the Service Charter and develop a draft BUSA position for the Tax Sub-committee.

Robert Legh, Bridgitte Backman and Yvonne Van der Westhuizen volunteered to be part of the small group to work on the Service Charter on behalf of BUSA.

## **4. 2020 MEDIUM-TERM BUDGET POLICY STATEMENT (MTBPS)**

4.1. Olivier Serrão reported that the Minister of Finance had rescheduled the Medium-Term Budget Policy Statement speech to Wednesday, 28 October 2020.

4.2. Olivier Serrão further report that BUSA/Busines had engagements with National Treasury's budgeting office with on the National Budget and the Medium-Term Budget Policy Statement (MTBPS).

4.3. Olivier Serrão indicated that BUSA had provided its input to the Medium-Term Budget Policy Statement.

4.4. Olivier Serrão further indicated that Nedlac constituencies will have a post-MTBPS engagement with the Minister of Finance on 30 October 2020.

### Action (6)

It was agreed that BUSA through the office of the Chief Executive Officer and/or Vice President should push for an engagement/s with the National Treasury on various topics with regards to taxation, constrained fiscus, public finance and etc.

## **5. BUSA TAX SUBCOMMITTEE TERMS OF REFERENCE (TOR)**

### Action (7)

Following Olivier Serrão's presentation on the role and status of the BUSA Tax Subcommittee, it was agreed that there should be a special meeting in the next six (6) weeks to discuss the outlook of the subcommittee and its terms of reference. It was further agreed that the members of the subcommittee provide inputs/submission to the ToR before the proposed special meeting.

**BUSA sub-committee on TAX continues**

6. BIAC POLICY GROUPS: TAXATION & FISCAL POLICY COMMITTEE

The documents provided by Yvonne Van der Westhuizen on the BIAC Policy Groups were noted.

7. BUSA / SARS MOC

7.1. Olivier Serrão reported that SARS had indicated that it was in a process of concluding and/or signing the MoC.

7.2. Olivier Serrão further reported that SARS indicated that it was proposing task teams for the BUSA/SARS MoC and undertook to update the subcommittee on the status of the MoC in due course.

■ The End!

■ CONTACTS

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