2019 Commentary on Budget Speech

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Multiple summaries and commentaries are available on the Budget Speech. Most are excellent and accurate reflections of the Minister's delivery, and the implications on economic role players in the country.

The following is not intended to duplicate existing commentaries, or be an all-encompassing review or summary, but rather a succinct reflection on ***selected issues*** directly relevant to Durban's economy. **The aim is to isolate and highlight the top 5 issues** from both Minister Mboweni's 2019 Budget Speech and Review, from the perspective of the City's Economic Development Unit, for the purposes of provoking critical thought and impactful decision making. This includes:

1. **Mounting pressure on the City's consumers;**
2. **More support needed for Durban's SOEs;**
3. **Coordinated and visible efforts lacking to address work stoppages;**
4. **Chicken industry protection welcome, but AGOA still an issue;**
5. **Business partnerships with TVETs needed.**

The backdrop: The tough balancing task of the Minister.

Minister Mboweni was faced with the undeniably tough task of raising tax revenues from an increasingly tax-burdened population, in the context of low economic growth, a decline in numbers of tax payers at an average rate of 2% per annum (SARS, 2019); and dangerously high expanded unemployment of 37,1% in 2018 (StatsSA, 2019). This is, with mounting needs for rescue of critical SOEs, increasing demands for free education and service delivery, and an inefficient/eroded tax collection agency (Nugent, 2018). With this as the backdrop, tax proposals tabled by the Minister were bound to be unpopular at best, with revenue collection methods being both creative and indirect.

1. Mounting pressure on the City's people.

The City's consumers already faced significant pressure throughout 2018 due to increasing fuel costs peaking at R17 a litre, as well as VAT increases. This is, in the context of the City's 27,1% average expanded unemployment rate in 2018, and decline in tax payers of 3% per annum from 2014 – 2017. Fuel prices have since (temporarily) declined however this has not resulted in a reduction in public transport prices in response. More pressure will be added, with fuel prices set to increase further by 29 cents per litre in petrol prices, through increases of carbon tax, and both General Fuel and Road Accident Fund Levies; of 9, 5 and 15 cents per litre of petrol by June 2019 respectively. This is likely to have a negative impact on the affordability of transport as toll fees have also increased as of 1 March 2019. This is also exacerbated by the Minister's announcement that **tax brackets will not be amended with inflation**; resulting in fiscal drag; i.e. more tax effectively paid by consumers, also from 1 March 2019. In effect, real salaries, and real disposable income will decrease. ***This will place pressure on employers for higher (above inflation) worker compensation in 2019.***

2. Durban's SOEs need more support

The Minister took a pragmatic approach to SOEs given the vulnerability of government due to their performance at the national level (e.g., Eskom is technically bankrupt). Government needs to limit its exposure to risk, and new approaches such as sourcing a strategic equity partner will need to be explored. This is in the context of Eskom balancing its triple mandate of 1. Security of energy supply 2. Social equity and 3. Sustainability. It is likely that further details will emerge in June 2019.

For eThekwini's SOEs we have to be mindful of the sentiment towards national SOEs in general and the impact this has on ours. For example, this negative sentiment impacts on uShaka Marine World's (SOE) ability to access finance. From an eThekwini perspective, the development of the Point area needs to be expedited as this will have a positive impact on uShaka. The ICC is a well-functioning SOE. While Moses Mabhida is not an SOE, but a municipally managed facility, support for the stadium needs to be re-evaluated to maximise income generation capabilities. In short a strategic re-evaluation of the City's SOEs is required. ***More government support and assistance is required to ensure that new and innovative ways of generating revenue are established for SOEs in Durban.***

3. Blended finance keenly welcomed, but Durban needs to address crippling work stoppages in order to benefit

According to the 2019 Budget Review, the speed, quality and efficiency of many infrastructure projects in the country has not matched their level of investment (National Treasury, 2019). Therefore much of the funding allocated to infrastructure, through the President's R400bn infrastructure fund, will follow the "blended finance" (BF) model. The BF model is a global specialised model of financing, developed to address the SDGs by combining finances from the public, philanthropic and private sector (OECD, 2019) for catalytic projects. The aim of the Minister's approach is to increase and enhance oversight, improve the speed and quality of spending, and reduce costs in public infrastructure.

However, while not isolated; the case of Durban is both extreme and peculiar. More needs to be ***visibly*** done to ensure the efficiency of infrastructure delivery. Few, if any infrastructure projects in the City are stranger to work stoppages on infrastructure projects, due to ***criminal threats*** on the lives of workers and developers and therefore, further capital injected into infrastructure projects will neither increase their speed or cost, nor their efficiency. **Work stoppages have significantly limited and repelled much needed investment in Durban**. With over R7bn in expenditure on capital projects planned in the City, blended finance and oversight over certain capital projects is welcomed but ***not enough*** to ensure efficiency in delivery.

While the Infrastructure Fund is welcomed, a coordinated, visible and effective response to work stoppages is still lacking and therefore blended finance investments may be ineffective for Durban.

"Work stoppages have significantly limited and repelled much needed investment in Durban."

The Budget Review notes that stakeholder consultations are under way to identify ways to improve the efficiency and reduce the costs of ports and rail, making the country's exports more competitive. This is of particular interest to the City, due to its reliance on the Port of Durban, which has battled with inherent inefficiencies.

The City is following consultations on infrastructure efficiency development, and looks forward to solutions to improve operations at the Port.

4. Industry protection of frozen bone chicken

Given the recent declines in profitability of broiler production in the City, the announcement to impose 35,3% tariffs on frozen bone chicken imports from Europe is noted (although too late). The South African Poultry Association estimates that for every 10 000 tonnes of chicken meat imported into the country, 1 000 direct and indirect jobs are lost, and that 722 jobs may have been shed due to imports in 2016 (SAPA, 2017). This is of particular interest to the City because programmes run by the City's Agri Business Department are well underway to develop farming and processing of broiler meat in Hammarsdale. These programmes are of high priority as they are designed for economic development and transformation purposes.

The Partnership Agreement with the European Union may allow tariff imposition in bone in chicken, **however, the same cannot be said for AGOA, where an agreement has already been signed.** In response to USA chicken's dominance on the bone in chicken market, and its detrimental effect on the local industry, local industry is encouraged to;

- diversify and find specialised niches in the market, and
- explore growing markets on the continent, through opportunities provided by the AfCFTA (EDGE, 2018).

Tariff imposition on EU frozen in bone chicken imports are welcomed, but diversification and exploration of the African market are essential for economic transformation efforts to be effective in the broiler industry.

5. Business partnership with TVETs needed

The Minister announced government's plan to spend R111.2bn to ensure that 2.8 million deserving students from poor and working class families obtain their qualifications at universities and TVET colleges. Given the recent death at DUT over fees issues, as well as the lack of resources to absorb all deserving students, this is noted with much hope. In anticipation of the increase in students, it is important that **business in the City partner more actively and more visibly with TVET colleges**, which are often less resourced than universities, but no less important. This was highlighted in the recent EDGE publication on artisans in the City (EDGE, 2017).

Business in Durban must partner with TVET Colleges more effectively in anticipation of the expected increase in students

Also on skills, in order to address the shortage of skills in the City, the Economic Development Unit concurs with the Minister's proposal for high-skilled immigration from around the world into the country and City. eThekwini has been a net exporter of skilled or talented labour. ***Businesses are encouraged to seek high skilled individuals globally, with the goal of transferring these skills to local staff.***

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