

7-9 OCTOBER 2019

# CIGFARO ANNUAL CONFERENCE DURBAN ICC

Editorial Team: Peet du Plessis, Louise Muller  
Ocean Makalima: Editor, proof reading  
Nicolette Botha: Facilitator, edit articles & proof reading  
Andre de Villiers: Writer, edit articles & proof reading  
Maphefo Mgadi: Writer, edit articles & proof reading  
Yusuf Aboojee: Writer, edit articles & proof reading  
Ofentse Pilane: Social Media, Photography, Writer  
& Cigfaro Information Officer  
Allan Chettiar: Layout & design

@CIGFARO\_editor CIGFARO www.cigfaro.co.za

# CIGFARO TURNS 90!

The celebration of our 90th birthday is a momentous occasion! It has been an exciting journey over the years and has been both exhilarating and at some stages quite bumpy. However, we are grateful for this achievement as an Institute; and are equally proud that the Institute has sustained itself despite tough circumstances at times.

The President and Board of CIGFARO welcome you all to this year's Conference! We also wish to invite you to celebrate CIGFARO's birthday with us at the Mayoral Reception on Monday evening, hosted by the honourable eThekweni Executive Mayor, Cllr. Mxolisi Kaunda.

If we look back in history, records indicate that the Institute of Municipal Treasures and Accountants (IMTA) began with five (5) fellow members in South Africa under the leadership of Mr E B Scott, Town Treasurer of Ladysmith. A letter was written to the IMTA in London about a proposal to establish a local branch in South Africa. While the journey started in 1927, the preliminary conference was convened by the then South African Municipal Employees Association (SAAME) on the 13 September 1927. On the 14th September 1927, the preliminary council was elected.

In 1929 the initial Institute was incorporated, and its first constitution approved, which led to the development of the bylaws of the Institute. For the past 90 years there have been constitutional changes as the Institute grew. The focus over the years has been on providing formal education for the profession, as well as setting of accounting standards and examinations for treasurers.

In 1930 the first curriculum was set out for eligibility, exemptions, and special examinations. Further developments included membership upliftment through examinations, as well as special conferences and seminars.

In 1988 the Municipal Accountants Profession Act was promulgated and later repealed due to the transformation

requirement, the advent of the new democratic dispensation in 1990, and the introduction of the Accounting Standards Board (ASB). This meant that the responsibility of prescribing and setting accounting standards was shifted from municipalities to the ASB.

Despite the repeal of its statutory recognition, the Institute continued to grow in leaps and bounds to support its members. It also participated in the ASB and other key forums hosted by local government.

## First Renaming of the Institute

In 1990 the Institute resolved to change its name from the Institute of Municipal Accountants and Treasurer (IMTA) to the Institute of Municipal Finance Officers (IMFO), to align with the MFMA. It has since gained enormous respect amongst its peers.

Since its inception, the Institute has been undergoing various transitions and transformation, both informed by the changes in the country [socio-economic and political], as well as respective changes that took place in local government. This fact was acknowledged by the former State President of the Republic of South Africa Honourable President Thabo Mbeki when CIGFARO celebrated its 75th Anniversary.

*"The manner in which CIGFARO responds to the new democratic imperatives and to the MFMA will determine how relevant and influential it will be in the changing landscape of local government"*  
President Thabo Mbeki stated.

The first black President of the Institute was Bethwell Jwili, and the first female President was Marie-Lise Fourie. The second female President was Louise Muller and on achieving its 85th year, the Institute elected its first black female President, Mrs Jane Masite. Each of these key milestones in the transformation journey has helped focus and refocus



Peet du Plessis, CIGFARO President

the Institute's direction.

The journey travelled thus far by the Institute has been characterised by the challenges that require urgency and timeous responsiveness. The focal point of the institute in the early years of inception was the creation of a professional body which would establish and maintain high standards of professionalism among municipal practitioners.

## Second Renaming of the Institute

Chartered Institute of Government Finance, Audit and Risk Officers (CIGFARO). The significance of this 2016 renaming from IMFO to CIGFARO put the institute squarely at the forefront of the public finance management reform and professionalization of the public sector. This is a stern departure from looking at the interest of the municipalities and its entities, to accommodate progressively the interest of the public sector as a whole.

## Why Chartered Institute?

- Repositioning the professions to provide more scope on Public Finance Management.
- Professionalising Finance Management for greater impact on

service quality delivery.

- New Certification criteria based on robust assessment criteria.
- Premier designations to provide confidence to the public about the professional status of our Practitioners.
- New Chartered designation and enhanced Code of Ethics.
- Mandatory professional registration for CFO, CAE & CRO.

CIGFARO would like to take this opportunity to express gratitude to the Host City, especially the Executive Mayor of eThekweni for his hospitality. We also want to thank our Platinum sponsor, Ntiyiso Consulting for trusting our brand and making the important decision to contribute towards the success of this Conference and the public sector. Lastly, we wish to thank all exhibitors and delegates who continue to support the vision of CIGFARO. This journey would not be the same without you, thank you all for your contributions.

***"If you can't fly, then run. If you can't run, then walk. If you can't walk, then crawl. But by all means keep moving!" – Martin Luther King Jr.***

## CONFERENCE DELEGATES KINDLY TO BE SEATED BY 08H50



# Monday 07 October 2019

**Program Directors: Cheryl Reddy & Krish Kumar**

07:30 – 09:00	Late Registration	
09:00 – 09:10	<b>National Anthem</b>	<b>Umlazi Gospel Choir</b>
09:10 – 09:30 <b>S1</b>	Welcoming Address by the Executive Mayor	<b>Mayor Mxolisi Kaunda</b> <i>Executive Mayor EThekweni</i>
09:30 – 10:00 <b>S2</b>	CIGFARO Presidential Address & Opening of the Conference	<b>Peet du Plessis</b> <i>CIGFARO President</i>
<b>S3</b>	Word of Support	<b>Alex Mabunda</b> <i>Ntiyiso Consulting</i>
10:00 – 10:30 <b>S4</b>	Keynote Address: Transformational Leadership, an essential drive for financial turnaround (sustainability) in Public Sector with Integrative Planning and Development between Public and Private Sector, and between the 3 Spheres of Government	<b>Nkosazana Dlamini Zuma</b> <i>Minister of COGTA</i>
10:30 – 11:00	Questions and Answers	All
11:00 – 11:30	<b>Refreshments and Viewing of Exhibition Stands</b>	<b>Exhibition Hall</b>
<b>Program Director: Jane Masite &amp; Sidwell Mofokeng</b>		
11:30 – 12:00 <b>S5</b>	Financial sustainability and fiscal resilience across government	<b>Krish Kumar</b> <i>Local Government</i>
12:00 – 12:45 <b>S6</b>	<b>Panel discussion</b> Financial sustainability and fiscal resilience across government	<ul style="list-style-type: none"> <li>• <b>Krish Kumar</b> <i>Local Government</i></li> <li>• <b>Jacob Twala</b> <i>Provincial Government</i></li> <li>• <b>Musa Makhunga</b> <i>Durban Chamber of Commerce</i></li> </ul>
12:45 – 13:45	<b>Lunch and Viewing of Exhibition Stands</b>	<b>Exhibition Hall 2</b>
<b>Program Director: Bharthie Ranchodass &amp; Thuso Marumo</b>		
13:45 – 14:30 <b>S7</b>	<b>Panel discussion</b> What does AG expect National, provincial and local government to do in order to improve their audit outcomes? <ul style="list-style-type: none"> <li>• Input by Department of Water and Sanitation on the turnaround strategy and the effects of the implementation thereof;</li> <li>• The story of a municipality that “fell from grace” and how they have changed the situation, and</li> <li>• A case study of a municipality and or provincial department that has progressively worked up to a clean audit.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Jan Van Schalkwyk</b> <i>AGSA</i></li> <li>• <b>Wensley Allestair</b> <i>Department of Water and Sanitation</i></li> <li>• <b>Tondy Nkuna</b> <i>Ntiyiso Consulting</i></li> </ul>
14:30 – 15:15 <b>S8</b>	<b>Panel discussion</b> <b>Assistance available for Improving Audit Outcomes</b> <ul style="list-style-type: none"> <li>• Roles &amp; responsibilities of National and Provincial government as well as SALGA regarding audit outcomes and ensuring there is improvement in the financial performance and service delivery</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Buhle Ngqabayi</b> <i>SALGA KZN</i></li> <li>• <b>Nelisiwe Ntlhola</b> <i>COGTA</i></li> <li>• <b>Xolani Ndlovana</b> <i>Gauteng Treasury</i></li> <li>• <b>Bongi Kunene</b> <i>Standard Bank</i></li> </ul>
15:15 – 15:45 <b>S9</b>	An integrative and multidisciplinary planning and development approach in Public Sector	• <b>Stanley Ntakumba</b> <i>Department of Performance, Monitoring &amp; Evaluation</i>
15:45 – 16:00	Closure	
16:00 – 17:00	<b>CIGFARO AGM – All Members to Attend</b>	
16:00 – 18:00	<b>Viewing of the Exhibitors stands</b>	
18:00 – Late	<b>Mayoral Reception &amp; CIGFARO 90<sup>TH</sup> CELEBRATION</b> Beach Party	

## PROGRAMME DIRECTORS



Cheryl Reddy



Dr Krish Kumar



Jane Masite



Sidwell Mofokeng



Bharthie Ranchodass



Thuso Marumo

**Please remember to participate on our social media platforms:**

Facebook: <https://www.facebook.com/InstituteMunicipalFinanceOfficers>

Twitter: @cigfaro\_editor

Articles are the view of the writer and don't necessarily reflect the views of CIGFARO





# Transformational leadership in the public sector – why this is more crucial than ever

By Karen Heese, Municipal IQ

Transformation, broadly speaking, refers to a radical change in form or appearance, and has been a wholly necessary objective for South Africa's relatively new democratic public sector – a prerequisite in ensuring equitable access to service delivery.

For South African municipalities it specifically relates to reconfiguring spatial boundaries in a way that ensures that communities who function collectively are also served in an amalgamated, equitable, typically enlarged structure. Such transformation allows for the equitable distribution of resources between communities.

The spatial configuration of apartheid cities and towns was one that was not only fundamentally unfair in allocating resources to a privileged minority, but also dysfunctional on a number of levels, including its distortion of resources, which incurred, for instance, unsustainable environmental costs through inefficient transport links.

Regrettably, as necessary as it was, transformation has also become a by-word for disruption and upheaval. It is a word that can raise understandable concern in many a municipality. At an institutional level, transformation has implied in many instances a destabilising set of unintended consequences – where new, sometimes contradictory or inferior systems are introduced, positions made redundant, or new boundaries enforcing re-gearing, redesigning and revision of service delivery models and systems.

While these consequences have taken their toll on staff, systems and residents, they have not always achieved the intended outcome of better service delivery for all.

One of the key reasons for such shortcomings is the absence of leadership. Leadership is required to drive and gain support for the common goals implied by transformation, with the word often used too glibly by politicians and organisational heads without unpacking its very serious potential implications.

Transforming the way services are delivered in a city, for instance, requires some hard trade-offs. Should cycle lanes take up parking spaces? Should one community receive street lighting before another? Should informal traders be supported before making room for a rate-paying retail development? These decisions are ultimately the messy ones that transform a locality, and yet are understandably avoided in debates about resource allocation.

How then should hard choices be approached by transformational leaders? The first step is to listen to communities, and respect their voices to inform a shared vision of transformation. Not engaging with communities can result in poor, uninformed choices being made, that communities may well come to resent and dispute. Northern Cape Premier, Zamani Saul, recently tweeted a quote – "Leaders who don't listen will eventually be surrounded by people who have nothing to say".

This is instructive. Leaders need to engage communities to work out how to reach consensus around the flesh and bones reality of what a transformed locality entails. Once this has been attained, leaders can inspire and motivate officials to pursue a clearly articulated vision, rather than yielding a potentially menacing buzzword in support of processes that may or may not take a municipality any closer to transformation.

What has become abundantly clear in a democratic South Africa is that transformation is a multi-generational process, and without responsive leadership, it will remain a threat rather than an attainable outcome.

*Heese is Municipal IQ's Economist. Municipal IQ assesses municipal performance on the basis of various financial and non-financial indices and monitors.*



7-9 OCTOBER 2019

# CIGFARO

ANNUAL CONFERENCE

  #CIGFARO2019  
#CIGFAROtURNS90

## MAYORAL RECEPTION

His Worship, Mayor Mxolisi Kaunda takes pleasure in inviting you to the **Gala Reception for the 90th Conference for the Chartered Institute of Government Finance, Audit and Risk Officers (CIGFARO).**

The City is honoured to host and partner with this prestigious annual event.

**7 OCTOBER 2019 | 18H00**  
Durban ICC - Arena Foyer parking arena entrance  
Theme: Hawaiian



New Implementations  
and Support Services

# WE'RE BRIDGING THE GAP.

Journey with us towards a more  
**SIMPLIFIED mSCOA**



**CCG SYSTEMS**

**CCG SYSTEMS | Tel: +27 11 805 1027 | Fax: +27 11 805 3966 | E-mail: [info@ccgsystems](mailto:info@ccgsystems) | [www.ccgs.co.za](http://www.ccgs.co.za)**





# Ethical Administration & Leadership

By Collen Rammule

Advisor: Inclusive Governance & Acting Specialist: Governance, SALGA

SALGA is leading and guiding the process of establishing and supporting Ethical Administration and Leadership for Clean Administration and Good Governance in Municipalities in the face of threats, risks, and intimidations

The South African Local Government Association (SALGA) leadership worked diligently to find ways to ensure that municipalities perform their statutory functions openly, effectively, and efficiently. In the previous two National Members Assemblies (NMAs), and the National Conference after the 2016 Local Government Elections, councillors and senior managers in municipalities committed to establishing and promoting clean administration and good governance. This commitment is a direct response to the 2009 "State of Local Government Report", which painted a grim picture on municipal administration and governance. This was corroborated by the outcomes of the study in 2015 and 2019, conducted by The Ethics Institute, in collaboration with SALGA and the National Department of Public Service. The Auditor General of South Africa also lamented the poor leadership and lack of professionalism in municipalities, as well as consequences management.

"The State of Local Government Report, 2009" listed a multiplicity of factors, with the main key ones being maladministration and poor governance by municipal managers, senior managers, and political leadership respectively. These shortcomings pose the greatest threats to the construction of a free and democratic non-racial, caring and prosperous society, and to sustainable service delivery. In some municipalities these ills prevent municipalities from fulfilling their constitutional obligations; they subvert the rule of law, and gradually erode the legitimacy of a democratic local government. Municipalities experience a serious decline in moral and ethical fabric of its administration, political leadership, and society. This negative development stifles economic growth and destroys investor confidence.

SALGA is committed to lead the local government into the ethical future in the face of threats and intimidation, without fear or favour. This attitude is demonstrated by the adoption of the "Strategic Plan, 2017 – 2022", with specific focus on turning things around; with one of the three strategic goals being, "Goal 2: Good Governance and Resilient Municipal Institutions". This goal is aimed at ensuring that municipalities promote and maintain a "high standard of professional ethics" in their daily functioning in pursuit of service delivery, in line with section 195 (1) (a) of the Constitution of South Africa.

In the past two financial years, SALGA worked hard, and at times with various role players in different forms of collaborations on development and promotion of ethics in municipalities. Two key partners on the ethics work that SALGA has undertaken are the Ethics Institute and the Department of Public Service and Administration. Through various forms of collaboration, SALGA was able to train more than fifteen of its staff from nine provinces to become ethics officers, for them to become ethics champions in their provinces. This was a bold step in the right direction, which set in motion a programme of raising awareness on ethics and integrity management in municipalities.

Training of ethics officers was then followed by the development of the "Local Government Ethics Management Framework in South Africa". The framework is a clarion call to councillors, officials and all stakeholders within municipalities to see maladministration, corruption, fraud, and poor leadership leading to a lack of governance as threats which hinder the construction of a free, democratic, non-racial, caring and prosperous society. The other intentions of the framework are to provide a broad guide for the institutionalisation of good moral conduct, positive values and acceptable ethical behaviour by all practitioners in the sector. It is important to note that the framework itself does not work in isolation; it connects, supplements and strengthens other initiatives on the subject.

The framework further aims at improving the situation through a paradigm shift in which values and ethics are internalised and rendered practical through education, awareness and training, and making them conversational issues. In the paradigm shift, the values and ethics of both municipalities and society as reflected in the constitution must form an important foundational component. Leaders and functionaries are called upon to recognise that ethics and ethical conduct are moral and social norms that require doing more than just complying with laws and regulations; they are about doing what is right with emphasis on good over evil. Goodness in conduct is in line with what is explicitly and implicitly provided for in the codes of conduct for councillors and municipal officials, the constitution and numerous other legislation relevant to the local government sector.

The primary objectives of the "Local Government Ethics Management Framework in South Africa", are conceptualised as follows:

- To promote a high standard of professional ethics service ethos and conduct of professionalism amongst councillors and municipal employees.
- To encourage all stakeholders to always act with respect, integrity, competence, diligence, and in an ethical manner with each other, subordinates, superiors, the public, officials and councillors from other municipalities and officials and politicians from the provincial and national government departments.
- To always ensure that the integrity of the Municipality and the Council and the interests of the public are placed above own personal interests.
- To nurture a culture in municipalities for both employees, management and public office bearers to take reasonable care and exercise independent judgment in addressing the needs of communities.
- To promote and give effect to the values and principles in section 195(1) of the Constitution.
- To promote and give effect to the Batho Pele principles within the local government sector.
- To promote and give effect to the Code of Conduct for councillors and municipal employees as prescribed in Schedule 1 and Schedule 2 respectively of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000).
- To promote ethics and integrity management in all municipalities towards clean administration and good governance.

"The Local Government Ethics Management Framework in South Africa", has assisted in guiding municipalities to strengthen existing ethics and integrity committees established in line with section 79 of the Municipal Structure Act, and also helped in establishing such committees where they were not previously established. The province of Limpopo has made noticeable strides in establishing committees for ethics, integrity management and Rules of Order, guided by the same framework. One would only hope that the appetite displayed by Limpopo in establishing these committees would be emulated by other provinces, which would help in strengthening, improving and supporting clean administration and good governance.



## AUDIT & RISK MANAGEMENT SOLUTIONS

"We promptly exceed our clients' expectations at an affordable cost"

PROVIDE LEADING-EDGE ASSURANCE AND ADVISORY SERVICES

OVER 12 YEARS OF EXPERIENCE

EXPERT FOUNDERS & PARTNERS

**About Us**  
ARMS is a dynamic South African auditing firm founded by black professionals with a passion for transformation, professionalism and upliftment of previously disadvantaged persons. The firm focuses on servicing all spheres of government, state-owned entities, and private sector in South Africa.

ARMS has established its base of operations in Gauteng with Headquarters in Johannesburg, and regional offices in Polokwane and East London. ARMS assists clients with all matters relating to assurance, advisory, risk management and governance. The founders and partners of this firm bring decades of accounting and auditing experience to the business. This group of professionals are leading the company as it establishes a reputation of providing high quality professional services.

**The value drivers that ensure that we provide consistent high quality service to our clients are:**

Client focus  
Utilising appropriately skilled staff for each assignment  
Rigorous staff selection and development  
Innovation and technology  
Developing in-depth specialized knowledge in each service area  
Competitive pricing

**Our Services**  
We provide the following services:

- Advisory & Assurance
- Internal Auditing
- Governance & Compliance
- Risk Management
- Specialised Training
- Special Investigations
- Performance Auditing
- PMS Support
- IT Auditing
- mSCOA implementation, support & training
- mSCOA Assurance

**INTEGRITY. ACCOUNTABILITY. FAIRNESS. HONESTY. RELIABILITY**

info@armsaudit.co.za +2711 484 1235 086 619 9887 www.armsaudit.co.za St. David's Place Parktown JHB ArmsAudit Arms Audit





# BONAKUDE



## WE ENVISION

admin@bonakude.co.za

DBN: 031 201 1241/2 | JHB: 010 442 5796

[www.bonakude.co.za](http://www.bonakude.co.za)



Winner of ITHALA Business Achiever Award 2019





# Should the Municipal Audit Committee be involved in the Appointment of Internal Auditors?

By **Daniel J de Lange**  
Senior Consultant Nextec

## Introduction

Late in 2014 during an Audit Committee meeting at the Sarah Baartman District Municipality, the Chairperson of the Audit Committee (AC) enquired why the AC had not been involved in the appointment of the company which would be providing internal audit services.

The senior officials were somewhat taken by surprise and could not provide an immediate adequate response but indicated that the appointment of outsourced internal audit services was subject to the Supply Chain Management (SCM) Regulations.

Since 2002, District Municipality had outsourced their internal audit services mainly due to affordability issues and the advantages of having professional independent internal auditors on site.

The Audit Committee was of the opinion that in terms of the Audit Charter and best practice they should be involved in the process of appointing the internal auditors.

In the past the procurement of internal audit services were undertaken in terms of the SCM Regulations and the Audit Committee was merely informed of the outcome of the SCM process.

The question is therefore to what extent should the AC be involved in the process of appointing internal auditors where the function is outsourced? To answer this question it is necessary to establish the AC'S responsibilities in terms of the Municipal Finance Management Act (MFMA) (Act 56 of 2003) and AC Charter.

## Audit Committee Charter and Applicable Legislation

### MFMA

In terms of section 166 (2) (a) (i) of the MFMA the AC must advise on matters relating to internal financial control and internal audits.

### Internal Audit Charter

The Audit Committee Charter of the District Municipality details the responsibilities of the AC relating to the Internal Audit Function in great detail.

The Audit Committee should ensure that the Internal Audit Function performs its responsibilities efficiently and effectively by:

- Reviewing and approving the Internal Audit Charter; and
- Reviewing the organizational structure and competence and qualifications of the employees of the Internal Audit Function, including reviewing and concurring with the appointment and dismissal of the Chief Audit Executive (or outsourced Internal Audit Service Provider)". The words in brackets were subsequently included in the Audit Committee Charter to provide more clarity regarding the AC'S role in the appointment of outsourced internal audit services.

The original text referring to reviewing the organizational structure and the competence and qualifications of the employees of the internal audit function including the reviewing and concurring with the appointment and dismissal of the Chief Audit Executive was interpreted to refer to circumstances where the municipality would appoint its own internal audit staff.

## An acceptable arrangement to include the Audit Committee in the Appointment of Audit Services

It was acknowledged that the administration could have created greater awareness in the institution and its structures about the fact that the internal audit services tender was expiring and that a competitive tender process was being initiated. Such a report should have been submitted to the Audit Committee for information.

It was initially the opinion of the administration that if the Audit Committee was given an opportunity to review the competence and qualifications of the service provider, such an intervention may be interpreted as interference in the SCM processes. It was considered more appropriate for the new service providers to do a presentation to the Audit Committee where the service provider can be requested to respond to any questions relating to their competencies, qualifications and experience.

It is suggested that the following processes be included in the procurement of internal audit services:

- That the Audit Committee review the tender specifications prior to advertising the tender;
- That a presentation be made by the preferred bidder to the audit committee to obtain their comments (before the award by the Bid Adjudication Committee (BAC)). The AC comments will then be included in the report of Bid Evaluation Committee (BEC).

The following issues need to be addressed:

- Company background together with expertise of internal audit team;
- Hand-over procedure to be followed with existing service provider; and
- Summary approach and internal audit services to be provided.

The report of the BEC which includes the comments of the AC will then be considered by the BAC.

The Audit Committee will have an opportunity at the meeting to interact with the new service provider to clarify any issues.

A close out meeting with the current service provider should be arranged by the new service provider to ensure that all outstanding issues are addressed including:

- The finalizing of all outstanding internal audits; and
- Agreement on the tasks / projects in the audit plan that will be finalized by the current service provider.

It is a fact that the AC must rely on the reports and findings of the internal auditors as one of the major players in providing assurance that internal controls are adequate, performance of the municipality is accurately measured against set targets, that risks are effectively managed, and that the municipality complies with legislation, regulations and policies. Bearing this in mind it is easy to understand the concerns of the audit committee.

## *The challenge of leadership*

is to be strong but not rude; be kind but not weak; be bold but not bully; be thoughtful but not lazy; be humble but not timid; be proud but not arrogant; have humour but without folly.

Jim Rohn





# ADVANCING MUNICIPALITIES AND THE COMMUNITIES THEY SERVE

## HOMEGROWN EXPERTISE

The partnership between Sebata Municipal Solutions, Utility Systems and IPES-Utility Management Services (UMS) – all Sebata Holdings group companies – further strengthens their holistic approach to supplying local government with technologies that advance the communities they serve.

### SEBATA MUNICIPAL SOLUTIONS

Sebata Municipal Solutions is the leading provider of integrated technology solutions, enterprise management systems and multidisciplinary professional services to municipalities and public entities, and has been for over 40 years. Through their deep understanding of service delivery requirements, Sebata continues to deliver on sustainable institutional performance and service delivery.

### UTILITY SYSTEMS

Utility Systems is an industry leader in the field of Smart Water Management. Established in 2001, the company offers cutting-edge smart digital technology and has a global customer base. At the heart of the Utility Systems solutions is the Water Management Device, which when added to a water meter, is capable of flow limitation, Standard Transfer Specification (STS) based prepaid metering, and Bulk Water Management.

### IPES-Utility Management Services (UMS)

Founded in 1996, UMS specialises in the development, implementation and management of sustainable revenue enhancement and revenue protection services to municipalities and utilities. For the past two decades, UMS has been extensively involved in the financial viability of municipalities, and forms part of the holistic Sebata revenue management solution.



Sebata Holdings group companies  
[sebataholdings.com](http://sebataholdings.com)





# South African Municipalities at the crossroads

Professor André de Villiers, ProsGro

**“Oh nifuna umosha, anifuni u-accounta”**

**(You want to cause damage and not be accountable)**

These were the words of President Cyril Ramaphosa dismissing the request of the Army to implement its own DFMA (Defence Finance and Management Act). This would have allowed the Army freedom to procure, without the strict legislation implied by the PFMA.

Most delegates present here are aware of the fact that in June 2019, Auditor-General Kimi Makwetu reported that the financial state of municipalities across the country had worsened. Only 18 municipalities had a clean audit. Though irregular expenditure had dropped from nearly R28 billion to R21 billion, the A-G flagged the lack of accountability as the major cause of poor local government results. Instabilities in key positions of leadership of municipalities and a lack of discipline to implement corrective action against officials flouting processes, were greatly responsible for this sad state of affairs

There is no use denying: South Africa is today very much like somebody waking up from a nightmare. Whilst struggling to focus on the immediate challenges facing us these days, some of the following details of the bad dream still haunt us:

- Recently released crime statistics show that we are increasingly developing into a lawless society. Violent crime perpetrated against women and children has led to protest marches. Xenophobic attacks on foreigners has tarnished our international image.
- Different commissions of enquiry have a few things in common. Firstly, that corruption has become endemic in government and many private sector companies. Secondly, that managers and leaders are abusing their power to the detriment of the organisations they are supposed to be leading. Thirdly, that communities and customers are suffering poor service delivery, whilst the taxpayer foots the bill of poor governance.
- Our economy is in serious trouble. Growth is virtually zero, unemployment is sky high, and the wage gap between the top and the bottom is increasing all the time.
- Our law system is overburdened and criminals are increasingly confident that they can literally get away with murder.
- Our education system is not delivering young people capable of facing the complex future of the digital age. Most children grow up in single parent households and in most cases don't have a role model to help

shape their mindsets. Small wonder they lack the necessary morals and direction.

- Our environment is in a terrible state. Our city streets are now littered with plastic bags. Our beaches are mostly dirty and our oceans are polluted. Our natural environment is being poached bare by local and foreign crime syndicates. International tourists will increasingly lose interest in the country.

According to many of the international performance indices measuring the success of countries, we are slipping badly. The emigration stream of highly skilled persons is growing.

So what should be done?

It would be extremely simplistic to state that we should develop a turnaround strategy to get us out of the mess. In fact, the word strategy and all the time spent on strategic interventions is generally one of the main causes of the trouble we're in. Far too much planning, far too little doing.

The key in changing a situation to make it meaningful and effective lies in the mindset or attitude of the leaders and their co-workers. Without a positive attitude tempered by political will, realism, institutional capacity, skills and hard work, nothing will be achieved. A project driven organisation is essential.

The theme of this year's conference is Transformational Leadership in the Public Sector. Each of these words should be briefly analysed.

**Starting with public sector.** The objective of a government department or municipality is to serve the public. Remember that he who pays the piper, calls the tune. Too many officials fail to recognize the source of their monthly salary.

**Secondly, leadership.** Dr. Johan van Zyl, chairman of Toyota in South Africa states emphatically that he sees his future in this country. What is needed is leaders who involve themselves in their communities. They respect these communities and serve them to the best of their ability. Likewise, financial managers in municipalities respect the system within which they operate and comply with the MFMA.

**Thirdly, transformation.** It is saddening that this word has inherited a negative connotation. It is seen to mean the replacement of white workers by black workers. In the process a huge quantum of skill as well as institutional memory has been lost to most municipalities.

When we think leadership, the old saying *a fish rots from the head*, still applies. Leaders lead by example and when they are corrupt the same applies in the rest of the organisation. Currently the country looks towards its political leaders for guidance, but as Dr. Johan van Zyl states: President Cyril Ramaphosa is not going to save the country alone. Leaders at all levels must stand up and do their job.

That municipalities have a crucial role to play in trying to effect a turnaround is a *sine qua non* or to put it mildly very obvious, stupid!

- *Sabelo Skiti and Thanduxolo Jika, Ramaphosa laughs at general's proposal, Mail & Guardian, 8 August 2019*
- *Carla Lewis, Ek wil in geen ander land as Suid-Afrika bly, Interview with dr. Johan van Zyl, Beeld, 10 August 2019*

## AKHILE

### The Preferred Local Government Service Providers

AKHILE is a Level 1 BBBEE Contributor Consulting Company, providing practical, innovative and sustainable solutions to municipalities.

**OUR TEAM** and strategic partners have a wealth of experience and our Directors are visible, hands-on and lead the work we do.

**OUR SERVICES INCLUDE** Advisory; Asset Management; Budgeting/Financial Planning; Debt and Indigent Management; Financial Accounting and Costing; Financial Statement Preparation; General Consulting; mSCOA Implementation; Municipality Sustainability; Revenue Management; Cost Optimisation and Turnaround.

**CONTACT :** Bo Hadebe Tel: (012) 460 1945 Email: admin@akhile.co.za

## UNIQUE Co

PROPERTY VALUERS

**OUR SERVICES** Building and Content Insurance Valuations; Building and Development Progress Assessments; Mass Valuation Assessment; Movable Property Assessments; Municipal Rates and Taxes Consultant; Real Estate and Open Market Valuations.

**CONTACT :** Ruth Mokonyane or Lourens Nel Tel: 0861 99 0003 Email: info@uniqueco.co.za



# Standard Bank, solution partner to the Public Sector



Standard Bank provides financing and advisory solutions to the Public Sector to create a country we all aspire to live in. We understand the responsibilities placed on Municipalities and other Public Sector entities by the Constitution of South Africa and the supporting regulatory environment. In delivering on your needs, Standard Bank will partner with you, mobilising relevant expertise within our business to provide integrated financial solutions.

We mirror the Public Sector operating model to deliver distinctly on your objectives. The following people can assist you with relevant solutions:

Natalie Neves-Oakes, Head Public Sector  
Natalie.Neves-Oakes@standardbank.co.za, 082 416 3419 / 011 721 8210

Nonopa Tenza, Manager, Client Coverage  
Nonopa.tenza@standardbank.co.za, 082 689 6767 / 011 344 5872

Standard Bank Moving Forward™

Authorised Financial services and registered credit provider (NCRCP15).  
The Standard Bank of South Africa Limited (Reg. No. 1962/000738/06). Moving Forward is a trademark of The Standard Bank of South Africa Limited. GMS-11575 10/19





# “Transformational leadership – is it the key to avoiding an apocalyptic end in local government?”

Jan Hattingh

Chief Director: Local Government Budget Analysis  
National Treasury

Since the adoption of a new democratic dispensation for local government in December 2000, leadership and transformation in local government has been partial towards creating transformation *in* leadership positions – of making sure that the face of local leaders bears testimony to our commitment of a democratic South Africa. There is no dispute that this was absolutely necessary. How else do we build and inspire confidence in the millions of South African citizens who have fought courageously for this end?

But 20 years into the new local government system, the euphoria of a democratic local government has long passed. There are people today, who still do not have access to basic services. The quality and reliability of service delivery has declined, there are a number of municipalities who have been placed under intervention, and there are a growing number of municipalities who are financially cash-strapped. Above all, local government has become notorious as a breeding-ground for greed, gluttony and avarice. There is hardly a day that goes by when local government is not ‘slammed’ by the media for some or other failure.

It is no wonder then that many South African citizens feel despondent, disillusioned and, to some extent, perhaps even cheated. The vision that was promised of a “Better life for all” by our first-generation transformational leaders has been shrewdly and deliberately replaced in a number of instances by a calibre of leaders with manipulative, selfish, rent-seeking tendencies. The 2019 Edelman Trust Barometer which measures trust in government and business across 27 countries, shows that South Africa ranks the lowest in terms of citizen trust in government. South Africa also ranked the lowest in 2018.

But opportunities like the 2019 Annual CIGFARO Conference, provide a good opportunity to reflect. It is unfortunate that many leadership failures in local government have successfully shifted the attention away from notable cases of leadership excellence in the sector. There are still a number of good men and

women in the sector through whom we can create a cohort of ethical, moral, credible and transformational leaders. People who are capable of inspiring the same confidence that some of our first-generation democratic leaders did.

The critical question is how? How do we create transformational leadership in local government now to steer away from a possible *apocalyptic end*?

This article is not intended to provide a comprehensive solution for there are many possibilities which will be discussed and debated throughout the duration of the conference. What this article does do however, is to reflect on some of the more common leadership mistakes identified by the National Treasury through its monitoring and oversight role and use this as a basepoint for making a few useful suggestions:

*Transformational leadership is not about inspiring and encouraging followers to be unethical and immoral* – there are a number of cases where local leaders have utilized their inspirational abilities to the detriment of the municipality – contriving schemes and plans that have seen previously well-run, financially stable municipalities now on the brink of collapse.

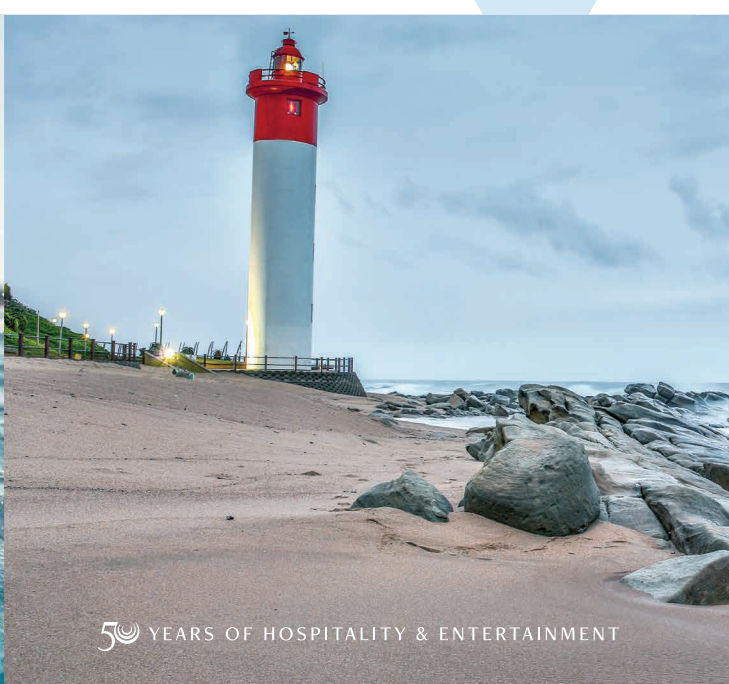
*Transformational leadership is not about a title, status or position* – Leaders in local government should not construe titles or positions to mean an abuse of power. The law (MFMA) is clear on the fiduciary duties and the separation of leadership roles in the municipality.


*Even if it is legal, question its morality.* There may be instances where actions can be technically legal, but a transformational leader will also question if the action is moral. If in doubt, ask. The National Treasury is always available to assist.

*Utilise provisions in the legislation to practice transformational leadership.* Not all people are born leaders. Some leaders are made. The MFMA provides a number of opportunities to put into practice the qualities of a transformational leader. Practice authentic public consultation not tokenism, prepare a budget for which you have adequate funding – in this way you know you are capable of delivering on promises, make public the performance of the municipality through regular and honest reporting – give effect to the meaning of a democratic local government. Appoint the right people to the right positions for the right purposes.

*Act with integrity, honesty and trust.* Although the MFMA has mechanisms to prevent fraud and corruption, the nature of reporting is usually reactive. It is therefore not always possible to detect fraud and corruption before it happens. A transformational leader will inspire others through their sense of integrity, honesty and trust – an internalization of their personal values and moral identity. If you are trusted and respected, people are more likely to be inspired by your actions.

***A functioning, robust democracy requires a healthy, educated, participatory followership, and an ethically, morally grounded leadership***  
– Chinua Achebe





## Experience life.

Experience your perfect escape for business or leisure the next time you visit Durban.

Our Durban hotels are perfectly located on the famous Golden Mile beachfront and the shopping mecca of uMhlanga Ridge providing the ideal base when visiting the city with an endless summer.

To find out more about our great deals visit [tsogosun.com](https://www.tsogosun.com)



## PUBLIC SECTOR SUPPLY CHAIN MANAGEMENT – IMPROVING THE PROCUREMENT OF GOODS AND SERVICES

Supply Chain Management (SCM) refers to the process of acquiring goods & services which involves the drafting of specifications of bids (tenders or quotations); advertisement of bids; evaluation of bids and adjudication of bids. Each public institution is required by the Public Finance Management Act (PFMA) or Municipal Finance Management Act (MFMA) and Treasury Regulation (TR) to establish a supply chain management unit in order to implement its supply chain management policy. This policy must implement a procurement system that is equitable, fair, competitive, transparent and cost effective. Therefore, to comply with these legislative requirements, each institution is required to establish three committees namely, Bid Specification Committee (BSC), Bid Evaluation Committee (BEC) and Bid Adjudication Committee (BAC).

The most common challenges identified in the audit of the SCM include, but are not limited to, the following:

- The adopted SCM policy not in line with the legislation;
- Lack of adequate reviews on SCM policies to ensure compliance with the legislation;
- The composition of the established SCM committees not in line with the legislation;
- The SCM committee members not provided with training to enable them to discharge their responsibilities within the ambit of the legislation;
- Approved deviations that constitute irregular expenditure due to the nature of reasons for deviations;
- The procurement of goods & services from the suppliers that excessively charge their pricing;
- The overriding of internal controls designed to ensure compliance with SCM policy;
- Inadequate review of bid documents and relevant supporting documents submitted by bidders; and
- Failure to implement the policy to rotate service providers on the services such as catering; printing; sound hiring etc.

The above mentioned challenges have been identified mostly through the audit and have led to identification of irregular expenditure. In the municipal environment, the lack of training provided to council members has led to the condonement of irregular expenditure where an accounting officer has failed to exercise his/her duties as prescribed by the MFMA. Similar instances have been identified in respect of wasteful expenditure, where the municipal council has condoned wasteful expenditure and yet an official responsible within the municipality has not exercised reasonable care to avoid such expenditure.

Therefore, supply chain management has been identified as a critical tool to reduce fraud & corruption. The fraud & corruption hotline and whistle blowers hotline (0800 701 701) was established and public servants have been encouraged to report suspected fraudulent activities, however, this avenue has not been yielding results due to lack of evidence as a result of controls being overridden.

Through auditing and consulting work, we have improved the procurement processes for government institutions especially in respect of municipalities. We design procedures that seek to identify control weaknesses in the supply chain management process and make recommendations to management. We assist institutions in drafting their action plan to improve the supply chain management process.

A sound supply procurement process will have the following benefits to the government institutions:

- Good-quality service delivery with a significant improvement in the lives of South African citizens and especially the poor who rely heavily on government for support;
- Goods & services procured at cost effective prices;
- The economy will grow as economic infrastructure is expanded and efficiently maintained;




MNB has extensive experience in supply chain management from different government departments and municipalities since its existence in 2011. MNB also has qualified professionals to carry out its duties in bettering and improving the nation.

Visit the MNB Chartered Accountants stand at this conference for assistance and we will be glad to devise a suitable pricing plan that meets your business needs.

Article By : MNB Chartered Accountants Management Team  
Tel : 0110259908  
Email : [info@mnbca.co.za](mailto:info@mnbca.co.za)  
Website : [www.mnbca.co.za](http://www.mnbca.co.za)


We have offices in Gauteng, Mpumalanga, North West and Limpopo Provinces






# With Every Successful Submission is CaseWare


**7M Municipal Model**




CaseWare produces a full set of mSCOA and GRAP financial statements and Section 71/72 reports




Integrates with 80+ accounting packages including mSAP for specific vendors




Clear leaders in the industry with 20+ years experience



Sort out your compliance reporting challenges in one solution



Trusted by over 200+ municipalities



[www.casewareafrica.com](http://www.casewareafrica.com)





# “Rethinking funding options for delivering public service infrastructure”

By Standard Bank

“Municipalities can bolster their delivery of public sector infrastructure by engaging private sector institutions such as banks to find creative solutions to meet their funding requirements,” says Khwezi Tiya, Head: Public Sector, Corporate and Investment Banking.

The National Development Plan pegs South Africa’s infrastructure spending needs at over R800 billion. There has been much discussion on the need for private sector funding to boost infrastructure development in South Africa. In his State of the Nation Address in June this year, President Ramaphosa stated that government has set aside R100 billion to seed the Infrastructure Fund. He stated, “Our new approach to infrastructure development is based on stronger partnerships between the public and private sectors.”

Municipalities lie at the centre of infrastructure development, with national government making various interventions from the Municipal Infrastructure Grant to the Integrated Urban Development Grant to improve infrastructure delivery. Despite this the funding shortfall remains. Municipalities should consider alternative ways to finance these capital projects.

Sherrill Byrne, Executive for Power and Infrastructure, in the Investment Banking division of Standard Bank says, “Besides direct lending from banks and other financial institutions, there are multiple options available to fund public infrastructure, including utilising debt capital markets (DCM) and project financing.”

Debt Capital Market investors, internationally, have been playing an increasing role in the funding of long-term project financing. To date only 4 out of the 257 municipality have issued bonds – Cape Town, Tshwane, Johannesburg and Ekurhuleni. Typically bond market issuance is available to stronger municipalities and would require an external rating. However, DCM funding is not always suitable for construction financing as it may attract a higher risk and is linked to a negative carry in that the bond is usually raised for full value of capex, while capex is typically spent over a 2+ year construction period. The alternative is to do a “bank to bond” or a “bank and bond” financing, both with their own set of advantages and disadvantages.

Project Finance Lending is possible for any transactions where the revenues can be ring-

fenced. This could be for projects where the additional revenue streams can be separated or where a portion of revenues can be set aside to provide the pool of funds for the revenue contract.

There are numerous benefits to utilising project financing. These include ring-fencing debt and the possibility of longer tenors; also, interest payments and amortisation of the loan only begins after revenue generation begins – this leads to better alignment of cash flows (direct lending interest still needs to be serviced during construction). There are also stricter controls around capex spending and stronger construction contracts. The possibility of third party checks and balances also make this a more viable option, as is the ability to sub-contract the project to third party owners.

Other considerations to note around project financing include the need for due diligence which makes this a slower process and this type of financing is usually more expensive.

Quasi-project financing is where a loan is provided against the balance sheet of the municipality, but uses the principles of project finance to derisk the infrastructure investment. The main elements of this type of transaction include lending off the back of cash flows, extensive due diligence, and payment based on progress of the project. Quasi-project finance is ideal for infrastructure investment where the municipality wants to benefit from the additional controls and due diligence, keep the asset on balance sheet and can be utilised to maximise lending capacity/appetite. It is also a good alternative for “new” infrastructure investment in which the municipality does not have capacity to execute.

Another option to consider is Export Credit Agency Lending (ECA). ECA finance can be a cheaper alternative when compared to traditional commercial bank debt and other sources of funding, although various factors will impact the assessment of the overall cost of ECA financing.

One of the core reasons that municipalities are unable to utilise the funds at their disposal is the lack of skills, especially in smaller municipalities. Government is addressing this through the allocation of District Technical Support Teams. One of the advantages with Project Finance and Quasi-project Finance is that the municipality will not have the challenge of putting the whole project together, as the Engineering, Procurement & Construction Management, Energy Performance Contracts and other required resources can be incorporated into the project requirements. The other benefit of making use of either of these options is that they lend themselves to a solution that is aligned to a multi-year budget framework, and may not need all the money in a single year’s budget for a project.

Municipalities have a number of funding options available, which can be used in enhancing the delivery of public infrastructure. Existing partners, including banks, can be engaged to determine creative solutions to meet municipalities infrastructure service delivery needs. It is vital that municipalities consider structuring different forms of financing in the planning process. Municipalities can benefit by deliberating on these options prior to the issuing of RFPs. This can also include RFIs to generate possible options.

“The delivery of infrastructure development in our country will require the consideration and adoption of an approach that is different to the historical funding method. A healthy balance of own, grant, and private sector funding, combined with the appropriate capacity, skills, and experience will be key to achieving this,” says Natalie Neves-Oakes, Head: Public Sector, Personal and Business Banking.

Rethinking funding options is vital to South Africa meeting its infrastructure delivery needs.





# FLEET SOLUTIONS



**LEASING AND FINANCE**

**MAINTENANCE AND REPAIRS**

**ROADSIDE ASSISTANCE**

**ACCIDENT MANAGEMENT**

**INSURANCE**

**PROCUREMENT**

**FLEET ADVISORY**

**FUEL AND TOLL SOLUTIONS**

**TECHNICAL CALL CENTRE**

**FLEET MANAGEMENT SYSTEMS & TECHNOLOGY**

**TYRE MANAGEMENT**

**TRAFFIC FINE MANAGEMENT**

**TRACKING & MONITORING**

**DISPOSALS**



**FLEET SOLUTIONS**  
**HORIZON**

Contact: 087 012 5027 | Email: [info@fleethorizon.co.za](mailto:info@fleethorizon.co.za)  
Website: [www.fleethorizon.co.za](http://www.fleethorizon.co.za)

## MUNSOFT

municipal financial software

**Integrated Financial Management & Internal Control Solutions for Local Government**

Munsoft is the pathway to improved governance, administration and better financial management at municipalities.



Tel. 011 215 8000 | Fax. 011 215 8019 | Email. [info@munsoft.co.za](mailto:info@munsoft.co.za) | [www.munsoft.co.za](http://www.munsoft.co.za)



# “The State of South African Municipalities 2019”

By Yusuf Aboojee –  
Group Head: Strategy & Special Projects –  
Transaction Capital Recoveries (Pty) Ltd

A few months ago our President introduced his plans for a New Dawn. One of the major focus points in improving the state of our economy specifically addresses the constraints on public finances. The finances of metropolitan and local municipalities play a major role in this dilemma.

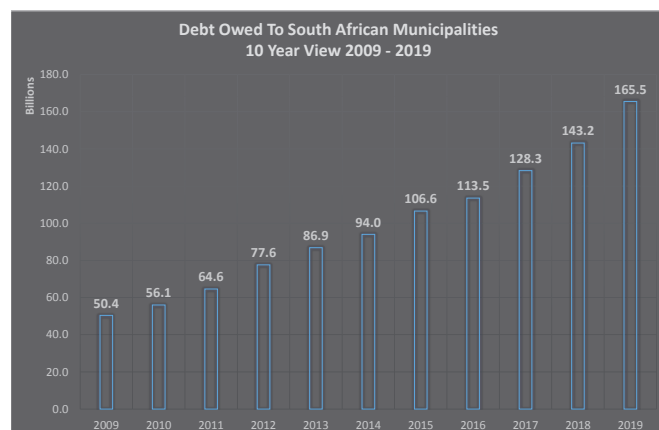
This is a rather broad statement and to better understand the impact of municipalities on government finances, we should take a look at the current debtors book owed by the consumers of municipal services.

The total arrears owed to Municipalities at the end of July 2019 amounts to approximately R165.5 billion. Just to emphasize the magnitude of this debt, the figure is R165 500 000 000. Imagine how many houses can be built, how many roads can be tarred and how many sewerage systems can be fixed with this huge sum of money. It also impacts on the dire state in which Eskom finds itself.

Furthermore, this represents a 16% increase compared to a year ago and even shows an increase from the annual average growth in debt of 12%. It is also the highest year on year increase since the 20% annual growth in debt owed to municipalities experienced between 2011 and 2012.

This statistic alone demonstrates the current state of the South African economy as a whole and the huge growth in debt of the state. Consumers as well as municipalities are experiencing this pressure.

Figure 1: Source - National Treasury



Residential and Commercial entities in the Free State, North West and Mpumalanga Municipalities have been the biggest culprits of non-payment. Debt owed to Municipalities in these provinces increasing by 56%, 30% and 23% respectively compared to July 2018. These are followed closely by debt owed to Municipalities in Limpopo and KwaZulu Natal which

increased 20% and 19% respectively compared to 2018.

Debt owed to Municipalities in Gauteng, Eastern Cape, Western Cape, and Northern Cape all increased lower than their averages over the last decade. The biggest success story is the Western Cape – debt owed to Municipalities in this province increased 0.4% compared to 2018, way below the average 8% annual growth in debt that the province was experiencing in the last decade.

When we delve deeper into the state of the provinces with the highest growth rates in terms of debt owed, namely the Free State, North West, and Mpumalanga; we start to notice a trend. This trend includes increasing unemployment, allegations of corruption and political infighting, low growth environments, and declines in key sectors that previously contributed to economic growth.

According to data from Stats SA, the official unemployment rate increased by 1.4% from 27.6% in the first quarter of 2019 to 29.0% in the second quarter of 2019. The official unemployment rate increased in six of the nine provinces, with the largest increase in Limpopo (up 2.2%) and Free State (up 2.0%) and Eastern Cape (up 1.3 %). In the traditionally metro provinces, Gauteng, Western Cape and KwaZulu Natal unemployment rates remained relatively flat.

However, the truth is that rising unemployment is contributing to increasing economic pressures which directly impact on the ability of consumers to pay on their current and outstanding obligations. Nevertheless, there are consumers of municipal services who simply try to get away with the proverbial murder.

With specific regard to the traditional high employment industries, there has been a decrease in employment trends. It is important to note that these industries employ the majority of unskilled and semi-skilled employees who make up the majority of the labour force. The table below provides a comparison between 1994 and 2019.

	1994	2019
Total Labour Force	20.9 million	38.4 million
Total Employed	8.0 million	16.3 million
% of Population	38.2%	42.4%
Manufacturing	1.2 million (15.4%)	1.8 million (4.7%)
Construction	0.35 million (4.4%)	1.4 million (3.5%)
Agriculture	1.4 million (18.1%)	0.84 million (1.9%)
Mining	1.0 million (12.7%)	0.38 million (1.0%)

The total labour force increased from 20.9 million in 1994 to 38.4 million in 2019. Employment figures in the sectors mentioned dropped from 19.8% in 1994 to 11.5% in 2019. This is a potential net loss of 3.2 million jobs lost to these sectors in present time. Most of these are due to a lack of demand and lower importing costs of goods. Furthermore, the negative influence of technology on employment should be kept in mind. These and many other factors lead to an increase in financial distress for consumers.

To summarise, rising unemployment and poor economic growth are contributing factors to rising debt owed to municipalities and the increasing financial difficulty experienced by consumers. However

it is not all doom and gloom. In the latest quarter on quarter economic there was a 3.1% increase in economic growth. This is way above what economists were expecting.

There are recoveries in the mining and manufacturing industries. The construction industry is expected to grow for the next two quarters leading to an increase in employment opportunities. This is good news for the financially distressed consumer, and over the short term, it is also potentially good news for municipalities who should be able to collect some of the outstanding arrears owed to them.





# HOW TO ONCE MORE ACHIEVE ECONOMIC GROWTH

By Dr Krish Kumar

CIGFARO Board Member

## INTRODUCTION

Our economy is generally in a very precarious position. It is characterised by extremely low and even negative growth rates in some quarters. Although we saw an upsurge in economic growth in the second quarter of 2019, the annual growth rate is still far too low to achieve the goals of the National Development Plan.

Based on the narrow definition of unemployment, there was an increase to 29% in June 2019 from the previous figure of 27,6 in the first quarter. Based on the broad definition, the unemployment rate is now a staggering 38%. Analysts suggest that this is a more realistic and reflective unemployment rate. The situation is being exacerbated by the advent of smart technologies and artificial intelligence which has resulted in the retrenchment of thousands of employees. The recent retrenchments in the banking sector is a case in point.

We must also appreciate that there are no quick fixes to growth as confidence only translates into growth, if followed by concrete actions. Accordingly, growth is likely to remain below 2% for at least the next two years.

## THE FUNDAMENTALS

According to Finance Minister, Tito Mboweni, we need to ensure that the following fundamentals for economic growth are in place:

- Increase the supply of capital - creating an investor-friendly environment supports the platform for growth. By providing policy certainty, lowering the cost of doing business and reducing redtape, the supply of local and foreign capital should increase
- Increase the supply of skilled labour - every skilled job creates between 2 and 4 semi-skilled or unskilled jobs. There should be a bias towards labour rather than capital. Facilitating high-skilled immigration, re-orientating incentives, including tax incentives, and consolidating government's employment support to proven interventions. The demands of labour unions have in recent years discouraged employment in the formal sector
- Improve know how – this supports an export-orientation. Boosting the competitiveness of key sectors (such as energy and transport), increasing investment in R&D in line with National Development Plan targets and reviewing the intellectual property regime, makes sectors of the South African economy more resilient and internationally competitive. Government support of innovation is essential.

## AN INCLUSIVE & SUSTAINABLE GROWTH STRATEGY

We need to embrace and implement the new inclusive and sustainable growth strategy which is based on the following five pillars:

- **Pillar 1:** Implementing the revised Industrial Strategy in support of key growth sectors.
- **Pillar 2:** Establishment of the Infrastructure Fund with a clear plan to revive infrastructure investment.
- **Pillar 3:** Interventions to ease the cost of doing business.
- **Pillar 4:** Supporting small business and competition.
- **Pillar 5:** Strengthening the macro-economic framework.

The reform of state-owned enterprises (SOEs) needs to be urgently addressed.

## WHAT CAN MUNICIPALITIES DO?

The private sector is the engine of economic growth of a country. However, municipalities can supply the necessary fuel for such engines to perform efficiently and effectively. No private sector enterprise can perform when infrastructure services such as water, sanitation and electricity limit the competitiveness and growth of such an enterprise. Accordingly, whilst national and provincial government have an important role to play in terms of developing strategies and sorting out the issues relating to the SOEs, municipalities are critical in building business confidence by supplying a sound local base to work from.

Very briefly municipalities should consider:

### • Enhancing Productivity

Research clearly shows that in countries with low productivity, there is low investment, especially foreign direct investment. We need to attract new investment to grow our economy. Hence, improving productivity is critical.

According to the South African Reserve Bank's (SARB) labour productivity index between 2010 and 2016, labour productivity decreased by 0.1%. In terms of the 'pay

for productivity' concept, this suggests that the marginal cost of employing staff is increasing at a faster rate than the marginal revenue (productivity). Consequently, unemployment also increased during this period. This is not sustainable.

Moreover, our Global Competitiveness rating worsened from 44th in 2007 to 61st in 2017. In comparison other African countries have improved their ratings over the same period, such as Kenya, Rwanda and Mauritius.

### • Improving Value For Money

Ensuring value for money is key to ensuring that we get bang for buck. Benchmarking is key to this. We need to ensure that we are not over-paying for goods and services. For example, is the cost of building a house per square meter similar in Durban, Cape Town and Johannesburg?

Adhering to preset standards and quality is essential.

In providing value for money some of the following should be borne in mind:

- Doing things differently, being innovative, thinking outside the box
- Adhering to preset standards and quality
- Ensuring effective and efficient procurement

### • Eradicating Fraud and Corruption

Corruption is a key issue when it comes to value for money. It is estimated that South Africa loses about R25 billion each year to corruption in government procurement. This may lead to the provision of goods and services that are not needed, or more especially cost inflation – where costs are inflated illegally to the benefit of the supplier or contractor.

Business International's Corruption Index indicates that more corrupt countries experience significantly lower investment rates because of a negative relationship between corruption and investments. Economists have estimated that a corrupt country is likely to achieve aggregate investment levels of almost 5% less than a country that is relatively 'uncorrupted'.

According to the Deputy Director of Public Prosecutions, state capture amounted to R1.5 trillion over the past 4 years and has wiped out a third of South Africa's R4.9-trillion gross domestic product. This does not even take into account the costs relating to loss of trust, reputation and opportunity.

It is essential that consequence management is applied by municipalities as the Auditor General deplores the fact that only half of all municipalities follow up when fraud or corruption is identified.

### • Creating a Conducive Environment for Investment

Business can ill-afford interruptions in the supply of municipal services. Supporting small business and start-up's is critical. Crime is another key issue that needs to be addressed as this is one of the biggest risks to business. We also need to ensure that we improve the ease and cost of doing business in our municipalities and provinces. It is essential that sufficient infrastructure investment takes place and that maintenance ensures continued functionality.

### • Investing in Tourism & Agriculture

In order to promote labour-intensive sectors, such as tourism and agriculture, there should be a focus on upskilling labour as our unskilled labour has become expensive.

Agriculture plays an important role in creating economic opportunities in rural areas. A 1% increase in GDP due to agriculture increases income to the poorest by 6%. We need to create opportunities for emerging farmers in the domestic market, leverage PPPs, and expand water for irrigation.

Tourism is also important as every million Rand increase in the demand for tourism services creates four new jobs. A municipality needs to determine how it can better support local tourism industries through transport hubs, air traffic and other logistical capacities.

## CONCLUSION

According to Northouse\* transformational leaders often possess qualities that revolve around values, ethics, emotions and long term goals. Such leaders use a charismatic, visionary and persuasive style of leadership that involves motivation and inspiration. The transformational leader requires followers to transcend their own interests to uphold the interests of the organization by focusing on future and long-term goals instead of short-term satisfaction.

The right organizational culture and the right leadership are the two of the main factors that impact on the ethics of an organization and its people. A transformational leader is required to exert his or her organizational ethical culture on employees who will in turn make decisions that reflect the leader's values and therefore the organization's values.

We urgently need transformational leaders to once again encourage economic growth in South Africa.

- Northouse P G, Leadership: *Theory and practice*, Seventh edition, 2016

