NATIONAL TREASURY
REPUBLIC OF SOUTH AFRICA

ADDRESS

At the

IFRS CONFERENCE

By

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I would like to thank you for the honour and privilege accorded to me to address this august gathering. This happens against the backdrop of exciting developments in the world economy as countries emerge from the recent crippling economic crisis. As we know, the effects were devastating and far-reaching, and I believe it is not being melodramatic to suggest that the world will never be the same again. Governments, economic experts, and those who watch with interest, all now look for strategies to prevent a reoccurrence of the unfortunate events that plunged the world into crisis. There is no doubt that unchecked opportunism by financiers and an unquenchable thirst for profits led to the collapse in the United States and that had a domino effect across the world.

Lessons have been learnt; governments have taken action, and have had to keep a vigilant eye to ensure that this does not happen again. In this regard, the pervasive message has been that “global problems require global solutions”. At their last meeting in Toronto, Canada, the G20 Finance Ministers and Central Bank Governors resolved to confront this issue head on. Among others, the following observations were made and decisions taken:

- The importance of achieving a single set of high quality improved global accounting standards was re-emphasised. Leaders urged the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board to increase their efforts to complete their convergence project by the end of 2011.

- Leaders encouraged the IASB to further improve the involvement of stakeholders, including outreach to emerging market economies, within the framework of the independent accounting standard setting process.

All these efforts are aimed at achieving transparency and dissuading behaviour that may compromise efforts to achieve greater compliance. As Professor Mervyn King says, "'Transparency is the cornerstone of good governance. It has a withering effect on misconduct."

As a member of the IASB, South Africa has played a pivotal role in ensuring that this happens. There is undoubtedly room for the participation of more stakeholders, but while that battle is being fought, the developing world has to ensure that solutions proposed also recognise their particular country conditions. Developing countries must have a strong voice at the IASB. I would suggest that we need to first and foremost support organisations such as the East and Southern African Association of Accountants General (ESAAG) which is a cooperative effort between Accountants General in the region.

ESAAG and similar organisations across the continent provide forums to review and discuss comparative experiences and to assist and improve government accounting systems in order to produce financial statements according to international standards. It is through these and other forums that I think we should lobby for an audible African voice in bodies like the IASB and the International Public Sector Accounting Standards Board.

In our own country, the 2004 World Bank and International Monetary Fund Report on the Observance of Standards and Codes concluded that the lack of legal backing for accounting standards and inadequate enforcement mechanisms was a major challenge for South Africa. This resulted in a review and amendment of the Companies Act. Companies are now required to use the International Financial Reporting Standards (IFRSs) for financial reporting purposes (with the exception of limited interest companies that may apply the IFRS for SME's). Compliance will be monitored and enforced by the Companies and Intellectual Property Commission.

This move to reporting using the IFRS was to ensure that our capital markets are accessible to foreign investment. However, in a developing country the primary users of financial statements are often creditors, owner-managers, tax authorities and so on, and preparing financial reports to standards that primarily focus on equity investment decisions may not be as useful to them. These financial reports are also prepared at a very high cost to the entity.

It is imperative for all countries to be on par with global trends in addressing the ills that have affected the world's economies in recent times. South Africa, and indeed Africa more broadly, finds itself with a great challenge of competing in a globalised environment with countries taking aggressive steps to become more competitive. South Africa has the added challenge of addressing the massive social and economic deficits that are a legacy of apartheid. The major challenge is to ensure that the economy sustains higher growth, and that this growth translates into more jobs being created, poverty being reduced and a more equitable distribution of income. To put things in perspective, at this stage one-in-four South Africans are unemployed, and the majority of these are young, less skilled and less educated, and have little or no previous work experience.

Government has undertaken important initiatives to improve the situation, and indeed much has been done. Using various measures, poverty levels have declined during the last few years, assisted by stronger growth in employment and expansion in social grant expenditure. However, too many people are still poor. Estimates using data from the Income and Expenditure Survey shows the share of the population living on less that R283 per month poverty line declined from 38% in 2000 to 22% in 2008. With the recent crisis bringing low productivity and negative economic growth, the gains we have made have been reversed.

Finance Minister Pravin Gordhan has recently said that South Africa needs to raise growth to about 7% per year over the next 20 years to create 5 million jobs and reduce the unemployment rate to 10%.

To achieve this, we will need a variety of measures to be put in place. We need to make sure that our policies provide the right incentives to stimulate the kind of long-term foreign investment that we desire, not just the short-term portfolio inflows that we have been receiving lately. Foreign Direct Investment (FDI) is an important conduit through which foreign technologies and expertise can be transferred to the economy. It can also introduce new competitive forces in the domestic market, lower prices, finance investment and shake up old business practices.

To achieve much faster economic growth, South Africa must become more competitive, and to ensure this we must improve our productivity. Countries that are more productive tend to grow faster and raise the standard of living of their people. This makes productivity growth a fundamental objective of economic policy. Nobel prize-winning economist Paul Krugman stated that “Productivity isn’t everything, but in the long run it is almost everything. A country’s ability to improve its standard of living over time depends almost entirely on its ability to raise output per worker.”

The recently released Investment Climate Survey (ICA) from the World Bank/DTI showed that while FDI inflows into South Africa have improved since the 1990s they remain below volumes flowing to countries such as Chile, Thailand, China and Malaysia. Inward FDI to South Africa averaged 1.7 % of GDP in the period 2000-2006, while the average for Chile, Thailand, China, and Malaysia was between 3% and 6% of GDP.

As we have seen with a few of the FDI deals that have recently been announced, foreign companies also see South Africa as an important stepping stone into the rest of the African continent. There are therefore important regional benefits to raising investment into South Africa too.

In conclusion, with the prognosis looking as we have sketched it, it is clear that your industry has an important role to play, not only in South Africa but in Africa broadly. We are encouraged by the proposals advanced in the recent IFRS Foundation's constitutioin to commit to a 'principle-based' approach, in which the Constitution will call for IFRSs 'based upon clearly articulated principles'. In the same document the Foundation has committed to improved language to take account of a broad range of stakeholders, both by type and location. The Constitution will note the need to 'take account of, as appropriate, the needs of a range of sizes and types of entities in diverse economic settings'. While this is good news for all, especially those who are on the margins, we need to ensure that the we embed some of these principles in our own contexts.

It is no secret that a sound accounting and reporting framework and compliance thereto encourages investors. If they are happy with a framework, they know that their investments are guaranteed and it eliminates anxiety about governance lapses. It also assures them that the state will not unduly interfere safe to ensure that there is compliance with the prescripts as laid down in the country.

Thank you.