PERSONAL
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COMMENT

THE POWER OF YOUR VOTE

Why ordinary South Africans should act as shareholders in the governance of SA Inc.

Picture credit:
Independent Electoral Commission

PARMI NATESAN

AS PRESIDENT Cyril Ramaphosa, in accordance with constitutional provisions, declared 29 May 2024 as the date for the 2024 General, National, and Provincial elections, it becomes imperative to recognise the profound significance of every South African's vote.

In the corporate world, shareholders play a pivotal role in shaping the destiny of a company. Through their investment, they have an interest in the company, which they need to protect by assuming an active role.

Their power to appoint the board of directors reflects a fundamental principle: the right to choose ethical and effective leaders who will act in the best interests of the company.

In the same vein, in the context of a national election, South African voters can loosely be equated to the 'shareholders' of their nation, with the power to vote for members of parliament (effectively South Africa's 'board of directors')—which ultimately results in the appointment of a chief executive officer, or CEO (president), and their executive team (ministers).

This analogy underscores the importance of every citizen's vote in shaping the destiny of our country.

The board of directors:

Parliament's crucial role

Parliament, serving as the board of directors of SA Inc., holds a pivotal position in the governance of the nation. Much like a corporate board, it should craft policies, pass legislation, and oversee the performance of the CEO and executive team.

The buck stops with parliament when it comes to the performance of the country. Members of parliament, as stewards of the nation's interests, must deliver on their commitments.

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By holding parliament accountable for the country's performance, voters reinforce the idea that parliamentarians must actively work towards the betterment of the nation, and that their actions directly impact the well-being of the citizens.

The CEO:

The president's leadership mandate

The president, analogous to the CEO of SA Inc., assumes the leadership role responsible for executing the policies and decisions set by the board (parliament). The president should also play a pivotal role in setting the tone for ethical and effective leadership throughout government.

In addition, the president is entrusted with the responsibility of holding ministers accountable for their performance. Similar to a CEO managing an executive team, the president should evaluate the effectiveness of each minister, ensuring they align with the overall vision and objectives of the nation.

If a minister falls short in delivering results or deviates from ethical standards, the president should take decisive action, including the removal of that minister if necessary. This accountability mechanism is essential for maintaining standards of performance.

The executive team:

Ministerial roles and responsibilities

Ministers, resembling the executive team in a company, oversee specific portfolios critical to the nation's well-being. Whether it's healthcare, education, or finance, ministers are tasked with formulating and implementing policies that directly impact citizens' lives. This executive team must be composed of individuals with expertise, commitment, and a genuine dedication to serving the public interest.

In the corporate world, executives are answerable for how money is spent within their departments, ensuring efficiency and prudent financial management. Similarly, ministers must be held accountable for the allocation and utilisation of public funds within their respective domains.

This fiscal accountability is essential to ensure that taxpayer money is invested wisely, yielding tangible and equitable outcomes for the citizens. Just as boards scrutinise a company's financial performance, parliament should assess ministers based on their ability to deliver results within budgetary constraints.

Transparent reporting and accountability mechanisms in government are vital to ensuring that the executive team operates responsibly, aligning their actions with the broader goals of the nation.

South Africa's 'boardroom'—Parliament House, Cape Town
Picture credit: Wikimedia Commons

Accountability:

A cornerstone of effective governance

In both the corporate and governmental realms, accountability is paramount. The board (parliament), the CEO (president), and the executive team (ministers) must be held accountable for their actions and performance.

Shareholders—or, in this case, citizens—possess the power to demand transparency, ethical conduct, and tangible results. When accountability mechanisms are robust, it ensures that leaders are responsive to the needs of the people and act in the best interests of the nation.

The importance of voter engagement

Statistics from previous elections reveal a concerning trend—a significant number of eligible voters abstain from participating in the democratic process for various reasons, including dissatisfaction with political options, protest of disapproval, lack of trust in the political system, and apathy or indifference.

Unfortunately, this lack of engagement undermines the very essence of democracy, as the power to appoint leaders lies with the citizens. By not exercising their right to vote, individuals neglect their responsibility as 'shareholders' of the nation, diminishing their impact on the 'board's' composition and the selection of the 'CEO' and 'executive team'.

Conclusion

In the corporate world, responsible shareholders understand the impact of their votes on the company's trajectory.

Similarly, every South African citizen holds the key to the nation's future in their hands during elections. By recognising their role as shareholders, citizens can ensure the appointment of ethical and effective leaders, contributing to the growth and prosperity of SA Inc.

Don't waste the power of your vote—be an active shareholder in the governance of your country, and drive the positive change you wish to see.

Parmi Natesan, chief executive officer, Institute of Directors in South Africa .

TAXES: THE ONLY WAY IS UP, BABY!

National Treasury has managed to increase taxes by doing … well, nothing

STEVEN JONES

ONE OF former British prime minister Sir Winston Churchill's most famous wartime sayings was on 20 August 1940, when he stood up in the British Parliament and said that "Never in the field of human conflict was so much owed by so many to so few".

With sincerest apologies to Mr Churchill, and with no intention of belittling the effort and sacrifice of those who served during World War 2, a similar saying can be attributed to the team at National Treasury who put together this year's Budget.

For never in the field of national budget has so much tax been raised by doing so little.

Some of our more eagle-eyed readers looking at the personal tax tables that appear below (right) will note that the proposed tables for 2024/25 are identical in every way to those applicable to 2023/24. No, this isn't a typo, and you're not seeing double—the tables for the two years are exactly the same!

BUDGET Highlights

No change to personal income tax brackets, rebates and medical tax credits.

Increase of between **6.7 and 7.2%** in excise duties on alcoholic beverages.

Increase of between **4.7 and 8.2%** in excise duties on tobacco products.

No change to the general fuel levy and road accident levy.

Plastic bag levy to increase to **32 cents** per bag from 1 April 2024.

Global minimum tax at **15%** applies to large multinational groups of companies from 1 January 2024.

Two-pot retirement reform to be implemented on 1 September 2024.

Electrical and hydrogen-powered vehicle tax incentive to be introduced for manufacturers in 2026.

Dig a bit deeper, and you'll find that the adjustment to the medical tax credits is also a nice round number – zero.

And yet somehow, by doing absolutely nothing, National Treasury is expecting to raise an extra R18.2 billion in personal income tax during the 2024/25 tax year. Now I don't know about you, dear reader, but I would **love** to find a way of making money by doing nothing!

How is this even possible? Well, it's all down to that phenomenon known as 'fiscal drag'.

No, this is not a description of how boring this year's Budget speech was (although, with this being the 21st year I've covered the Budget in **Personal Finance** and **Tax Breaks**, the 2024 version has got to be the one that has left me with the least to share)—instead, it's the impact of inflation.

To give you an idea of how fiscal drag works in practice, here's an example:

2024
BUDGET

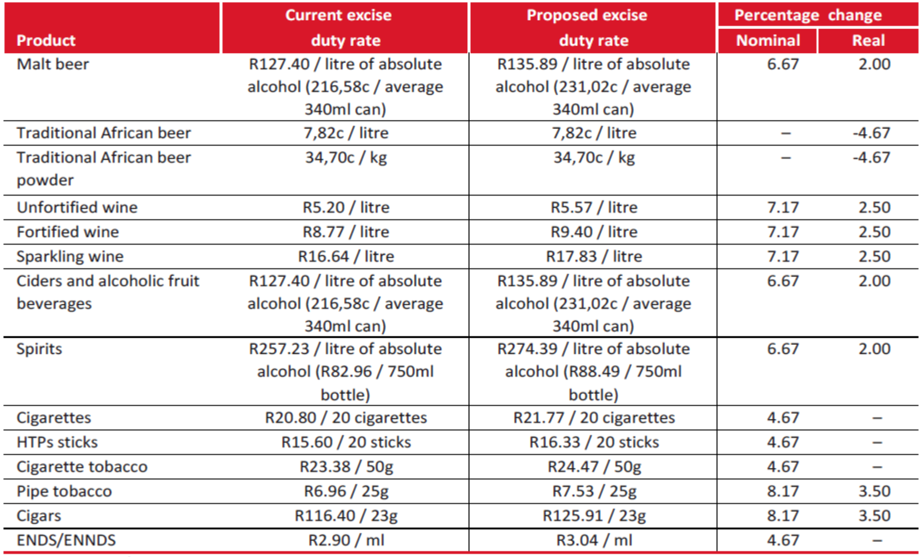
- Suppose you are a senior manager in a corporate, and are currently earning R50 000 per month, or R600 000 per annum. Adding your 13th cheque will take you up to R650 000.
- Ignoring any contributions to retirement funds, a medical scheme, or UIF, your tax liability will be R153 632 according to the 2023/24 tax tables, making your take-home pay for the year R496 368.
- Now assume that your company grants you a salary increase equal to the rate of inflation. While the applicable rate is a moving target due to the passage of time, your shopping pattern, and the 'mix' of goods and services that make up your personal 'basket', the 'sin tax' table (*see Page 4, top left*) is assuming that inflation will be 4.67%.
- Applying 4.67% to your current salary package will put you up to R680 355.
- In an ideal world you would like your purchasing power to increase—but you know that times are hard, so if you can at least keep up with inflation, that will do for now. This means that you'd want your take-home pay

Table 4.4 Personal income tax rates and bracket adjustments

2023/24		2024/25	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 - R237 100	18% of each R1	R0 - R237 100	18% of each R1
R237 101 - R370 500	R42 678 + 26% of the amount above R237 100	R237 101 - R370 500	R42 678 + 26% of the amount above R237 100
R370 501 - R512 800	R77 362 + 31% of the amount above R370 500	R370 501 - R512 800	R77 362 + 31% of the amount above R370 500
R512 801 - R673 000	R121 475 + 36% of the amount above R512 800	R512 801 - R673 000	R121 475 + 36% of the amount above R512 800
R673 001 - R857 900	R179 147 + 39% of the amount above R673 000	R673 001 - R857 900	R179 147 + 39% of the amount above R673 000
R857 901 - R1 817 000	R251 258 + 41% of the amount above R857 900	R857 901 - R1 817 000	R251 258 + 41% of the amount above R857 900
R1 817 001 and above	R644 489 + 45% of the amount above R1 817 000	R1 817 001 and above	R644 489 + 45% of the amount above R1 817 000
Rebates		**Rebates**	
Primary	R17 235	Primary	R17 235
Secondary	R9 444	Secondary	R9 444
Tertiary	R3 145	Tertiary	R3 145
Tax threshold		**Tax threshold**	
Below age 65	R95 750	Below age 65	R95 750
Age 65 and over	R148 217	Age 65 and over	R148 217
Age 75 and over	R165 689	Age 75 and over	R165 689

Source: National Treasury

Table 4.6 Changes in specific excise duties, 2024/25



Product	Current excise duty rate	Proposed excise duty rate	Percentage change	
			Nominal	Real
Malt beer	R127.40 / litre of absolute alcohol (216,58c / average 340ml can)	R135.89 / litre of absolute alcohol (231,02c / average 340ml can)	6.67	2.00
Traditional African beer	7,82c / litre	7,82c / litre	–	-4.67
Traditional African beer powder	34,70c / kg	34,70c / kg	–	-4.67
Unfortified wine	R5.20 / litre	R5.57 / litre	7.17	2.50
Fortified wine	R8.77 / litre	R9.40 / litre	7.17	2.50
Sparkling wine	R16.64 / litre	R17.83 / litre	7.17	2.50
Ciders and alcoholic fruit beverages	R127.40 / litre of absolute alcohol (216,58c / average 340ml can)	R135.89 / litre of absolute alcohol (231,02c / average 340ml can)	6.67	2.00
Spirits	R257.23 / litre of absolute alcohol (R82.96 / 750ml bottle)	R274.39 / litre of absolute alcohol (R88.49 / 750ml bottle)	6.67	2.00
Cigarettes	R20.80 / 20 cigarettes	R21.77 / 20 cigarettes	4.67	–
HTPs sticks	R15.60 / 20 sticks	R16.33 / 20 sticks	4.67	–
Cigarette tobacco	R23.38 / 50g	R24.47 / 50g	4.67	–
Pipe tobacco	R6.96 / 25g	R7.53 / 25g	8.17	3.50
Cigars	R116.40 / 23g	R125.91 / 23g	8.17	3.50
ENDS/ENNDS	R2.90 / ml	R3.04 / ml	4.67	–

Source: National Treasury

to be going up to R519 548 to be able to stand still in 'real' (i.e. after-inflation) terms.

- Unfortunately, not only will you end up paying more tax on your increased salary—to add insult to injury, your new salary pushes you from the 36% tax bracket into the 39% one. This will mean a proportionately greater chunk of your bonus going to SARS, for starters.
- Doing the sums, your tax liability for 2024/25 will be R164 780, making your take-home pay R515 575. Taking inflation into account, this means that in real terms you've gone backwards by nearly R4 000!

Now I've ignored medical scheme contributions in this example, but you can guarantee that your medical scheme contributions will increase by way more than 4.67%—if anything, you'll probably be lucky to get away with a 10% hike.

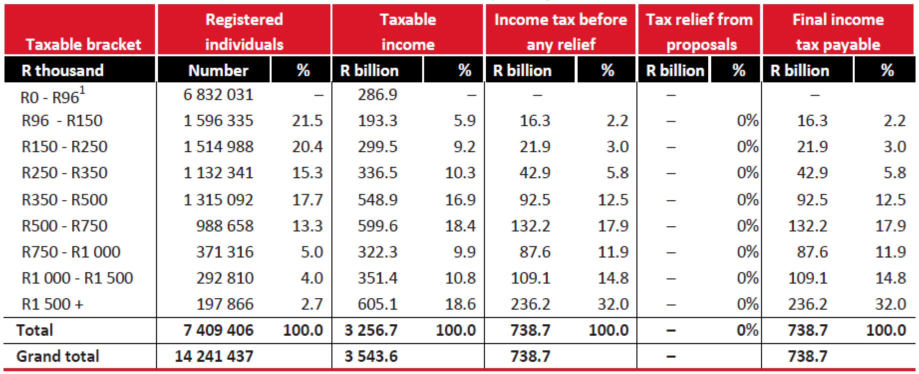
Unfortunately, with the medical scheme tax credits remaining unchanged for 2024/25, you will be left out of pocket one way or another—irrespective of how your salary package is structured.

Now to take your mind off all this, you decide to open up a bottle of your favourite red and sit back in your favourite chair. However, enjoy your existing stash while you can—re-stocking your cellar will be subject to increased excise duty—up to 7.17% in nominal terms (2.50% in real terms).

These inflation-busting 'sin tax' increases will raise an additional R800 million in tax revenue during 2024/25. To make matters worse, the plastic bag in which you carry your drinks and smokes goes up to 32 cents from 1 April 2024.

Still, at least the fuel levies didn't go up. Unfortunately, the carbon tax on fuel, which came into effect from 5 June 2019, is going up a further one cent per litre. Assuming a once-a-week fill-up of a 55-litre tank once a week, an extra R2.38 per month isn't going to break the bank—but these small amounts tend to add up.

Table 4.5 Estimates of individuals and taxable income, 2024/25



Taxable bracket	Registered individuals		Taxable income		Income tax before any relief		Tax relief from proposals		Final income tax payable	
R thousand	Number	%	R billion	%	R billion	%	R billion	%	R billion	%
R0 - R96[1]	6 832 031	–	286.9	–	–		–		–	
R96 - R150	1 596 335	21.5	193.3	5.9	16.3	2.2	–	0%	16.3	2.2
R150 - R250	1 514 988	20.4	299.5	9.2	21.9	3.0	–	0%	21.9	3.0
R250 - R350	1 132 341	15.3	336.5	10.3	42.9	5.8	–	0%	42.9	5.8
R350 - R500	1 315 092	17.7	548.9	16.9	92.5	12.5	–	0%	92.5	12.5
R500 - R750	988 658	13.3	599.6	18.4	132.2	17.9	–	0%	132.2	17.9
R750 - R1 000	371 316	5.0	322.3	9.9	87.6	11.9	–	0%	87.6	11.9
R1 000 - R1 500	292 810	4.0	351.4	10.8	109.1	14.8	–	0%	109.1	14.8
R1 500 +	197 866	2.7	605.1	18.6	236.2	32.0	–	0%	236.2	32.0
Total	**7 409 406**	**100.0**	**3 256.7**	**100.0**	**738.7**	**100.0**	**–**	**0%**	**738.7**	**100.0**
Grand total	**14 241 437**		**3 543.6**		**738.7**		**–**		**738.7**	

1. Registered individuals with taxable income below the income-tax threshold

Source: National Treasury

One small pain for individuals; one giant headache for SA

South African taxpayers will be hurting from this 'nothing' Budget, but South Africa as a whole has far greater cause for concern.

In 2024/25, total budgeted revenue is estimated to be just over R2 trillion (R2.037 trillion, to be exact). As a percentage of Gross Domestic Product, this means that 25 cents out of every R1 generated by the South African economy will end up in SARS' coffers.

Individual taxpayers will directly contribute R738.7 billion of this amount—33.82% of the total budget. However, if that's not enough to be concerned about, the breakdown of who pays what makes for sobering reading.

According to the 2021 census, South Africa has a total population of 59.39 million. Of this total, 14.24 million (23.98%) are registered taxpayers. With just under half of those earning less than the threshold for paying any personal income tax (R95 750 per annum), this leaves just 7.41 million people paying any direct income tax.

Breaking the figures down even further, only 490 676 people (0.83% of the total population) earn taxable income exceeding R1 million per annum, but this group contributes 46.8% of all direct income tax collected—a whopping R345.3 billion.

VAT is the second-largest contributor to the Budget (at R476 7 billion), followed by corporate income tax (R302.7 billion), but it's ultimately individuals who end up paying this tax bill through the price of goods and services that they consume.

With this in mind, please allow me to rephrase my opening quotation from the former British prime minister—for in the context of South Africa, with such a small taxpayer base in comparison to the total population, it's true to say that "never in the meeting of a national budget was so much owed by so many to so few".

South Africa needs to grow its economy, and fast—as this situation is clearly unsustainable.

Steven Jones is a registered SARS tax practitioner, a practicing member of the South African Institute of Professional Accountants, and the editor of ***Personal Finance*** *and* ***Tax Breaks****.*

DIFFERENT BREEDS FOR DIFFERENT NEEDS

The choice is not an RA or a TFSA, since both have their place

MARISKA REDELINGHUYS

THERE ARE different types of people in this world—early birds and night owls, those who read the book and those who wait for the movie, tea addicts and coffee connoisseurs and—famously—dog people and cat people.

Selecting the right pet for you will depend on your circumstances. The same is true with investments.

Deciding on an appropriate tax-efficient investment, such as a retirement annuity (RA) or a tax-free savings account (TFSA), depends on your circumstances. However, you don't have to choose one or the other—both an RA and a TFSA can be included in your financial plan.

This article explores why this is the case.

Different purposes

Retirement annuities are registered retirement funds, and are therefore subject to the same legislation as an employer's pension or provident fund. They are investment vehicles with the specific purpose of helping investors save funds for retirement that will provide them with a regular income after retirement.

RAs are investment vehicles with the specific purpose of helping investors save funds for retirement that will provide them with a regular income after retirement.

TFSAs were introduced to encourage better savings habits in general.

On the other hand, tax-free savings accounts were introduced to encourage better savings habits in general. These investments are offered by institutions such as banks, long-term insurers, and managers of collective investment schemes.

Different features

Although RAs and TFSAs both generate income and offer growth free of tax, they each have unique features which should be considered as part of a holistic financial plan.

Contributions to a retirement annuity fund can be deducted for tax purposes up to the legislative limits (currently 27.5% of the higher of your remuneration or taxable income, capped at R350 000 per tax year).

Under normal circumstances, you cannot access retirement savings before the age of 55, and even then, you can only take up to one third of the value of these savings as a cash lump sum (subject to tax). The remainder must be used to purchase an annuity which will provide you with an income.

Investors can withdraw from their TFSA at any time, but their annual and lifetime limits won't increase again by the value of these withdrawals. Due to the tax-free nature of these investments, no tax will be levied on withdrawals from a TFSA.

Different contribution limits

There are no limits to what you can contribute to your retirement annuity.

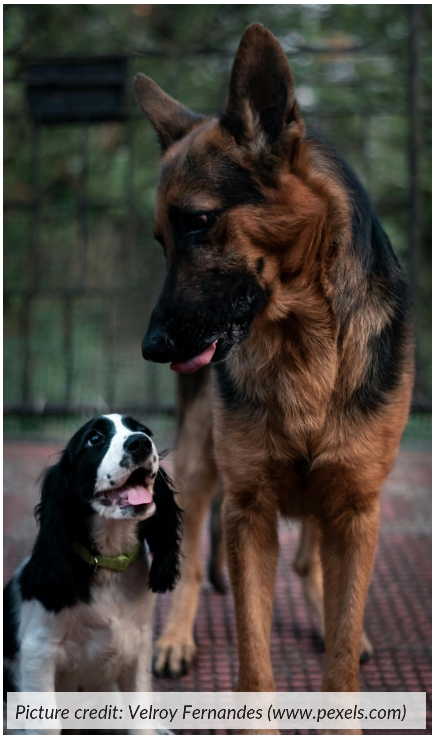
Contributions to tax-free savings accounts are limited to R36 000 per tax year and R500 000 over the lifetime of the investor. Contributions above these limits will be taxed at 40%.

Estate planning

In terms of your estate planning, bear in mind that your beneficiaries will be treated differently for each of these investment vehicles.

As RAs are retirement funds, the death benefits won't form part of the deceased investor's estate. Instead, it will be distributed in terms of Section 37C of the Pension Funds Act. This means that the death benefits will be distributed to the dependants determined by the trustees of the retirement fund.

Depending on how a TFSA is structured, the proceeds from a TFSA will either be paid into the estate's bank account and be distributed according to the will of the deceased, or directly to the nominated beneficiaries.



Picture credit: Velroy Fernandes (www.pexels.com)

Compatibility

Once you understand the purpose of RAs and TFSAs respectively, and how their features differ, it is evident that the one cannot replace the other. Each will address a different aspect of your financial plan—and, ideally, should be employed together to reach your overall financial goals.

Seek expert advice

"Adopt, don't shop" is a worthy mantra when it comes to adding a furry friend to your family.

When it comes to your financial goals, however, take the time to shop around for a trusted financial adviser to help you reach your financial goals by investing in an RA and/or a TFSA.

Mariska Redelinghuys, legal specialist: advice, PSG Wealth.

WHY THE WORLD IS TURNING AWAY FROM THE US DOLLAR

With BRICS' GDP surpassing the G7, the balance of economic power is shifting

ALEXANDROS MANDILARAS

THE INVASION of Ukraine in February 2022 prompted the US Treasury Department to impose unprecedented sanctions on Russia, to hold it "accountable for its premeditated and unprovoked invasion".

The aim was to prevent Russia from "prop[ping] up its rapidly depreciating currency by restricting global supplies of the ruble and access to reserves that Russia may try to exchange to support the ruble". In other words, Russia wouldn't be able to sell enough US dollars in the foreign exchange market to buy up Russian currency and bolster its value.

Indeed, US secretary of the treasury Janet Yellen called this an "unprecedented action" that would "significantly limit Russia's ability to use assets to finance its destabilising activities".

Freezing a sovereign country's dollar holdings (Russia's in this case) is a seismic event. It risks accelerating a move away from use of the US dollar for trade or investment by countries that have different geopolitical interests than the US, such as China or the Gulf states.

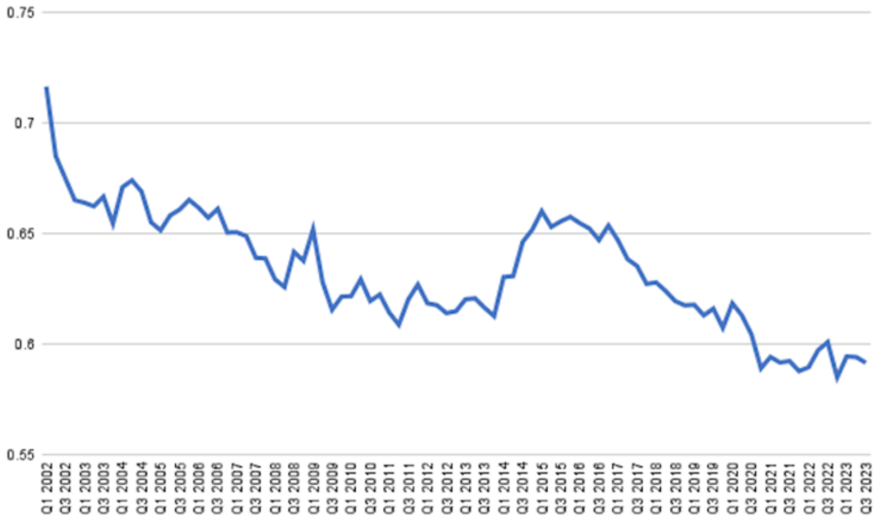
In fact, several governments outside the west are exploring ways to reduce their exposure to the dollar. Russia is currently settling a quarter of its international trade using Chinese renminbi, and its bilateral trade with China is almost entirely settled in the two countries' respective currencies.

In March 2023, China settled a payment for UAE gas in its own currency (rather than US dollars) for the first time. Then, in November, China and Saudi Arabia signed a currency swap agreement, citing a desire to expand the use of their currencies.

There are more troubling signs for the US dollar. Even though central banks' foreign exchange reserves have been growing steadily year-on-year for more than 20 years, the percentage held in US dollars reached its lowest point in the fourth quarter of 2022, as the chart below (left) shows.

This is not a blip. It is the culmination of a long negative trend that has seen the US currency's share in foreign reserves held by central banks fall from over 70% in the early 2000s to under 60% today.

While the drop is not dramatic, it's significant and indicative of a negative trend for the dollar that reflects several developments—economic but also geopolitical.



US$ held by central banks
Currency composition of central banks' foreign exchange reserves

Source: Author provided, using International Monetary Fund data (CC BY-NC-ND)

Leaving the US behind?

The US economy's share in the world's output is falling as emerging economies, especially China, continue to outgrow the US and its western partners.

China, the US's biggest economic competitor, is now the main trading partner to more than 120 countries, with exports amounting to more than US$3.6 trillion (£2.8 billion). This risks leaving the US behind in the race for global trade dominance.

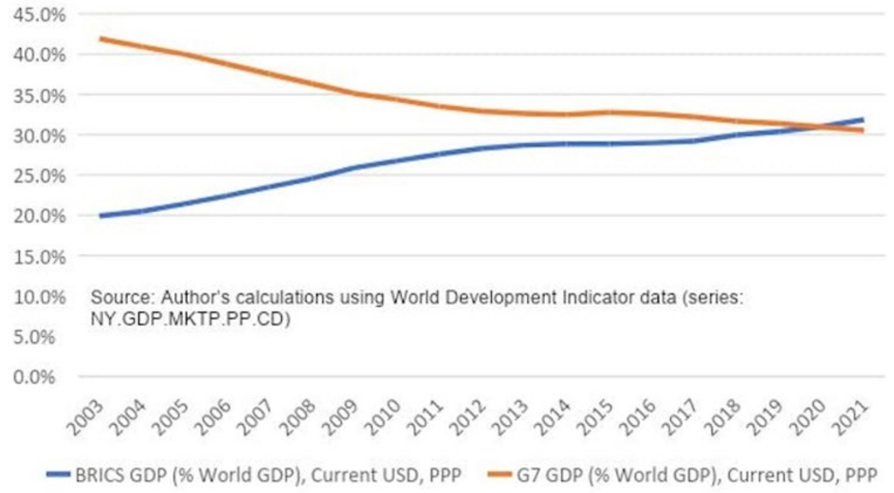
> *The percentage of foreign reserves held in US dollars reached its lowest point in the fourth quarter of 2022.*
>
> *This is not a blip. It is the culmination of a long negative trend that has seen the US currency's share in foreign reserves held by central banks fall from over 70% in the early 2000s to under 60% today.*

Over the last 20 years, China's share of the global economy has more than doubled from 8.9% to 18.5% while the US's share declined from 20.1% to 15.5% in purchasing power parity terms (which compares prices of specific goods to determine currency purchasing power).

Last year, the BRICS economies (fast-growth developing countries Brazil, Russia, India, China, and South Africa) overtook those of the G7 (developed economies US, Canada, UK, Germany, France, Italy, Japan, and Germany) based on their share of world GDP in purchasing power parity terms.

As more countries join the BRICS, it will give the group even more economic clout.

Meanwhile, the US economy's global GDP share is falling, and its debt is hitting new heights as it issues more Treasury bills, notes and bonds to fund current government spending. The US national



GDP: G7 v BRICS—share of GDP, current USD, at purchasing pricing parity (PPP)

Source: Author provided using World Development Indicator data (series: NY.GDP.MKTP.PP.CD) World Bank (CC BY-NC-ND)

debt stands in excess of US$33 trillion, or 123% of the country's annual output.

Inflationary shocks followed by interest rate increases have made servicing this debt very expensive for US taxpayers, repeatedly raising the risk of a debt default in recent years.

There is no doubt that the US dollar still dominates world markets right now, accounting for most of the transactions in international trade. Its share in the foreign exchange market is colossal at 88% of transactions, and it remains the most widely held 'international reserve' by central banks who want to ensure they can cover their countries' imports and support the value of their own currencies.

However, the centrality of the US currency since the Second World War has not always been welcome—certainly not by US foes, and sometimes not even by its friends.

> *The US dollar still dominates world markets right now, accounting for most of the transactions in international trade.*
>
> *Its share in the foreign exchange market is colossal at 88% of transactions, and it remains the most widely-held 'international reserve'.*

Valéry Giscard d'Estaing, the 20th president of France and a finance minister in the 1960s, called the dollar's reserve status an "exorbitant privilege" for the US. He probably meant that demand for US assets from abroad was so high that it could borrow easily at favourable terms to finance its current account deficit—a privilege not available to other nations.

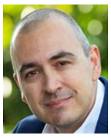
Current global geopolitical and economic shifts could now see this exorbitant privilege challenged. The refusal of Russia's BRICS partners and many UN nations to undertake Western-style sanctions against Russia is evidence of the limitations the west faces in exerting geopolitical influence.

And from an economic perspective, China as the world's top trader and Russia as one of the world's richest countries by energy reserves have amassed large gold holdings which could replace some US dollar uses. Both are looking to work with other countries, including those in the Gulf region, to reduce reliance on the US dollar.

Challenger currencies

Convincing non-Western investors to use a 'challenger currency'—whether the Chinese renminbi or a BRICS currency—could become easier following the US Treasury's freezing of Russian assets. These switches could accelerate if the US decides to seize the frozen Russian assets.

It's increasingly clear that, as non-Western countries assert themselves in the world's economic arena, geopolitical divisions with the west will cause additional friction. As a result, the US dollar's role is almost certain to become more limited than it has been at any time since the end of the Second World War.



Alexandros Mandilaras, associate professor and deputy head of the School of Economics, University of Surrey.

THE CONVERSATION

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PROPERTY

HOW TO BE A SUCCESSFUL PROPERTY INVESTOR

There's money to be made on prime properties, particularly in the Western Cape

RENIER KRIEK

THERE IS a major surge in investment in buy-to-let properties across South Africa, with the Western Cape leading the pack.

We're seeing a 15 year high in national investment applications, which rose to 11.8 percent of all applications by the last quarter of 2023. Usually, this figure is around 5 percent.

This is according to recent ooba Home Loans market data, which also puts investment applications in the Western Cape at a whopping 28.2 percent of total applications. The housing demand in the province is enormous, and property investors are obviously taking note.

The beautiful Western Cape—not too shabby for property investment, either...
Picture credit: Jean van der Meulen (www.pixabay.com)

Investors, not home buyers

Home buyers are hesitant to buy right now due to uncertainty around the upcoming election, as well as the rising cost of living caused by inflation and high interest rates. This could mean that current data may be skewed by their lower participation, making investment applications appear greater as a percentage.

Even so, it also indicates that property investors remain confident, active in the market, and resilient regardless of economic pressures. Property investment may also be seen as more secure in the current uncertain political climate.

Why is property investment vibrant?

One reason is the ongoing trend of semigration, with South Africans flocking to areas offering better infrastructure and service delivery. This is especially true of the Western Cape, where new property development lags the influx of semigrants. Many coming to the province now rent while searching for a new home, or while theirs is being built.

Another reason is the return of tourists to Cape Town, still one of the top holiday destinations in the world. Investors are already snapping up prime properties that they can rent out as short-term leases and holiday accommodation.

The increased demand for rentals and improving performance in rental properties, including lower vacancies and tenant defaults, is driving the wave of buy-to-let investment applications.

Tips for investors

For people who are serious about investment buying, here are some tips:

Buy-to-let

When investing, always remember that the meat and potatoes of property is rental income, whether from long-term or short-term leases. Buying for speculative purposes, like fixing and flipping for a quick profit, is highly risky in a market where property prices outpace inflation and transaction costs can be excessive. Therefore, research a property's income potential and marketability first, then build a solid buy-to-let base.

Consider rent-to-rent

Rent-to-rent means an investor rents a property, then sublets it to a third party at a profit. This is an excellent way to get into serious property investment without having to source capital for an outright purchase. You can use these profits to build capital and a strong property portfolio over time.

Since some landlords prohibit subletting, find one that is flexible, and negotiate your contract carefully.

Get market insights

Investors need good market statistics to make the best buying decisions. Properties are often priced above a fair valuation, which is why we have price inflation over time. However, negotiating a sale below the asking price doesn't necessarily mean you have bought a bargain—you may still be overpaying.

While there are many good sources of data in the market, hiring a registered property valuer is also an excellent option. This can help you negotiate a fair price that will see you profit more when you eventually sell the property. Also, find out what the appropriate capitalisation rate is, and use it in all your price assessments and lead follow-ups.

Property investment is a business

Lastly, see property investment as a business and run it as one, not as a hobby. It demands strategic thinking, accounting, tax advice, professional management, research, and more. In most cases, a person who makes a blunder in property investment does so because they didn't manage their portfolio like a business.

Renier Kriek, managing director at Sentinel Homes.

STRUGGLING TO MAKE ENDS MEET AT VARSITY?

16 savvy money tips for students

SARAH NICHOLSON

SOUTH AFRICAN universities recently opened for the first term of the year—but for many students, money worries have overshadowed the excitement of returning to campus.

Education costs typically increase at a higher rate than general inflation, and affordability is a major issue for most students. The average cost of a South African university education could be around R107 600 per year by 2025, and R254 700 by 2035, according to Marius Pretorius, head of marketing:

Continued on Page 13 ...

THE BUDGET AND ITS IMPACT ON THE MARKETS

This is how a national budget affects your investments

CHANTAL MARX

THE NATIONAL Budget Speech is an event closely watched by market participants every year, as it may have important consequences for both the bond and equity markets, as well as the currency.

Impact on bonds

A bond friendly budget

Bond yields generally will react positively (go down) if projected income is higher than expected, projected expenses are lower than expected, and borrowing is expected to stabilise or decline. It usually goes hand in hand with lower-than anticipated debt metrics.

- ***Higher income*** could come in the form of better-than-expected tax takes emanating from higher economic growth (or a commodity price windfall), better tax buoyancy due to a better performance from the revenue service, or an increase in tax rates.
- ***Lower expenses*** typically come from cost cutting, or interest savings due to lower expected borrowing costs.
- ***Lower borrowing expectations*** could come from one, or a combination, of the above.

A bond negative budget

Bond yields will typically react negatively (go up) if projected income is lower than expected, projected expenses are higher than expected, and borrowing is expected to increase. It usually goes hand-in-hand with higher than anticipated debt metrics.

- ***Lower income*** could come from lower-than-expected tax takes emanating from macroeconomic pressure, poor tax buoyancy due, or a decline in tax rates.
- ***Higher expenses*** typically come from overspending, or interest payments due to higher expected borrowing costs.
- ***Higher borrowing expectations*** could come from one, or a combination, of the above.

Impact on equities

An equity friendly budget

Equity markets will typically react positively to business-friendly policy changes, lower tax rates or no tax rate changes, and higher planned expenditure.

- ***Business friendly policy changes***, such as ensuring a steady electricity supply or reducing red tape, will be positive for companies and by extensions their prospective cash flows.
- ***Lower tax rates***, be it on the personal income, company, or other front, will either boost company top or bottom lines.
- ***Higher planned expenditure by government*** could also be business friendly – particularly if it results in more 'cash in hand' for consumers.

An equity negative budget

Equity markets will generally react negatively to increased regulation, higher tax rates, and lower planned expenditure.

- ***Increasing regulation*** may increase the cost of doing business.
- ***Higher tax rates***, be it on the personal income, company, or other front, will either impact company top or bottom lines.
- ***Lower planned expenditure by government*** could be business negative since many businesses have the state as a client. It also depends on where expenditure cuts lie and if they result in less 'cash in hand' for consumers.

Impact on the rand

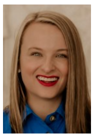
The currency usually moves with the bond market, as South Africa's sovereign risk rating has a knock-on impact on the attractiveness of most local financial instruments. A bond friendly budget should see the rand strengthen, and a bond negative budget will likely have the opposite impact.

Implementation is key

Markets will react in the short term to the budget itself—but longer term, execution will be key in determining asset class returns.

What impact will this year's Budget have on investment returns? Only time will tell …

Picture credit: Steve Buissinne (www.pixabay.com)



Chantal Marx, head of investment research at FNB Wealth and Investments.

STOCK PICKS

In partnership with

Santam (SNT ZA)

SUMMARY

Position:	LONG
Upside target:	R337.00
Reward / risk ratio:	-
Recommended stop-loss:	R280.00
RECOMMENDATION:	**BUY**

Analysts:
Peet Serfontein, Jalpa Bhoolia

Santam opened its doors in May 1918 and is one of South Africa's leading short-term insurers. Its portfolio of insurance products includes personal, commercial, and specialist lines as well as reinsurance.

Technically, a share that appears to be in an incomplete cup and saucer pattern makes for a compelling investment opportunity (see the overlay on the chart).

This pattern is characterised by a downtrend followed by a period of stabilisation and then an upward trend, thus forming the shape of a cup. The saucer (also called the handle) forms after the cup, when the price consolidates or moves slightly downward, creating a small pullback before resuming upward momentum.

The share also seems to be in a markup phase. This signifies a period where the price of the share is on an upward trajectory after a period of consolidating or accumulation at relatively lower price levels, indicating a shift in investor sentiment from bearish or neutral to bullish.

We suggest a medium capital at-risk allocation to this trade. Increase exposure for a break above R305.

Technical analysis

The lower panel shows the seasonal performance for the share since 2000. The numbers represent the sequence in which the season will unfold.

Equity price cycles highlight the recurrent patterns with a seasonal tilt. The strategy involves selling during peaks / weaker periods, with the expectation of repurchasing when prices rebound in subsequent seasons.

The recent steep upwards trajectory of the on-balance volume (OBV) indicator indicates that money is flowing into the share. According to the RSI (Relative Strength Index), the stock will be overbought at ~R350, which classifies our profit target of R337 as realistic.

Our entry range is between R228 and R305 – a drop below this level may indicate a structural change in the trend, giving reason to negate the trade idea. Our target price is R337, representing upside of ~13.7% from current levels.

Our proposed time to exit is end-April 2024. Keep the option open to close the trade if the price reaches our profit target in a shorter time.

A drop below R280 (~5.6% below current levels) is a concern for downside potential. As such, a stop-loss is recommended at this level.

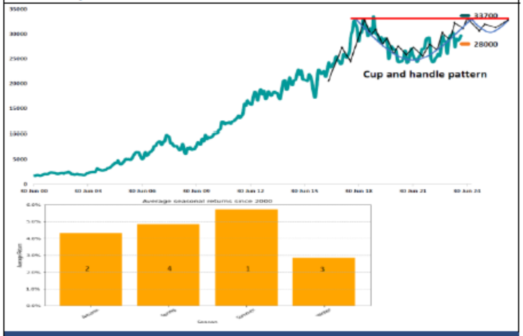
Long-term fundamental view

Santam operates in South Africa, Namibia and selected emerging markets through a network of intermediaries, direct and partnership channels. It is a subsidiary of South African financial services group Sanlam, which holds the majority of Santam's shares.

Santam is the dominant player in the South African short-term insurance landscape. Additionally, barriers to entry in the specialist insurance division will cement Santam's dominant position.

Share information

Share Code	SNT
Industry	Insurance
Market capitalisation	ZAR 33.97 billion
Total return (1 year)	14.99%
Return (year-to-date)	2.97%
Current price	ZAR 295.08
52-week high	ZAR 310.00
52-week low	ZAR 234.97
Financial year-end	December



Consensus expectations (Bloomberg)

	FY22	FY23 (est.)	FY24 (est.)	FY25 (est.)
Headline earnings per share	ZAR 18.03	ZAR 22.13	ZAR 26.61	ZAR 29.57
Growth		22.73%	20.25%	11.13%
Dividend per share	ZAR 13.07	ZAR 19.19	ZAR 14.77	ZAR 16.04
Growth		46.80%	-23.01%	8.61%
Forward PE (times)		13.34	11.09	9.98
Forward dividend yield		6.50%	5.01%	5.44%

The company recently released a trading statement for the year ended 31 December 2023. Guidance on the bottom line was solid, with stronger investment income offsetting a weaker underwriting result.

The underwriting margin pressure, below the group's long-term range, was well communicated for throughout the year and mainly a function of an unfavourable claims experience.

Gross written premium growth was solid, and in the event of a recovery in the underwriting margin (with deliberate management intervention already underway) we would expect a strong improvement in underlying profitability this year.

The stock is trading on a forward PE of 11.0 times, close to one standard deviation below its five-year average. It trades at a substantial discount to its local peer OUTsurance, and at a smaller than usual premium to the international peer group.

Risks include the company's large equity exposure, which exposes the company to significant market risk. The biggest risk to all insurers remains catastrophic insured events, which has been especially prevalent in recent times.

Also, competition in the insurance market remains fierce, particularly from non-traditional players and in niche segments.

Enovix Corp. (ENVX US)

Founded in 2007, Enovix Corp. specialises in silicon-anode lithium-ion battery technology. It has developed a proprietary three-dimensional (3D) architecture that increases the energy density and maintains high cycle life of the batteries.

Enovix's mission is to power the technologies of the future, addressing the growing demand for more efficient and durable batteries in various applications, including IoT devices, mobile and computing devices, and electric vehicles.

Technically, the stock is developing a symmetrical triangle pattern which makes for a compelling investment opportunity (see the black converging trendlines as well as the insert). While the symmetrical triangle itself is neutral, a breakout above the upper boundary of the triangle is a bullish sign.

The stock is trading just below its 200-day simple moving average of ~$13.25, making this a contrarian trade.

Emerging upside momentum, according to the MACD indicator, supports a bullish stance. However, the recent downward movement of the on-balance volume indicator is a concern.

SUMMARY

Position:	LONG
Upside target:	$16.00
Reward / risk ratio:	2.4
Recommended stop-loss:	$10.00
RECOMMENDATION:	**BUY**

Analysts:
Peet Serfontein, Zimele Mbanjwa

Technical analysis

The second chart shows the price bins for the stock over the last few years. These bins help visualise where the bulk of trading activity has occurred, indicating levels of support, resistance, and areas where investors find the stock to be of value or interest.

In this illustration, we can see that the stock mostly trades at $15, but the current level is within the second largest bin—which could mean that it is considered to be an 'accumulation zone'.

Our recommended entry range is between $11 and $13. A drop below this level would indicate a structural change in the trend, giving reason to negate the idea.

Our target price is $16, representing upside of ~35.8% from current levels.

Forward calculations of the RSI suggest that the stock will be in overbought territory at ~$19, making our profit target realistic.

Our proposed time to exit is mid-May 2024, though investors can adjust for either a longer or shorter time horison, depending on price behaviour.

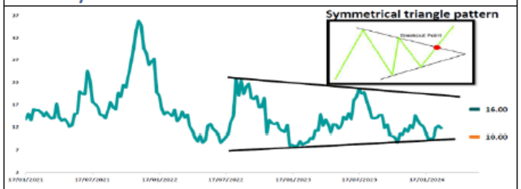
A drop below $10 (downside of ~15.1% from current levels) would imply weakening technicals. As such, a stop-loss is recommended at this level.

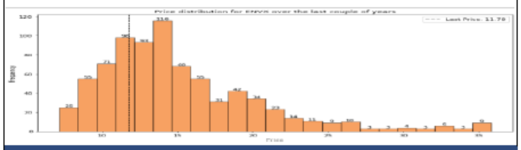
We expect high volatility going forward and hence suggest a low capital at-risk allocation for this trade. Increase exposure for a break above $13.

Long-term fundamental view

In 4Q23, ENVX recorded revenue of $7.4 million (4Q22: $1.1 million) driven by strong performance from the recently acquired Routejade, along with continued volume shipments of BrakeFlow™—enabled batteries for the US Army.

Share information	
Share Code	ENVX
Industry	Capital Goods
Market capitalisation	USD 1.98 billion
Total return (1 year)	47.80%
Return (year-to-date)	-5.91%
Current price	USD 11.78
52-week high	USD 23.90
52-week low	USD 7.95
Financial year-end	December





Consensus expectations (Bloomberg)	FY23	FY24 (est.)	FY25 (est.)	FY26 (est.)
Headline earnings per share	USD -0.87	USD -0.94	USD -0.76	USD -0.05
Growth		-7.59%	18.59%	93.18%
Dividend per share	-	-	-	-
Growth		-	-	-
Forward PE (times)		-	-	-
Forward dividend yield		-	-	-

In FY23 the company expanded to Malaysia through the acquisition of Routejade, which positioned the company to scale with high-volume vertically integrated manufacturing. The company built approximately 250 000 square feet of factory space, and began receiving shipments of Gen2 equipment.

In FY24, the group's focus is on high-volume manufacturing in Malaysia and delivering high-energy density batteries tailored to smartphones. Both activities commence in 2Q24. In parallel, the company intends to grow overall revenue meaningfully year-over-year.

Within the portable electronics market, the company focuses on three categories: IoT, Mobile, and Computing. The estimated total addressable market (TAM) for lithium-ion batteries in the targeted portable electronics markets is $23 billion in 2026 based on company estimates as of January 2023.

In terms of downside risks, the group remains in the growth and scaling phase with notable operating losses, which puts its operations at risk should it fail at its endeavours. High competition in the space requires the company to continuously improve its product's energy density, cycle life, fast charging, capacity roll-off, and gassing metrics to stay ahead of competition over time—all of which can be costly.

Vanguard FTSE Emerging Markets ETF (VWO US)

SUMMARY

Position:	LONG
Upside target:	$48.00
Recommended stop-loss:	$40.00
RECOMMENDATION:	**BUY**

Analysts:
Peet Serfontein and the
FNB Investment Research Team

The Vanguard FTSE Emerging Markets ETF (VWO) is designed to track the performance of the FTSE Emerging Markets All Cap China A Inclusion Index, offering investors exposure to a broad and diversified collection of securities.

VWO is one of the largest emerging market equity ETFs globally and is popular among investors seeking exposure to emerging markets. It is a low-cost vehicle that can be utilised to invest in a diverse range of stocks from various emerging markets, providing a balance of potential growth and diversification to an investment portfolio.

Technically, the ETF is developing a symmetrical triangle pattern, which makes for a compelling investment opportunity (see the black converging trendlines on the main chart). This is a continuation pattern that signals a period of consolidation with the price then expected to break-out to the upside.

The ETF is trading just above its 200-day simple moving average of ~$40.30, which is supportive of a bullish bias. Emerging upside momentum, according to the MACD indicator and the recent sideways movement of the on-balance volume (OBV) indicator also favours our bullish stance.

We suggest a medium at-risk allocation for this trade.

Technical analysis

The second chart shows the MACD (Moving Average Convergence Divergence) indicator for the ETF.

When the MACD line crosses above the zero line, it is considered a bullish signal. This crossover indicates that short-term momentum is now stronger than long-term momentum, suggesting a potential uptick in price (see the black arrow).

Our recommended entry range is between $41 and $42—a drop below this level would indicate a structural change in the trend, giving reason to negate the idea. Our target price is $48, representing upside of ~15.1% from current levels.

Forward calculations of the RSI suggest that the ETF will be in overbought territory at ~$50, making our profit target realistic.

Our proposed time to exit is mid-June 2024, though investors can adjust for either a longer or shorter time horison, depending on price behaviour.

A drop below $40 (downside of ~3.8% from current levels) would imply weakening technicals. As such, a stop-loss is recommended at this level. We expect moderate price fluctuations.

Long-term fundamental view

The ETF is diversified across various market segments, with banks (~14% of exposure) accounting for the biggest sector exposure followed by semiconductors and internet companies, which both account for ~9% of total holdings, respectively. The fund offers broad exposure to emerging market equities, which can add diversification benefits and potentially reduce overall portfolio risk. It is largely weighted towards Chinese equities (~23% exposure), followed by India (~22%) and Taiwan (~19%). The top three holdings are Taiwan Semiconductor (~6%), Alibaba (~3%), and Tencent (~2%).

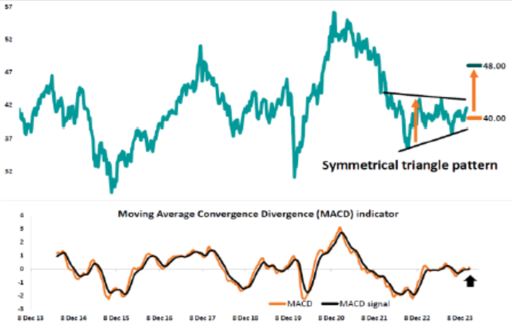
ETFs tend to have lower operational costs compared to actively managed funds. VWO has a low expense ratio (~0.08%) that makes the fund cost-effective while providing high liquidity as it is one of the most heavily traded emerging market ETFs.

There is some concentration risk as the holdings reflect a bias for the technology sector and to Asian markets, particularly China and India. However, we remain positive on the long-term fundamentals of these economies, underpinned by strong investment activity and government spending as well as robust household consumption amid an expanding middle-income class.

Emerging markets can be much more volatile than developed markets, leading to larger market value fluctuations in the short term. Other EM risks include currency risk, regulatory headwinds as well as generally higher political risks and economic instability, which can negatively impact asset prices.

Share information

Share Code	VWO
Industry	Exchange-Traded Funds
Market capitalisation	USD 75.40 billion
Total return (1 year)	9.20%
Return (year-to-date)	1.17%
Current price	USD 41.58
52-week high	USD 43.10
52-week low	USD 37.46
Financial year-end	n/a



Consensus expectations (Bloomberg)

	FY23	FY24 (est.)	FY25 (est.)	FY26 (est.)
Headline earnings per share	-	USD 37.83	USD 43.11	USD 49.21
Growth		-	13.95%	14.14%
Dividend per share	-	USD 17.70	USD 16.74	USD 18.27
Growth		-	-5.43%	9.17%
Forward PE (times)		13.92	12.21	10.70
Forward dividend yield		3.36%	3.18%	3.47%

STRUGGLING TO MAKE ENDS MEET AT VARSITY?

Continued from Page 8

retail savings and income at Old Mutual.

Students from families with an annual household income of less than R350 000 are eligible for funding from the National Student Financial Aid Scheme (NSFAS), a bursary and loan scheme funded by the Department of Higher Education and Training.

If annual household income exceeds R350 000 but is less than R600 000—a category referred to as the 'missing middle'—students can apply for a loan through the new Comprehensive Student Funding Model.

Whether a student is self-funded or state-funded, the cost of tertiary education, in addition to general living expenses, is increasing steadily. It's therefore essential for students to educate themselves about financial matters, to reduce their money worries, and make the most of university life.

The cost of university education is rising ahead of general inflation

Source: Aurobinda Ogra. Used under a Creative Commons Attribution-Share Alike 3.0 Unported license .

> *Education costs typically increase at a higher rate than general inflation, and affordability is a major issue for most students.*

Here are 16 savvy money tips for students

- ***Work out a budget***: Calculate your total income for the year from all sources, whether a bursary or student loan, personal savings, contributions from parents or other relatives, a scholarship, and/or part-time work. Then list your expenses, covering fixed costs such as tuition fees; and variable expenses, such as food and clothing.
- ***Apply for grants and scholarships***: Regularly search for scholarships and grants to offset educational expenses. There are also opportunities for South African students to study or undertake research in other countries. Get your applications in early.
- ***Buy used textbooks***: Purchase second-hand textbooks—or use digital versions, which are often cheaper.
- ***Visit university libraries***: Check out books and other materials from the library instead of buying them.
- ***Cut transport costs***: Use campus shuttle services, walk, or cycle instead of relying on a car or e-hailing services. Find out if the university provides transport for field research, sports, cultural activities, and other official trips.
- ***Unlock discounts***: Many local businesses offer special deals for students, from tech to printing services. Download apps such as Varsity Vibe, which has information on exclusive student deals; and Fomo, which finds the latest specials on food, drinks, and activities in a particular area.
- ***Make the most of low-cost entertainment***: Campus apps are ideal for keeping up with the latest on-campus events. Join a club or society to meet people, boost your confidence, and grow your network and leadership skills.
- ***Check out university health services***: Use campus gyms, health clinics, and counselling services instead of expensive private facilities.
- ***Share living expenses***: Share accommodation with roommates to split rent and utility costs.
- ***Choose store-brand products***: Don't be brand loyal when shopping for groceries and household items. Compare prices online, and choose generic or store-brand products, which are cheaper than name-brand items. You may also be eligible for a monthly pack of basic foods if you meet specific criteria. The University of Johannesburg, for example, has a social feeding scheme that distributes monthly food parcels to qualifying 'missing middle' students.
- ***Plan cost-effective meals***: If you're staying in university-catered accommodation, make full use of the meal plan you choose. If you have your own accommodation, prepare home-cooked meals. Avoid eating out or ordering takeaways.
- ***Monitor your use of lights and appliances***: Small actions such as turning off lights, selecting a short cycle for clothes washing, and not overfilling the kettle, will save money.
- ***Find a part-time campus job***: Apply for a part-time or casual job—for example, as a tutor, library or lab assistant, administrative officer, or dining hall assistant.
- ***Secure an off-campus income***: Explore income-generating opportunities, such as working as a barista, waiter, bookstore assistant, social media consultant, au pair, or babysitter.
- ***Become a 'studentpreneur'***: Many universities have resident business strategists, and offer free workshops and business programmes. Government

agencies such as the Small Enterprise Development Agency and the National Youth Development Agency provide support to small enterprises, and address youth development issues.

- ***Plan ahead for travel***: Book transport home for the holidays well in advance to secure cheaper rates.

Avoid unmanageable debt

Finally, avoid getting into unmanageable debt. A loan to cover tuition fees and other education costs can be 'good debt', in that it's an investment in your future—provided this debt is paid back promptly under the loan terms.

Your bank overdraft and credit card should not, however, be treated as income. Such funds are for emergencies only, and should be paid off at month-end. These loans incur high interest and, when not paid off promptly, can lead to a cycle of unmanageable 'bad debt'.

Potential employers, landlords, and insurers frequently do background checks. These include accessing your credit report, which is a detailed breakdown of your credit history, prepared by a credit bureau. It's worth checking your credit report and credit score regularly to ensure that the information is correct.

Sarah Nicholson, operations manager for JustMoney.co.za.

GODONGWANA REACHES OUT TO PRIVATE INVESTORS

Better-managed PPPs can help SA avoid prescribed assets

DUNCAN PIETERSE

SOUTH AFRICA may very well be at the brink of a new era, where a greater focus on public private partnerships (PPPs) can help to address the country's multiple challenges.

The ongoing energy crisis, a deteriorating and unreliable logistics system, failing infrastructure, and climate risks—solutions to these challenges requires the technical and financial support of the private sector. With the state's plans to launch unique infrastructure instruments, driving private sector participation may not necessitate prescribed assets legislation.

This was the sentiment following the reforms that Finance Minister Enoch Godongwana alluded to in this year's National Budget Speech that will allow the private sector to invest in infrastructure provision without the need for any form of prescription. Examples of this include infrastructure bonds and special vehicles through which the private sector can participate in government investment.

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The Minister of Finance always makes the point that we've spent about 10 years trying to fix Eskom, instead of fixing the electricity sector. If we consider the latest reforms, among which is the amendment of Schedule Two of the Electricity Regulation Act, the state is actively looking to attract private sector investment to drive a few important changes.

It makes sense for the private sector to answer this call—and from a balance sheet perspective, it makes sense for us to collaborate, whether it's towards solving our transport issue or our need for energy generation.

There is also no reason why PPPs cannot be called on to contribute towards developments in areas such as human settlements or the health sector. As the Finance Minister announced, we're calling for a 'crowding-in' of the private sector for this purpose.

Turning to the hotly contested topic of the National Health Insurance (NHI) Bill—and, more specifically, the R1.4 billion allocation to an NHI grant—the government will be taking a phased approach to its rollout. As a starting point, the focus for government needs to be on using its resources to strengthen the broader health system in preparation for the health system that SA will need as a country in the future.

2024
BUDGET

At a grassroots level—in hospitals and within the existing healthcare systems, the state needs to find ways to ensure that it can provide people with better value for money. Once this issue has been addressed, the National Treasury, in collaboration with the Department of Health, can progress to considering how to support the move to a national health system from a fiscal perspective.

We will need to look at the implications of NHI for the overall fiscal framework, and how to implement the various initiatives in a way that does not compromise what we envisioned through the budget. This will involve a lot of technical work and collaboration within intergovernmental departments and stakeholders. The work is ongoing, but it is indeed well under way.

Duncan Pieterse, director-general of the National Treasury.

SOUTH AFRICANS OPTING TO GO OFF-GRID

How they're being helped, and hindered, in their efforts

GERMARIÉ VILJOEN and FELIX DUBE

ESKOM, SOUTH Africa's state-owned power utility, struggles to generate and supply a stable flow of electricity to meet demand. In 2023, there were times when households and businesses had no power for up to 11 hours a day.

Eskom has warned that load shedding will be worse in 2024. The result is that many South Africans are choosing to end or reduce their dependence on the national electricity grid.

> *The financial stability of municipalities hinges on the revenue they generate from selling electricity to consumers.*
>
> *Without it, most would collapse.*

The approaches people are taking are still evolving. Some are choosing to cut off their reliance on local government, which is responsible for local electricity distribution and reticulation. Others are opting to add solar and battery power while retaining municipal power for backup.

The move away from reliance on the grid points to a pressing need for clarity and support in the legal and regulatory environment. The shift raises complex legal and regulatory challenges, which we dealt with in a recent paper.

We examined whether South Africa's law allows individual households to generate their own power, and disconnect their properties from the grid—and, if so, whether the regulatory framework is tailored to enable and empower them to do so.

Our paper also sought to address whether off-grid technological advances can coexist with—or are hindered by—existing regulations.

Findings

We found that there's no national legislation that deals with delinking from the national grid. Instead, local ordinances and zoning regulations indirectly accommodate and facilitate the off-grid transition.

In South Africa, local government—municipalities—play an important role in delivering basic services, including electricity. The financial stability of these municipalities hinges, in large part, on the revenue they generate from selling electricity to consumers. Without it, most would collapse.

This means that while transitioning to off-grid solutions may be beneficial to individuals who can afford it, completely abandoning reliance on the grid would be disastrous for broader society. It would hobble the ability of municipalities to provide other basic services, such as water and refuse removal.

We also found that homeowners face uncertainty about the legal and financial implications of moving off-grid. This includes questions about their obligations to pay municipal charges for services they no longer use.

Our research is essential for understanding and potentially reshaping the legal landscape to better accommodate and encourage off-grid electricity solutions in South Africa.

Changing landscape

The shift towards solar energy in South Africa has seen a remarkable surge. This reflects a growing trend among companies and citizens to seek alternative energy solutions.

Many factories, mines, farms, businesses, and individuals are now actively reducing their dependence on power utility Eskom's network by integrating solar energy. This trend is driven by the desire to lower electricity bills, as well as the need for a reliable backup during power outages. At present, those who have invested in in-house solar capacity often maintain their connection to the main grid to cover periods when solar power is insufficient or unavailable.

South African energy expert Anton Eberhard, using data from Eskom, has highlighted this significant transition. According to his analysis, the installed capacity of rooftop solar photovoltaic (PV) systems in South Africa has more than quadrupled between March 2022 and June 2023.

Rooftop solar energy is a popular alternative, because the country has high sunlight levels. It enjoys an average of 2 500 hours of sunshine every year.

The role of local government

Legislation mandates Eskom to generate electricity and sell it in bulk to municipalities. They then reticulate it to consumers. This means that local government is a significant stakeholder in

Solar incentives cut from this year's Budget

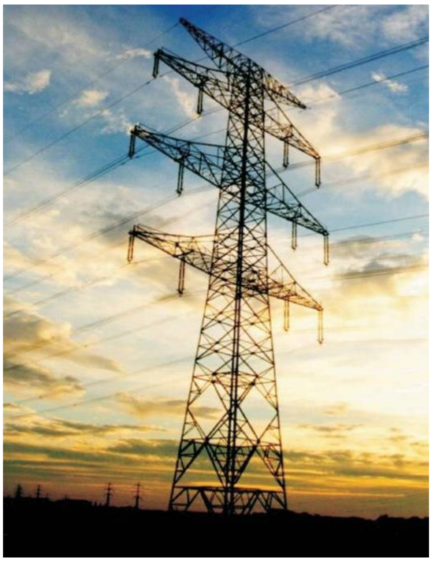
ROSS MAINS-SHEARD, Versofy Solar

The financial impacts of load shedding and renewable energy featured prominently in Finance Minister Enoch Godongwana's 2024 Budget Speech. South Africa faced a record 332 days of load shedding in 2023, significantly hindering the county's economic growth and burdening households.

While the adoption of rooftop solar is widely recognised as a means of alleviating the country's ongoing energy crisis, incentives for solar energy installations by individual households were cut from this year's budget.

Amid broader fiscal constraints, this is an understandable but nonetheless disappointing outcome for South African households, which should be incentivised to make the transition to solar in the form of tax breaks, subsidies, and feed-in tariffs. Government incentives have a crucial role to play in driving solar energy adoption, particularly for households relying on a rent-to-own or a solar subscription model, which cannot afford to purchase solar panels and the necessary accompanying equipment outright.

Despite this, innovative South African companies have an opportunity to continue developing the infrastructure and technology that support a mass transition to renewable energy.



The electricity grid is coming under increasing strain.

Picture credit: Eskom

the transition of consumers to off-grid power.

Municipalities have the mandate to provide basic services, including electricity. Yet they stand to lose an important revenue source if more of their customers reduce electricity usage, or delink from the grid.

That's why municipalities should revise their by-laws to create regulatory mechanisms for managing such a transition. By implementing by-laws that regulate electricity generation by consumers and their ability to feed into the grid, local governments can create an enabling environment for those who want to go off grid.

The consent of municipalities is essential for those looking to adopt off-grid solutions. Various municipalities have, over the past three years, introduced regulations and by-laws that typically require compliance with safety and quality guidelines. These by-laws also ensure that off-grid installations, like solar panels, are safe and effective.

In addition, municipalities require adherence to specific by-laws for consumers opting for a dual system—i.e. wanting to maintain connection to the grid, while also installing small scale embedded generation systems, such as solar panels.

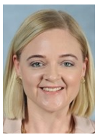
Registration of these systems is often mandated for legal compliance and safety. This makes municipalities regulatory bodies as well as enablers in the shift towards sustainable and self-sufficient electricity generation.

By setting these regulatory frameworks, they provide a structured path for consumers to pursue off-grid solutions. In turn, this aligns with the broader national goals of energy security and sustainability.

Many municipalities also understand the need to create an enabling environment for households to generate their own power, and sell their excess electricity to the national grid.

For example, in January 2023, the City of Cape Town announced incentives for consumers who sell their surplus green energy to the national grid. These households can get credits against their other municipal accounts.

However, we found that there wasn't consistency in approach. There are still many municipalities that don't see their role as enabling households to make the shift to cleaner energy choices.



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THE CONVERSATION

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IN SEARCH OF INVESTMENT YIELD

Private debt offers exceptional returns in hard currency for SA investors

DINO ZUCCOLLO

OVER THE past year, the JSE Top 40 lost roughly 10% of its value as measured in rands—and more in dollars. South African wealth is being eroded in global terms, creating a serious problem for local investors.

This makes offshore investment opportunities popular, with the caveat that markets like the Nasdaq are exceptionally volatile. Even for those with higher risk tolerance, a sensible approach to portfolio construction would include some lower risk assets that carry appealing yields.

In this environment of higher interest rates, attractive yields still exist. In 2023, Westbrooke Alternative Asset Management's Yield Plus secured private debt fund enjoyed its strongest performance since inception, with a net investor return of 9.2% (in GBP, so the Rand return was even stronger).

To achieve yields of this level in hard currency demonstrates the value of looking beyond equity and bond exposures, and highlights the value of including alternatives in a well-diversified investment portfolio.

Why do equities underperform when rates move higher?

When rates move higher, debt costs go up, so more economic value flows to lenders in the way of higher interest costs. To make matters worse, higher rates are often due to elevated levels of inflation. This leads to enlarged balance sheets and a need to raise funding for these balance sheets, often from banks.

A second factor is that higher rates mean that a higher rate of return is required when investing, which puts equity valuations under pressure.

Companies with strong current cash flows are less severely impacted than growth stocks that are valued based on projected cash flows to be earned several years in the future. This drives substantial volatility in markets that have a heavy tilt towards growth stocks, like the US market.

Do bonds make up for this?

In short, they don't. Government bonds are the traditional source of diversification and yield in balanced portfolios.

This doesn't mean that capital values are safe—far from it. The only way a bond investor has reasonable certainty over returns is by holding a bond until maturity, which means locking in the capital for several years. If liquidity is needed before then, the investor is taking risk on the pricing of the bond.

To add to these challenges, government bonds pay a lower yield than well-managed private debt funds. This is a function of risk (as the basic principle in a stable market is that the government is the lowest risk borrower around), as well as the ability of private debt investors to extract higher returns by operating in underserviced market niches.

UK 10-year bond yields are currently sitting at just over 4%, which happens to be very similar to the yields on US 10-year bonds at the moment.

In contrast, the Westbrooke Yield Plus 2023 return was 9.2%, and has now ticked up to in excess of 9.5% based on the most recent quarter's performance.

The fund targets a return of cash plus 5% to 7% per annum, with cash defined as the Bank of England Base Rate. In 2023, that base rate increased from 3.50% to 5.25%. This means a targeted return well in excess of what government bonds are offering.

Westbrooke Yield Plus is focused on capital preservation and the generation of a stable and predictable hard currency yield, by lending to a portfolio of UK private companies and real estate sponsors to achieve appealing risk-weighted returns.

The fund currently has around 48 underlying loans with an average weighted loan term of 22 months. The weighted average loan-to-value of the security in the underlying portfolio is 56%. No individual loan exceeds 7.5% of the fund. In cases where loans do end up in default, private debt funds aim to have sufficient loan-to-value coverage and other protections to recover all (or most) of the loan.

Can the strong returns continue?

The latest US inflation data suggests that rates could be higher for longer. Coupled with a dealmaking environment that rewards information symmetry, and the benefits of having professionals on the ground in the UK, 2023's record year looks like a strong foundation for investors to be rewarded in 2024.

Westbrooke Yield Plus accepts new investments in terms of a CIPC-registered prospectus. Investments are now open, and close on 27 March 2024. The capital raise is strictly limited to GBP20 million, and a GBP100 000 minimum investment amount applies.

Dino Zuccollo, head of product development and distribution at Westbrooke Alternative Asset Management.

MONEY MATTERS

STEVEN JONES—Editor

EVERY SO often **Personal Finance** publishes an article that provides information about so-called 'alternative investments'. In previous issues we've had articles dealing with art, classic cars, antiques, and fine wines. But what about investing in loan finance?

For those readers who aren't familiar with securitised private debt, essentially the business model is fairly simple. Loans are made to borrowers, secured against an asset that the borrower is purchasing (usually immovable property). The investor provides funds to facilitate such borrowing. Sounds a bit like peer-to-peer lending—except that the investment is made in the portfolio of underlying loans, not to an individual borrower. This spreads the risk. However, these funds are not banks, so don't expect the degree of protection (such as mandatory capital requirements) that you would get with a bank.

It therefore goes without saying that you should do your homework. For starters, make sure that the fund concerned is registered with the appropriate authorities in the countries that it operates, such as the Financial Sector Conduct Authority (FSCA) in South Africa, and the Financial Conduct Authority (FCA) in the UK. Secondly, have a look at who is backing the company. If they have finance facilities, are these provided by reputable and well-known institutions?

You should also understand the risks. For instance, if you are investing in securitised loans, there is the risk that (a) one or more of the underlying borrowers may default, and (b) the investment may not be as liquid as you would expect in a unit trust fund—important when you want your money back. And if your investment is offshore, there's also currency risk to consider. The exchange rate may go up as well as down.

Finally—and this goes for any investment—don't put all your eggs in one basket. In fact, I wouldn't recommend having more than 10-15% of your portfolio in such an investment. And as Warren Buffett is known to have said, if you don't understand how the underlying business makes its money, run!

BUILD YOUR EMERGENCY SAFETY NET FUND TODAY

Your personal protection against unpleasant financial surprises

HIMAL PARBHOO

ASK ANY trapeze artist, and they'll tell you that a safety net is a non-negotiable part of flying high.

While few of us are circus performers, an emergency savings fund is still one of the most important requirements for our peace of mind and financial stability.

Life has a way of throwing curveballs. Whether it's an unexpected car repair, an unavoidable medical bill, or a change in employment status, unexpected events are waiting around each corner.

While we won't ever know when these little surprises might take place, with an emergency fund in place, at least we are prepared to handle whatever financial impacts they bring with them.

Apart from the obvious benefit of having money available in a crunch, there are many other reasons why an emergency savings fund makes a lot of sense.

Picture credit: Hans (www.pixabay.com)

It protects you from money stress

An unforeseen emergency doesn't just affect your bank balance; it can also be a source of major stress if you don't have the money you need to deal with it.

Having an emergency savings fund serves as a buffer, giving you peace of mind and saving you from having to make difficult decisions like borrowing against (or selling) your house, or dipping into your retirement savings in times of crisis.

It's a way of taking advantage of opportunities

An emergency fund isn't just for financial protection; it also provides the flexibility to grab life's opportunities as they arise. This could be starting a new business, pursuing further education, or investing in a unique opportunity.

An emergency fund enables you to take these risks without worrying about financial repercussions.

It can save you money

If you have home and vehicle insurance, you can usually reduce your monthly premiums by increasing the excess you have to pay when you claim.

An emergency fund allows you to choose a higher excess, and you can then plough the money you save on lower premiums back into the savings fund. Talk about a win-win.

It lowers your reliance on credit

Credit isn't necessarily a bad thing, but if you need to use a credit card to pay for emergency expenses, the resulting monthly repayments can cripple your budget.

An emergency fund not only decreases this dependence, but also ensures that you protect your credit score from any risk that you may not be able to make a monthly repayment down the line.

Actually, you can start an emergency fund!

Many people put off starting an emergency savings account, believing they lack the money needed to put into it every month. However, even in challenging times, it's possible to save small amounts regularly. Here's how to start:

Draw up a budget

Yes, it's the dreaded 'B' word. There is no age limit to starting a budget. In fact, a well outlined budget can help you till you retire. Having a household budget is the first step towards successful saving.

A simple budget helps you track your spending and identify areas to reduce expenses, freeing up funds for your emergency savings.

Reduce non-essential expenses

This doesn't only mean cutting out luxuries. Consider affordable alternatives for your internet or cellphone plans, cancel unnecessary subscriptions, and search for better deals on insurance and other regular expenses.

Automate your savings

Set an automatic monthly transfer from the account into which your salary gets paid, to your emergency savings. Think of it as paying yourself first, and very soon you won't even notice the amount deducted each month—but you will enjoy seeing that savings balance grow.

Also, setup the Bank Your Change® feature linked to your FNB Savings Account, where customers can save from R2 to R50 every time they use their debit cards. Think of it as saving while you spend.

Conclusion

Think of an emergency savings account as your very own safety net. While it's possible to survive without one, having it certainly makes life more comfortable, and the ups and downs a lot less daunting.

Himal Parbhoo, chief executive officer, FNB Retail Cash Investments.

A 'DIGITAL NOMAD' VISA IS COMING TO SOUTH AFRICA

Here's how landlords can cash in

GRANT SMEE

AFTER YEARS of discussions, South Africa now seems poised to join the likes of Portugal, Estonia, and Mexico by introducing a 'digital nomad' visa. This visa aims to attract digital nomads—remote workers who spend long periods working in different countries—to attract workers with critical skills to the country.

Aided by stronger international currencies, digital nomads also spend significant amounts in the countries they find themselves in, helping to grow the economy and create more jobs in the tourism and hospitality industries.

This proposed new visa is still in the draft stages—and would, if passed, allow remote workers to live and work in South Africa for a maximum period of three years while being employed by an overseas company.

However, anecdotal evidence suggests that there are already thousands of digital nomads in the country, working remotely while on a tourist visa. While not strictly legal, it is difficult for the government to regulate this kind of activity—allowing many to slip under the radar.

Most digital nomads in South Africa are Europeans, attracted by the country's relatively low cost of living, good weather, similar time zone, and natural beauty. As to where these remote workers are living, Cape Town remains the destination of choice, especially during the summer season.

Understanding digital nomad preferences

Most digital nomads will opt for a long-stay Airbnb when choosing accommodation, but there are an increasing number of 'co-living' companies popping up that offer access to luxury accommodation, a community of like-minded peers, and co-working facilities—often all under one roof.

Convenience and proximity to amenities is key for these visitors, as many won't have their own car.

> *While an influx of renters with extremely deep pockets is an attractive prospect to landlords, these high-income tenants are not without their drawbacks.*

If the proposed digital nomad visa is passed, a higher percentage of international remote workers will seek out traditional long-term lease agreements. However, while an influx of renters with extremely deep pockets is an attractive prospect to landlords, these high-income tenants are not without their drawbacks.

Landlords must also think about the bigger picture, and the possibility of contributing to a housing market that primarily caters to international earners who can outprice locals—which could cause a housing crisis, as seen in many major cities.

Factors to consider before renting to a digital nomad:

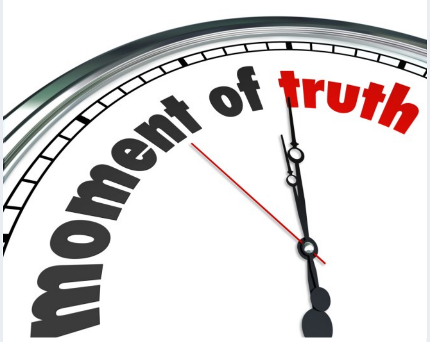
- ***Reliability of income***: Many digital nomads are freelancers, and therefore may have irregular income streams. In the absence of a traditional proof of employment letter, ask for certified bank statements that prove they have the funds necessary to cover rental costs for the specified lease period.
- ***Remote work compatibility***: Remote workers require a reliable and high-speed internet connection, as well as a dedicated workspace—so ensure that your rental unit is equipped for this. They are also less likely to be understanding of regular power outages as a result of loadshedding, so consider investing in alternative power systems to prevent blackouts.
- ***Difficulty obtaining tenant references***: To protect yourself from problem tenants, a background check is always recommended—but if this proves to be difficult for foreign tenants, be sure to ask for at least three legitimate references from former landlords.
- ***Flexible lease terms***: Some digital nomads may be unable to commit to the traditional one-year lease agreement, so flexible lease terms or a month-to-month contract may be advantageous.
- ***Need for high security***: South Africa doesn't have the best reputation for safety—justifiably so—and this may spook some prospective international tenants. Upgrade the security features of your rental unit for their peace of mind, and your own.
- ***Payment methods***: The majority of digital nomads may not have a South African bank account, so expect delays and possible administrative hurdles related to international transactions.

From a legal perspective, landlords are within their rights to rent to a foreigner in possession of a valid temporary residence permit as approved by the Department of Home Affairs.

However, it is up to you to check the specified duration a foreign tenant is legally allowed to stay in the country for, and align this to the term of your lease agreement. If they are found to have overstayed their visa, they may be forced to leave South Africa immediately, leaving your rental income in jeopardy.

Don't get caught out in a cash grab

A growing number of South African tenants—particularly those living in tourist hotspots—might soon also try to cash in on the digital nomad craze through subleasing. Here, it is important to stick to the terms of your lease agreement.



"We leave something of ourselves behind when we leave a place, we stay there, even though we go away. And there are things in us that we can find again only by going back there."

Peter Bieri
23 Jun 1944—27 Jun 2023

Swiss philosopher and author, who wrote five novels under the pseudonym **Pascal Mercier**.

The above quotation is from his third novel, *Night Train to Lisbon* (translated from the original German title, *Nachtzug hach Lissabon*).

We often see local tenants, who are travelling for a few weeks or months, advertise their home to foreign visitors to fund the cost of their accommodation while they are away. However, most lease agreements include a clause that prohibits this – and if you are found to be in violation, you could face immediate eviction.

Ultimately, it's up to both landlords and tenants to do their homework on the regulations around renting to non-South Africans, and resist the urge to take shortcuts in the pursuit of a big payday.

Grant Smee, managing director of Only Realty Property Group.

New minimum wage takes effect this month

TERTIUS WESSELS

WITH REVISED minimum wage regulations having come into force on 1 March 2024, employers across the country are bracing themselves for a pivotal moment that promises to reshape the dynamics of work and remuneration.

Gone are the days of robotic adherence to outdated wage structures. The recent disclosure by the Minister of Employment and Labour, Thembelani Waltermade Nxesi, signals a bold step towards fostering fairness and equality in the workforce.

This adjustment, poised to impact businesses and workers alike, heralds a crucial stride towards ensuring equitable compensation and opportunities for all.

Here are the key highlights of the new minimum wage rates:

- ***Contract cleaning sector***: In the contract cleaning sector, minimum hourly rates will see adjustments across different areas. For example, in Area A metropolitan councils, the minimum hourly rate for contract cleaning employees will be R30.35, while in other areas of South Africa, the rate will be R27.67 per hour. All areas in KwaZulu-Natal are subject to collective agreements in the Bargaining Council for the Contract Cleaning Service Industry (BCCCI).
- ***Wholesale and retail sector***: In the wholesale and retail sector, minimum wages will vary based on job categories and geographical locations. For instance, in the Metropolitan and Local Municipality area, rates will range from R27.58 to R73.73 per hour, depending on the job category.
- ***National minimum wage***: The national minimum wage will rise to R27.58 per ordinary hour worked, marking an essential adjustment in labour compensation across South Africa. Notably, farm workers, domestic workers, and employees engaged in expanded public works programs will all see an increase to R27.58 per hour.
- ***Learnership agreements***: Workers engaged in learnership agreements will see adjustments in their allowances. The minimum allowance per week will range from R415.07 to R2 421.13, depending on the level of their National Qualifications Framework (NQF) and the credits they have earned.

Workers, consumers, and businesses

This announcement is not merely stirring conversations; it's igniting a nationwide dialogue among stakeholders from every corner of industry and commerce. Some voice concerns about the potential financial strain on businesses, while others champion it as a long-overdue measure to uplift marginalised workers and invigorate consumer spending.

Amid this discourse, it is imperative for employers to grasp the nuances of these changes. While ensuring fair compensation is paramount, it's equally vital for employers to navigate these adjustments effectively to ensure the sustainability of their businesses.

Under the new legislation, employers are mandated to adhere to the revised minimum wage rates, which are designed to better align with the cost of living and prevailing economic conditions. Failure to comply with these regulations could result in penalties and legal ramifications, underscoring the importance of proactive measures and diligent adherence to labour laws.

The heart of the matter lies in the details of these new minimum wage rates, each a testament to a commitment to fair labour practices and economic equilibrium, with each sector seeing its tailored adjustments designed to better reflect the cost of living and prevailing economic conditions.

However, compliance is not just a suggestion—it's a legal mandate with repercussions for non-adherence.

Now that the implementation date has come and gone, employers are urged to not only acquaint themselves with the updated wage scales but also to ensure meticulous documentation and payroll adjustments.

Proactive dialogue with employees is essential to usher in these changes smoothly and foster an environment of transparency and compliance. These adjustments underscore our commitment to fair labour practices, recognising the diverse needs of different sectors and regions.

Consultation with legal experts or industry associations is paramount to ensure full compliance. As we embark on this journey towards equitable compensation, collaboration and proactive measures will pave the way for a future where fairness reigns supreme in the workplace.

Tertius Wessels, legal director at Strata-g Labour Solution.

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