2022 MTBPS ROUND TABLE DISCUSS- UNICEF AND PSAM

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16 November 2022

Parliamentary Budget Office

PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

Outline

- Introduction
- 2022 MTBPS in context
- Policy framework and plans
- Macroeconomic overview
- Fiscal framework
- Revenue and taxes
- Government spending
- Parliament budget process
- Public participation and the budget

Introduction

- The Parliamentary Budget Office is a juristic entity of Parliament and headed by a Director as an Accounting Officer
- The Parliamentary Budget Office was established to support the Finance and Appropriations Committees in both Houses of Parliament with the implementation of the Money Bills and Related Matters Act of 2009
- The purpose of this presentation is to summarise the Office view on 2022 Medium Term Budget Policy Statement (MTBPS), and critically share the understanding of the legislative process
- The presentation focuses on:
  - The extent to which the 2022 revised fiscal framework can help achieve the government's stated goals of reducing unemployment, poverty and inequality(UPI)
  - Whether the proposed approach to fiscal stability in the MTBPS will help secure future stability and prosperity in the context of severe levels of UPI
  - It examines the policy framework as well and the global and domestic economic outlooks that will impact on SA's economy
  - Government revenue and expanding revenue sources
  - Government spending priorities
  - Parliament budget process and oversight matters

2022 MTBPS in Context

2022 MTBPS in Context

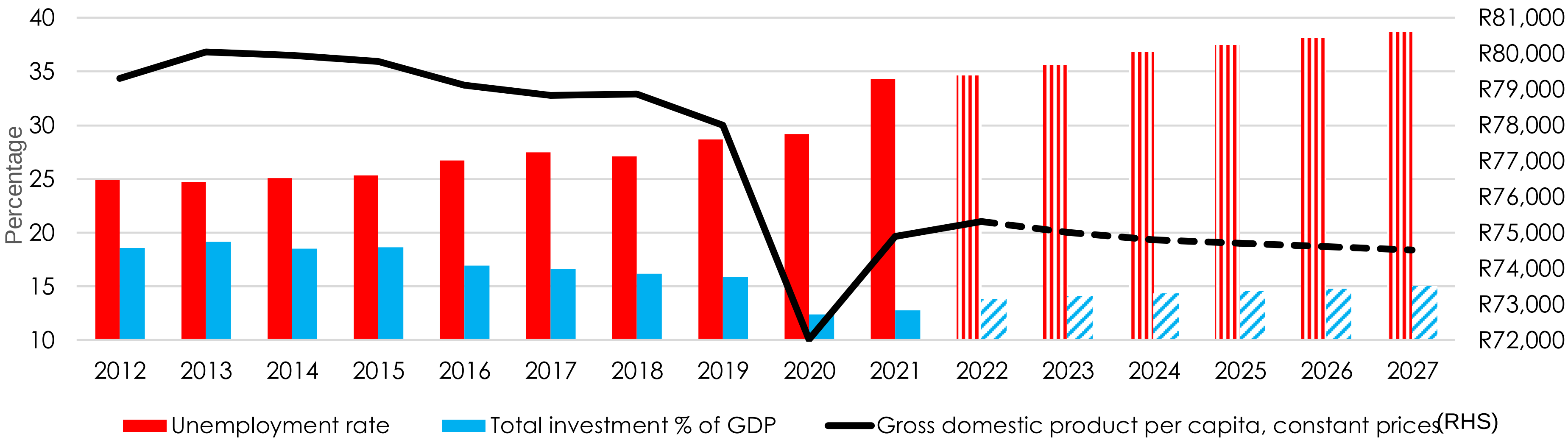
- The Minister's speech states that:
  - "the strategic goal of this government is to reduce poverty, inequality and unemployment, in pursuit of a better life for all"
  - "the 2022 MTBPS aims to address the needs of South Africans and secure our future stability and prosperity"
- Given the experience with the chosen fiscal policy stance over the past few years, we question whether the approach taken in the 2022 MTBPS, and the solutions offered, support achievement of these goals
- We are concerned that the approach suggested may further constrain economic activity, erode the social fabric and escalate risks to societal and economic stability
- Progress on structural reforms has been slow and the advertised economic benefits of these reforms will most likely not be seen or felt during the MTEF
- The growth rates forecast in the 2022 MTBPS mean that real GDP per capita and real investment is expected to remain below 2019 (pre-Covid-19) levels in 2025
- The PBO has raised concerns over the past few years that the credibility of the fiscal framework is at question because:
  - The approach in the MTBPS continues to narrowly view risks to the fiscal framework as focused on fiscal targets such as the deficit & debt to GDP
  - It could go much further to alleviate the suffering of millions of households and build their resilience to potentially serious risks while at the same time boosting aggregate demand and economic growth
  - Fiscal consolidation has contributed to increased anger and heightened risk of social and economic instability as inadequate spending on social support and infrastructure has exacerbated hunger

2022 MTBPS in Context

- The poor performance of the our economy, which predates the Covid-19 crisis, is due to the interrelated structural weaknesses of the economy and extreme levels of unemployment poverty and inequality (UPI)
- A path towards fiscal sustainability should take into account these underlying dynamics of the economy
- It should ensure resources for measures to transform the structure of the economy and to alleviate suffering associated with UPI
- South African extreme inequality is a great constraint on economic growth and development
- Fiscal policy can;
  - be a more effective tool for redistribution in an unequal society and increased social security can provide automatic stabilisers to risks and shocks
  - also support economic development and transformation, including diversified, value-adding industrialisation and productive services
- In short, fiscal policy can be an essential policy in South Africa's policy toolbox to move it onto a new, inclusive, more stable and sustainable economic growth path
- The social and economic returns of reducing inequality are high and will support fiscal sustainability, for example:
  - Healthier and happier households that are resilient to serious risks facing the globe
  - Improved economic structure supported by higher labour productivity
  - Better education outcomes and skills development
  - More opportunity, lower UPI and reduced crime and corruption

2022 MTBPS in Context: Another 'lost decade'?

Unemployment rate, total investment as a percentage of GDP and real GDP per capita during the fiscal consolidation period and **forecasts from 2022 to 2027**



Source: World Bank, WEO

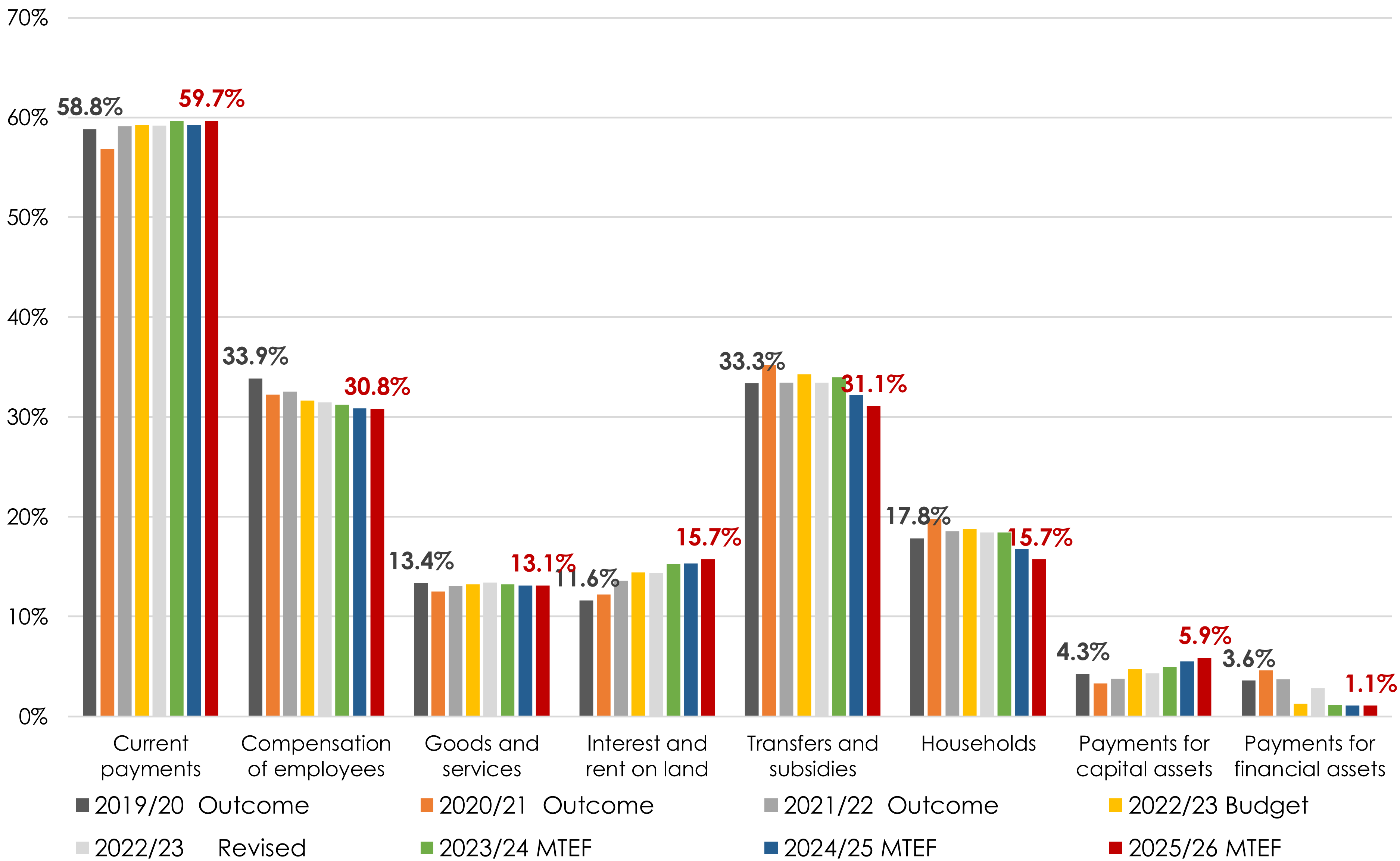
- The continued increases of interest rates around the world may cause economic turmoil in developing countries and a global recession
- When this scenario played out in the early-1980s it led to a global debt crisis and the imposition of structural adjustment programmes on African and developing countries
- The outcome was a 'lost decade' of poor growth, unemployment and hunger
- The graph shows that South Africa has already experienced a lost decade during the fiscal consolidation era and it is forecast to continue over the next 5 years
- The government's fiscal policy will have to change if we are to avoid another lost decade until 2031

Policy Priorities

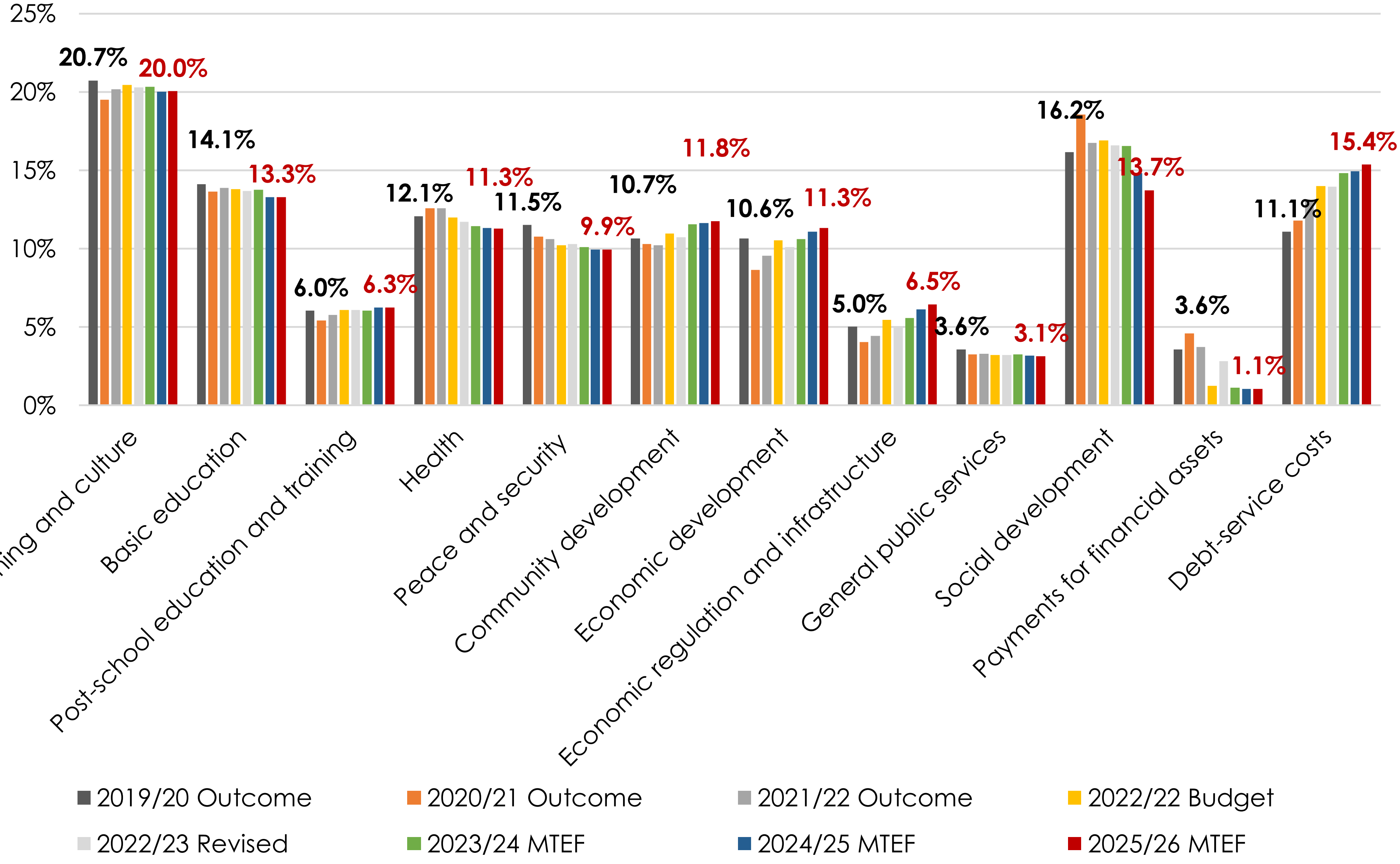
Budget priorities over the MTEF

Changes of spending priorities over the MTSF

Change in spending priorities per economic classification over the MTEF



Change in spending priorities per function group over the MTEF



Macroeconomic overview and risks to growth and development

Global outlook

South African growth outlook

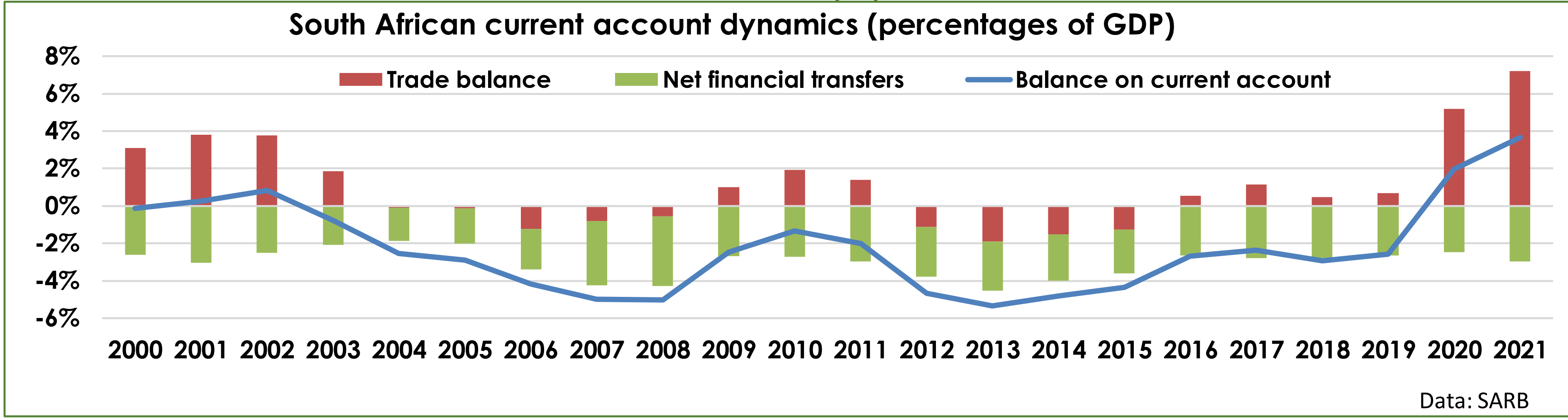
Investment landscape

Structural transformation vs structural reform

Global outlook: A poorer outlook due to a contractionary fiscal and monetary policies

- The UNCTAD warns in its Trade and Development Report 2022 that tighter monetary and fiscal policy choices in advanced economies increases the risk of a global recession and prolonged stagnation
- They warn that these actions may inflict worse damage than the financial crisis in 2008 and the COVID-19 shock in 2020
- These constraints on growth are in addition to the ongoing problems caused by the continued Covid-19 pandemic, the ongoing war in Ukraine, global supply chain problems and high energy, freight and fertilizer costs
- There has been widespread implementation of higher interest rates to fight inflation by curbing demand, decreasing investment levels and increasing unemployment
- At the same time there has also been a widespread return to fiscal austerity across the globe
- The increased interest rates have caused massive outflows of capital from developing countries, including South Africa
- According to SARB Monthly Reports, SA has had cumulative negative non-resident total net purchases of shares and bonds up to Aug. 2022
- The extent to which;
    - lack of structural transformation of the economy and the level of concentration and market dominance impede success of government economic plans and interventions should be examined
    - structural reforms will benefit the dominant business corporations and whether this will crowd out other businesses should also be examined

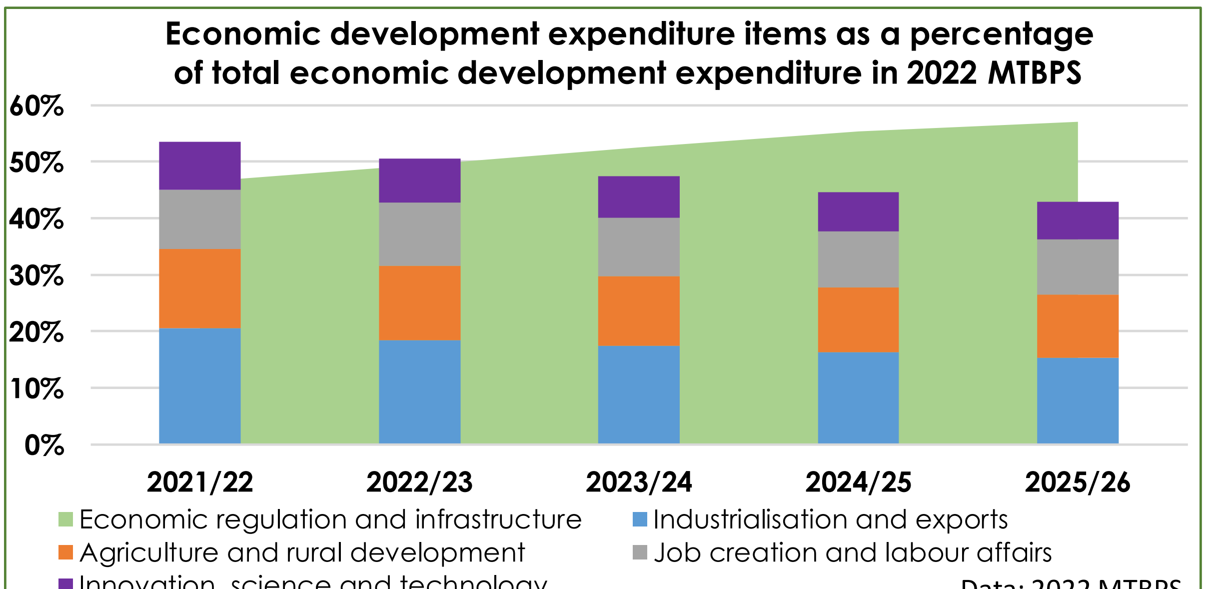
Global outlook: A poorer outlook due to a contractionary fiscal and monetary policies



- The impact of capital outflows on developing countries induce them to increase interest rates not only out of fear of inflation but also to attract foreign capital inflows
- South Africa has generally attracted short-term capital inflows rather than FDI
- The combination of higher interest rates and volatile cross-border capital flows poses serious risks to macroeconomic stability in developing countries
- South Africa is at risk because it has had annual current account deficits since 2003, except for 2020 and 2021
- This current account deficit has predominantly been due to net financial transfers on the current account and not the trade balance
- Maintaining a primary fiscal surplus and reducing government debt will not improve South Africa's current account situation and prospects for growth because of the overwhelming impact and vulnerability to destabilizing, volatile short-term foreign capital flows and the high interest rate regime it requires

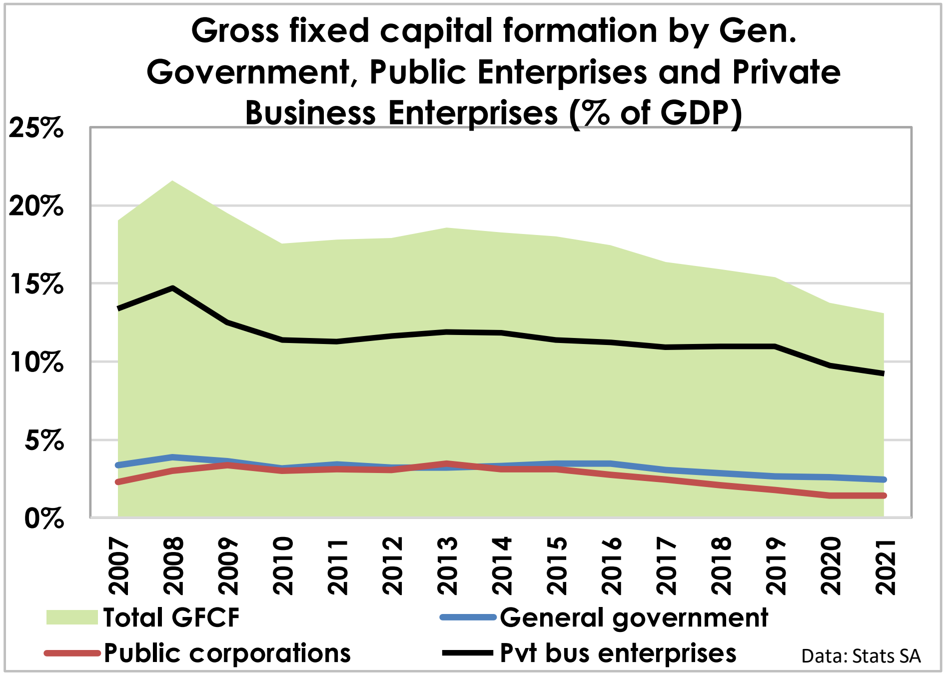
South African growth outlook

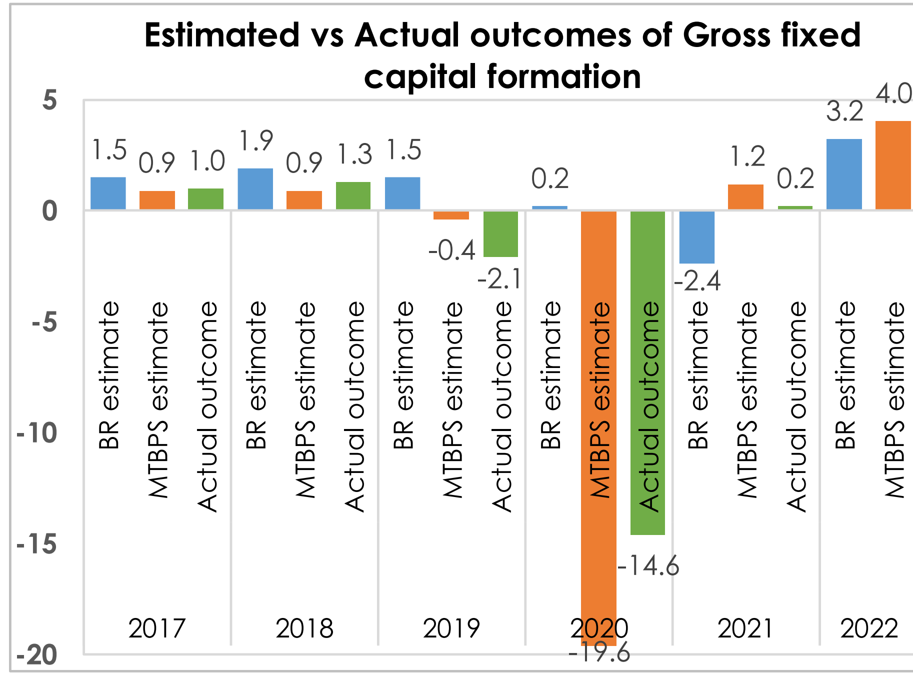
GDP growth outlook - calender year*	2022	2023	2024
National Treasury - Budget 2022	2,1%	1,6%	1,7%
National Treasury - MTBPS 2022	1,9%	1,4%	1,7%
South African Reserve Bank - January 2022	1,7%	1,8%	2,0%
South African Reserve Bank - September 2022	1,9%	1,4%	1,7%
IMF - World Economic Outlook - January 2022	1,9%	1,4%	-
IMF - World Economic Outlook - October 2022	2,1%	1,1%	
Reuters Consensus Forecast - January 2022	2,0%	1,8%	2,0%
Reuters Consensus Forecast - September 2022	1,9%	1,5%	1,8%
*Growth projections correspond to publication date and not forecast date			
Data: National Treasury, South African Reserve Bank, International Monetary Fund			



- South Africa's economic outlook over the medium term is relatively poor
- There is limited support for economic development in the 2022 MTBPS
- The increase in infrastructure expenditure is offset by declining shares for the rest
- Aggregate demand and investment will in all likelihood remain low
- Econ. structure will remain highly concentrated and inadequately diversified
- Therefore, efforts to fight inflation and reduce government debt levels will likely hurt small businesses and the poorest households much more than they help

Investment landscape in South Africa





- The NT bases much of its GDP growth forecast over the MTEF on higher investment
- Infrastructure spend is expected to increase from R66.7bn in 2022/23 to R112.5bn in 2025/26
- However, NT's track record on forecasting investment growth has been poor (e.g., in each of the 3 years before Covid-19, investment growth was overestimated in the Budget Reviews)
- Private investment has been below 12% of GDP since 2015 and, despite the infrastructure fund launched in Aug. 2020, not a single mega infrastructure project has occurred
- Public investment remains weak at below 5% of GDP each for general government and public enterprises, while private investment declined to below 10% of GDP in 2021 (well below the NDP target of 10% and 20% of GDP, respectively)
- A lack of state capacity to deliver infrastructure projects as well as the insufficient progress in addressing structural constraints do not bode well for the fixed investment outlook

Structural transformation vs structural reform

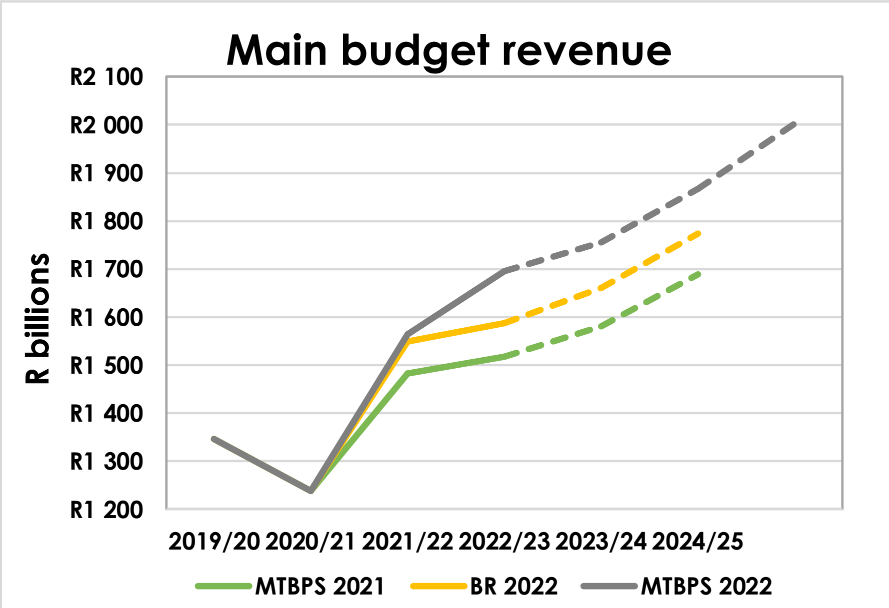
- Improved market sentiment related to lower government debt levels and work on structural reforms is insufficient for economic recovery and growth
- The South African economy has much deeper structural problems than those outlined in the 2022 MTBPS: electricity, inefficient network industries, high cost of doing business and concentration, crime and corruption
- In fact, most of what the 2022 MTBPS identifies as structural weaknesses are actually the symptoms of deeper, long-standing structural problems
- These structural problems arose in large part because of inadequate investment, technological upgrading and employment in an economy with large extractive, outwardly focused dominant corporations
- The economic sectoral structure is weak with an inadequately diversified industrial base that is too capital, energy and carbon intensive with low-levels of value-added
- The financial sector may be sophisticated but it has not been associated with productive investment and capital formation and it is associated with misallocation of capital and de-industrialization
- The sectoral reforms will not reduce the high levels of economic concentration across most sectors of the economy, including financial services
- The structural reforms may further entrench structural weaknesses, including market dominance of corporations that have been dominating the economy

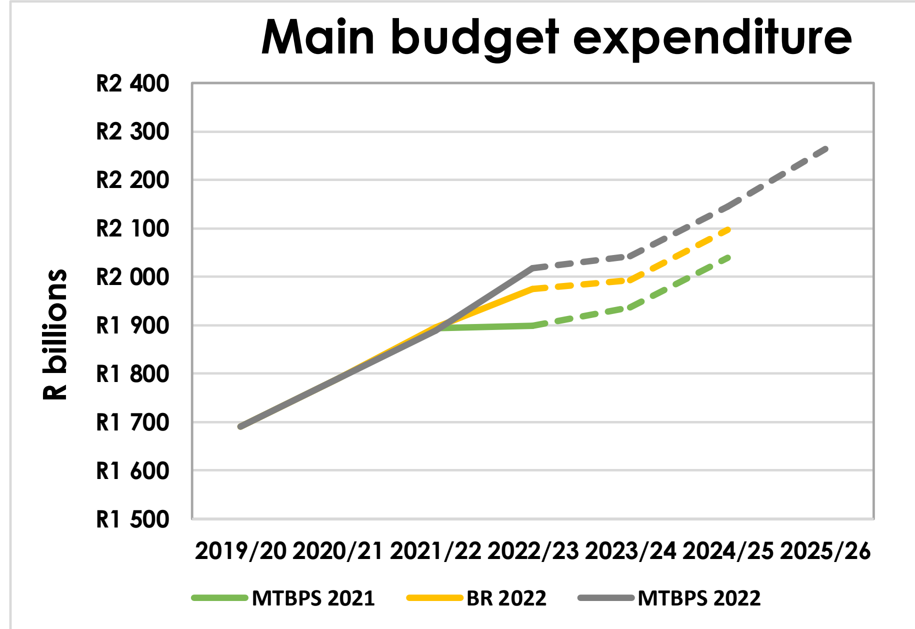
Fiscal framework

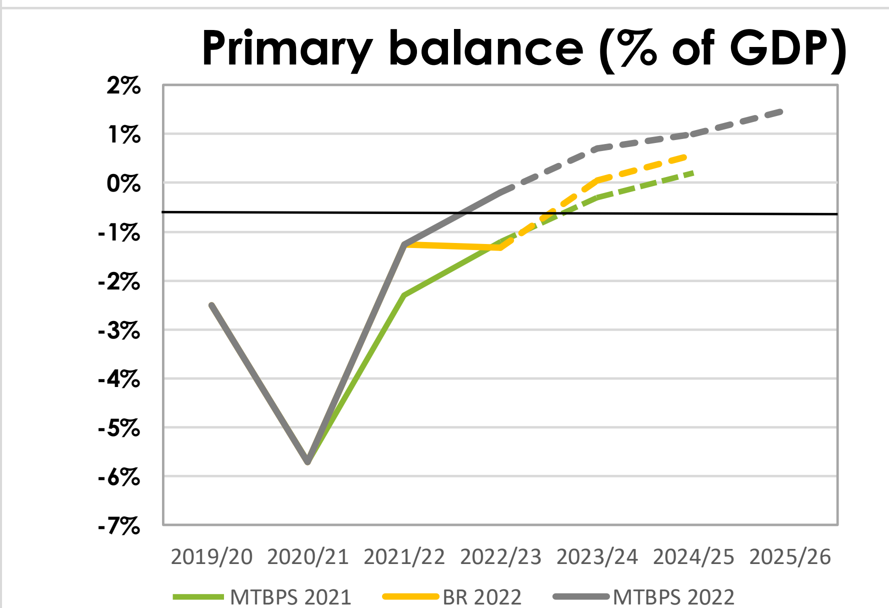
Fiscal outlook

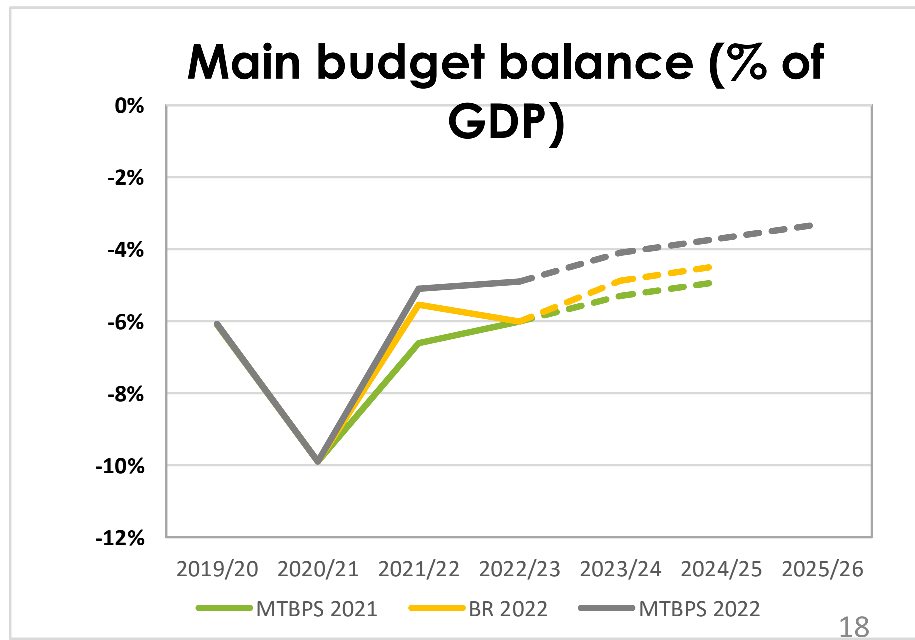
Government debt declines but risks increase

Higher-than-expected revenue improves fiscal outlook



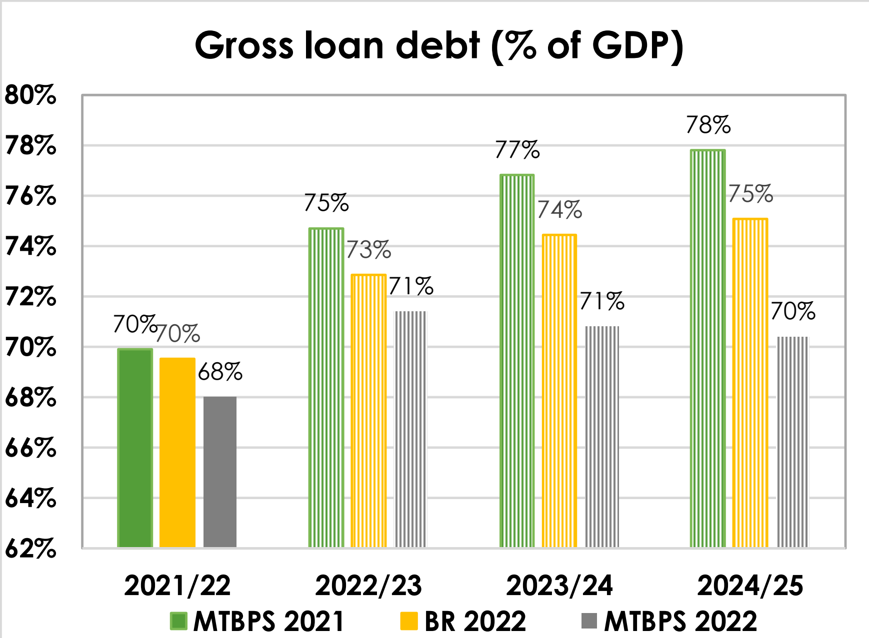


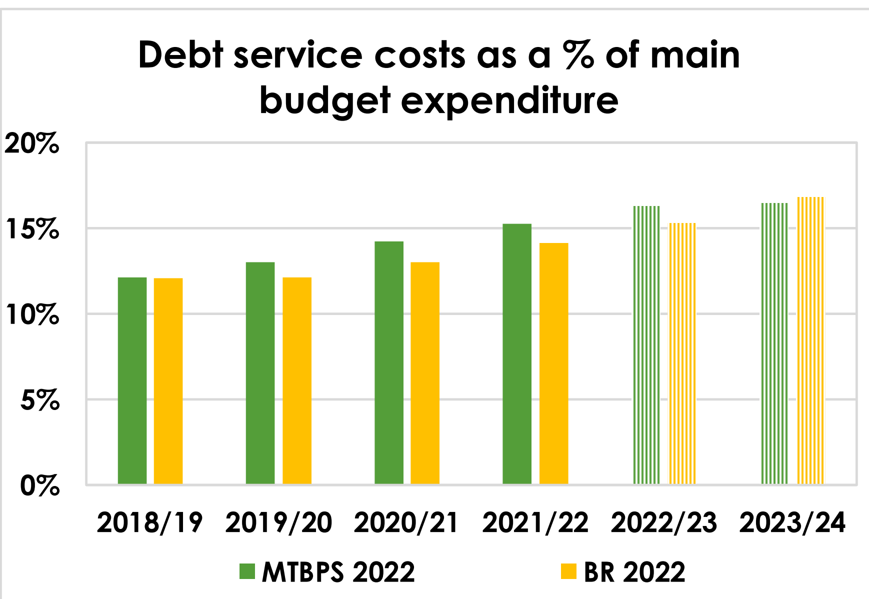




Data: National Treasury, Stats SA

Debt is expected to decline but risks remain elevated





Data: National Treasury, Stats SA

- Better revenue projections have led to increases in the primary balance and higher nominal GDP amidst higher inflation
- Gross debt as a share of GDP is expected to remain around 71% over the MTEF
- The National Treasury indicated that it will allocate some of the revenue above what they estimated in the 2022 Budget towards reducing the gross borrowing requirement
- However, elevated long-term government bond yields and low GDP growth pose risks to the government's current medium-term plans to maintain these debt to GDP levels
- Given this strategy, important questions are:
  - Should expenditure not increase to give more help to starving children & struggling communities during this cost of living crisis
  - Will more expenditure and debt not earn large future returns if spent on increasing resilience and reducing risks while boosting aggregate demand and GDP

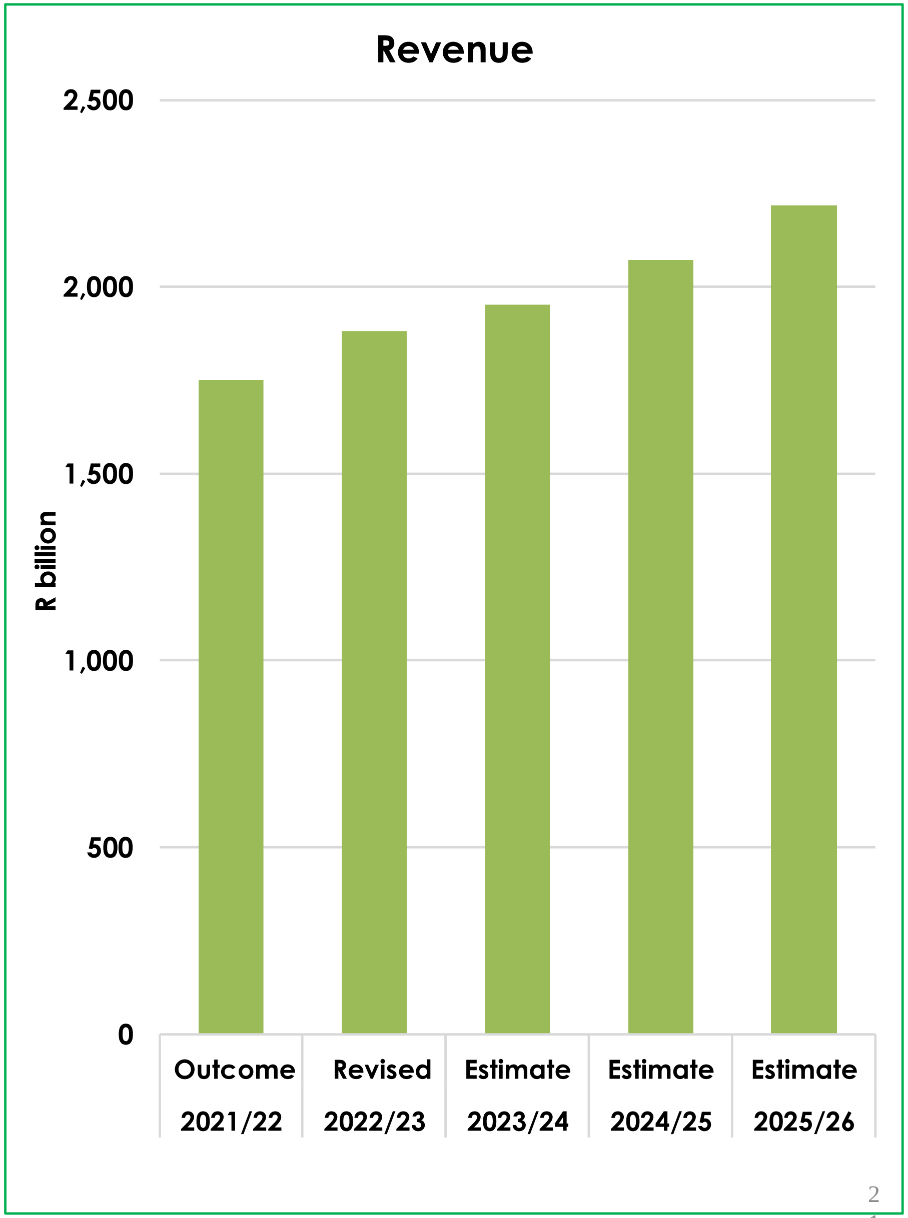
Revenue and taxes

Domestic resource mobilisation

Revenue collection has increased

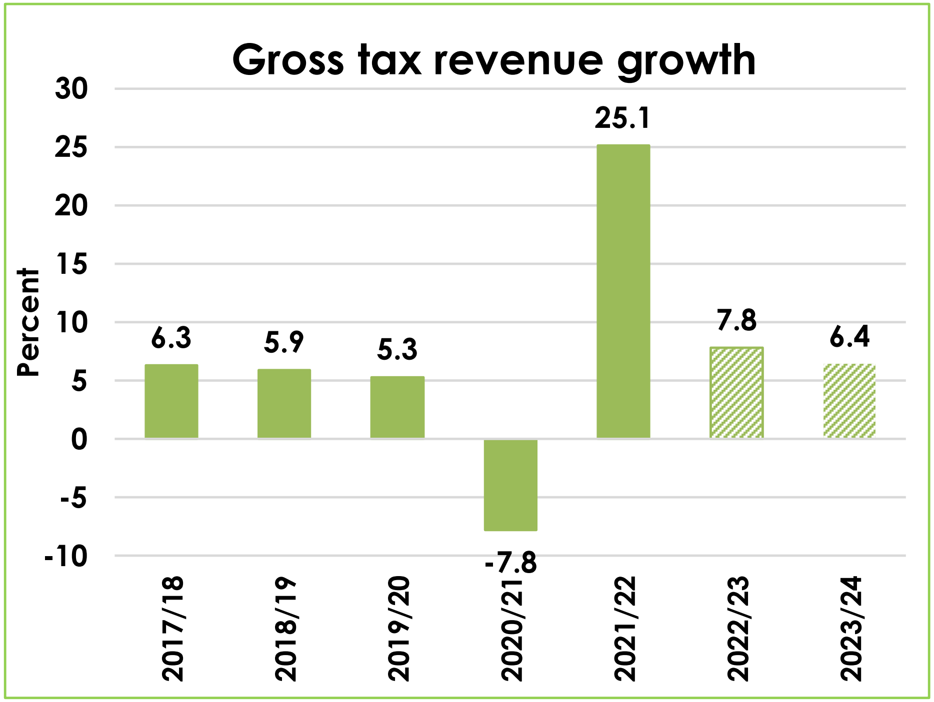
Maximising domestic resource mobilization and redistribution

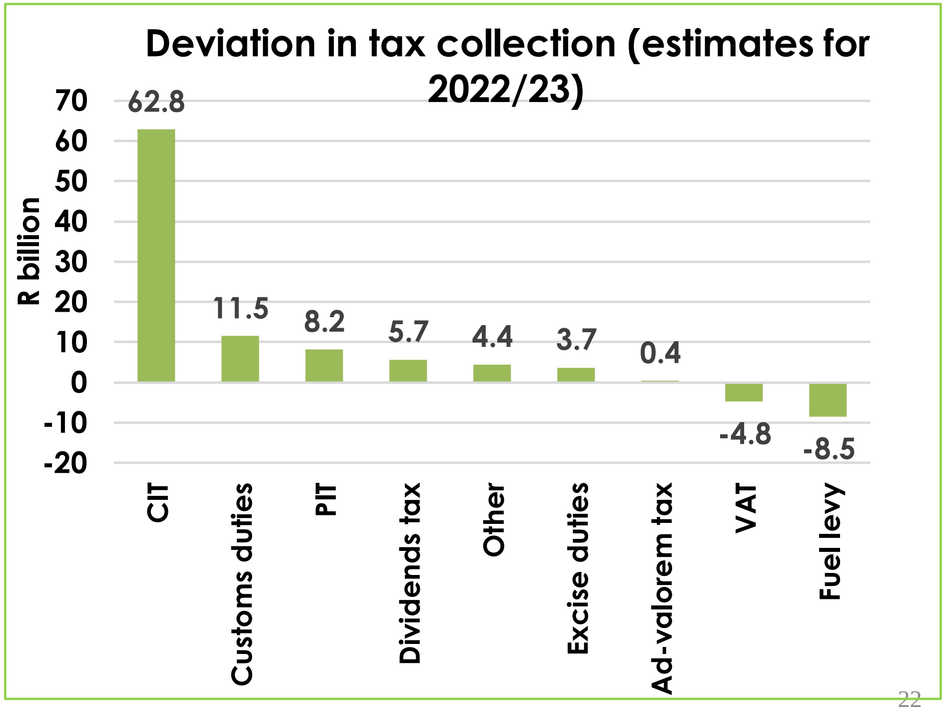
- Few revenue-raising mechanisms are proposed for the medium term, despite strong emphasis is placed on "trade-offs"
- Revenue is expected to exceed non-interest expenditure. However, at the same time there will be declines in per capita spending
- Realising the developmental objectives of South Africa requires maximising domestic resource mobilisation
- Taxation policy is an important tool that can be used for the redistribution of income and wealth, more so when there is extreme structural inequality like South Africa
- The South African tax base reflects extreme levels of UPI and failure to structurally transform the economy, which fiscal policy should be used to address



Revenue collection is higher than pre-COVID projections

- Both the tax-to-GDP ratio and nominal revenue collections are now expected to be higher than pre-COVID projections
- All other tax instruments have been revised upward relative to Budget 2022, except for VAT and General Fuel levy
- Government projects an average growth rate of 6.6% on gross tax revenue over the medium term and that recent higher tax revenues due to higher commodity prices will decline over the next two years





Are there additional sources to increase revenue?

- SA has a relatively broad tax base compared to most middle income countries
- Greater domestic resource mobilisation can be achieved through further progressive tax reforms, leveraging development finance, and non-traditional monetary policy tools (beyond interest rates), amongst others
- Significant reforms are being implemented in SARS to maximise tax revenue collection

Potential tax interventions that could maximise domestic revenue

- Taxing excess profits of companies that have used the inflation upsurge to boost profit and makeup for COVID-19 losses should be considered
- Windfall taxes for sectors benefiting from the commodity price boom
- Failure to reach a global consensus on international tax reform for digital tax leads to a situation where South Africa should unilaterally introduce domestic taxes on revenues from digital economy activity
- Systematic review of tax incentives and removal of ineffective incentives, e.g. ETI
- Progressive measures to tax wealth

Government spending

In-year adjustment

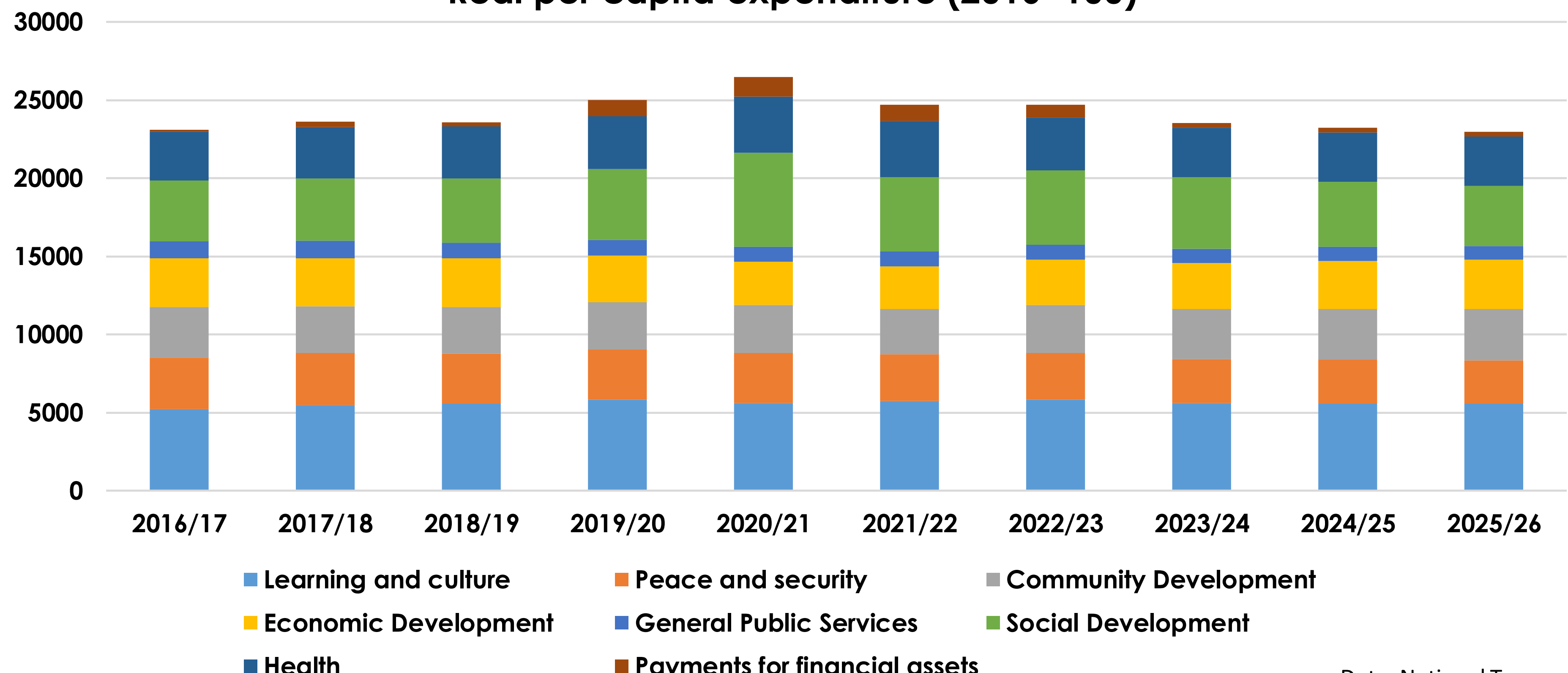
Changes to consolidated expenditure

Consolidated wage bill and headcounts

Real per capita spending per function group

- Total real expenditure per capita expenditure declines in the medium term
- In 2016/17 total real expenditure per capita was R23 116, by 2025/26 this will decline to R22 964
- In the 2022 MTBPS speech, it is stated that government is prioritising education and health. However, we see real spending declines over the medium term for both areas

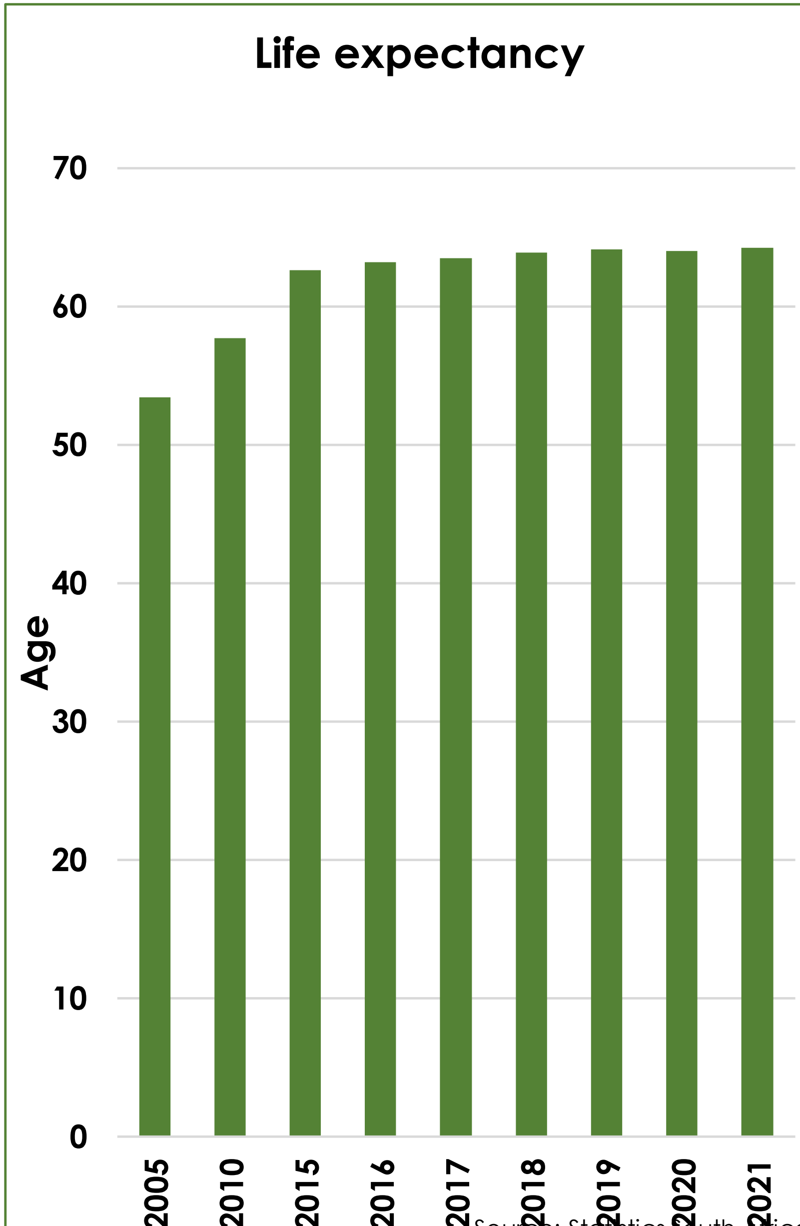
Real per capita expenditure (2016=100)



Data: National Treasury

Healthcare- Health statistics

- South Africa is facing a quadruple burden of disease and this strains the health care system
- COVID-19 slightly reduced life expectancy which has increased over time
- Preventative care remains challenging
- Primary Health Care (PHC) has deteriorated
  - The preliminary outcome for the number of public health facilities that qualified as 'ideal clinics' of 1 928 in 2021/22 was lower than the 2 035 clinics that achieved an ideal clinic status in 2019/20
- Health outcomes diverge along age, gender and the rural versus urban geographies
- The estimated overall HIV prevalence rate is approximately 13.7 per cent among the South African population
- The total number of people living with HIV (PLWHIV) is estimated at approximately 8.2 million in 2021



Source: Statistics South Africa

Trends in health

- We are regressing in achieving the 2024 MTSF target to decrease the infant mortality rate (IMR) to less than 20 deaths per 1 000 live births by 2024 and the under-5 mortality rate to less than 25 deaths per 1 000 live births by 2024

The Infant Mortality Rate (IMR)

- 22.1 deaths per 1 000 live births in 2019
- 24.1 deaths per 1 000 live births 2021

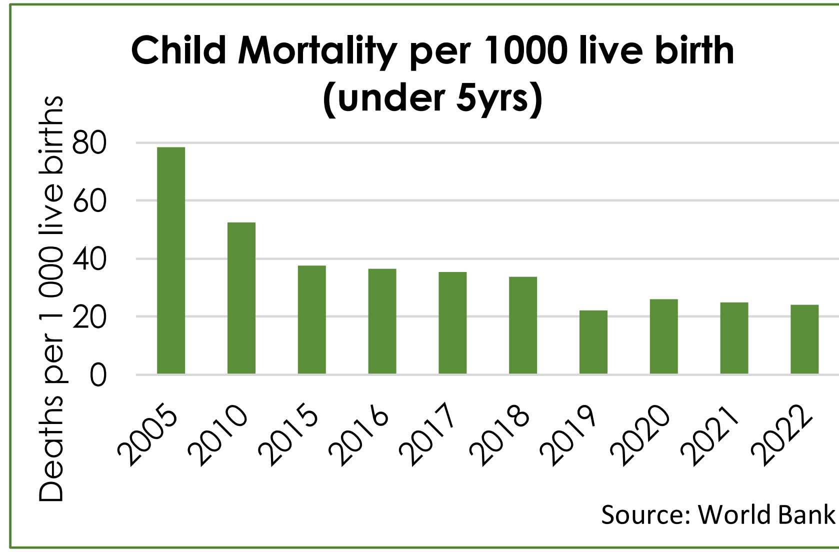
The under-5 mortality rate (U5MR):

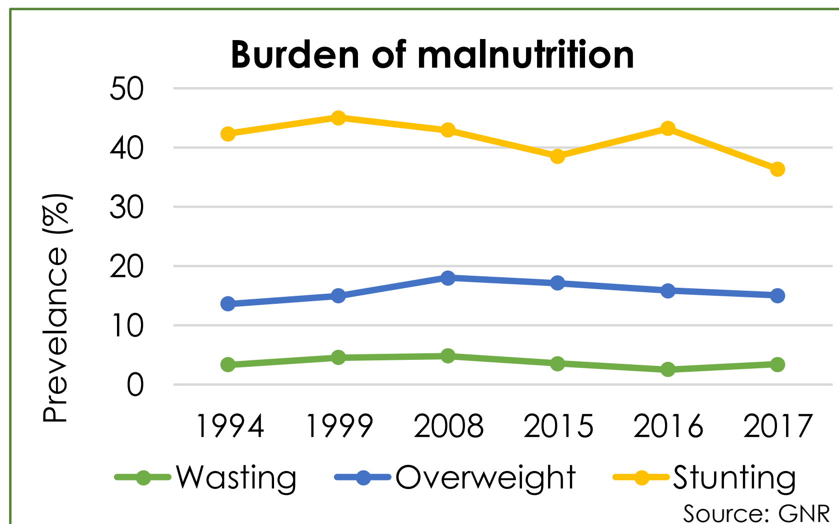
- 28.5 deaths per 1 000 live births in 2019
- 30.8 deaths per 1 000 live births in 2021

Burden of malnutrition 1994 - 2017

- Overweight worsened to 11.5 per cent
- Wasting rate worsened to 3.4 per cent

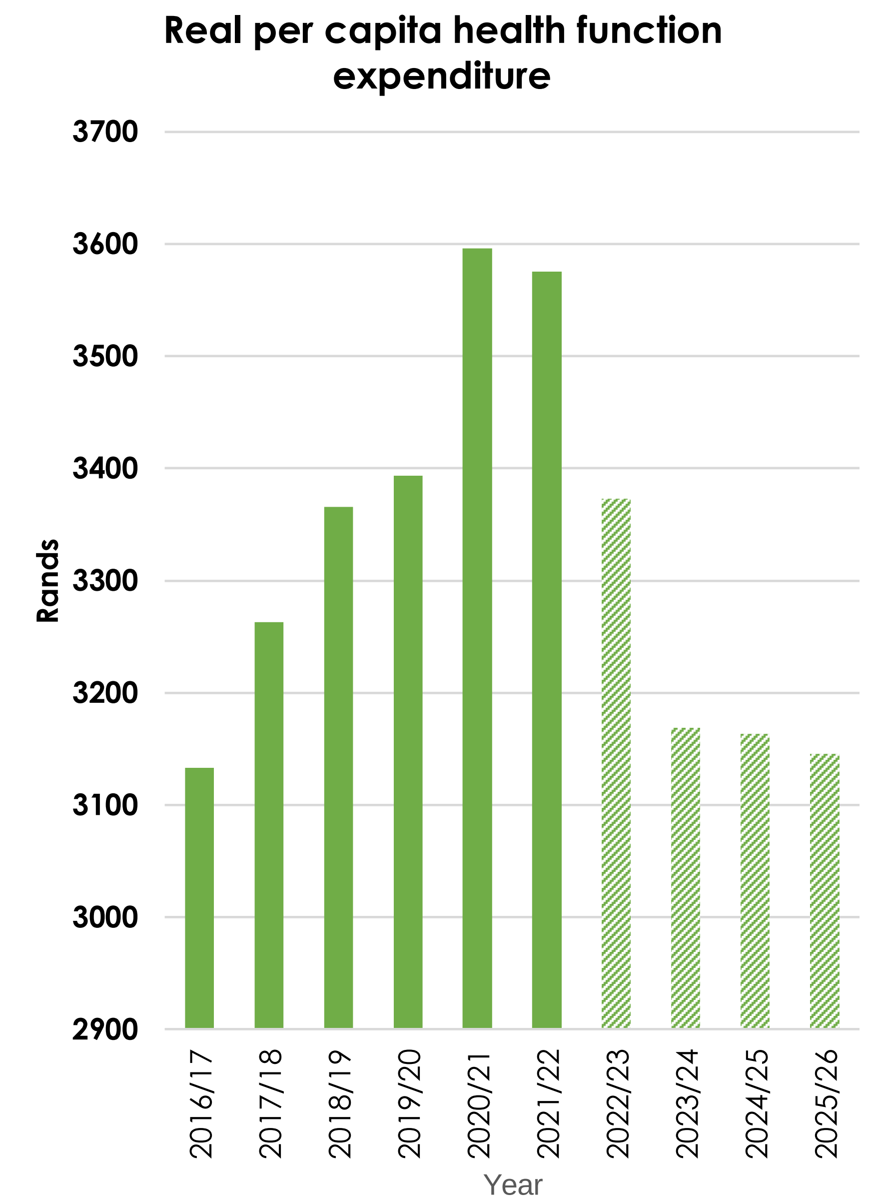
Sources Stats SA





Trends health expenditure

- The public healthcare system remains overstretched and underfunded
- For example: According to the South African Nursing Council, the current nurse-to-patient ratio is 1:218 patients while the ideal ratio is 1:16
- In March 2022, Health Minister Joe Phaahla revealed that there are 10 831 vacancies in state hospitals citing budget cuts as a significant challenge
- The Minister also highlighted that the doctor to patient ratio was 0.79:1000 in 2019
- Despite these challenges, real per capita spending on the health function declines over the medium term period
- Real declines are likely higher given that medical price inflation is higher than CPI
- It must be asked how this spending could support the requirements for implementing NHI?

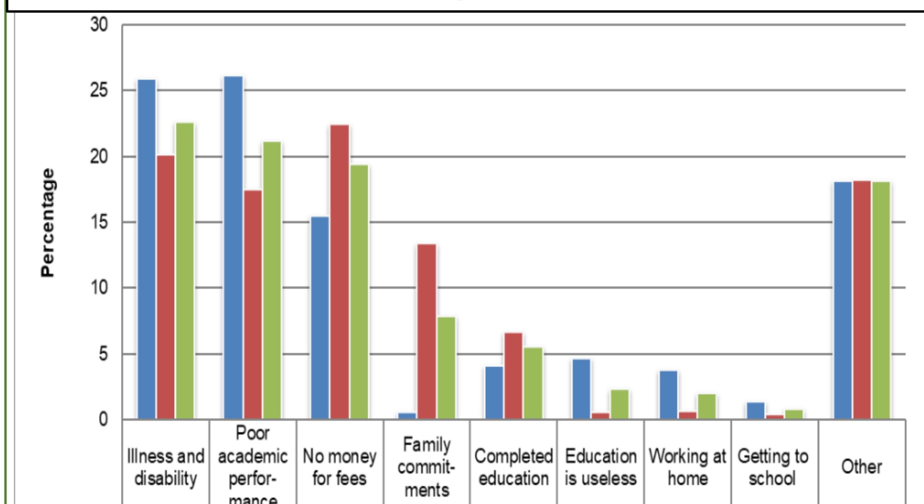


Source: PBO calculations based on National Treasury and Stats SA population data

The status of education

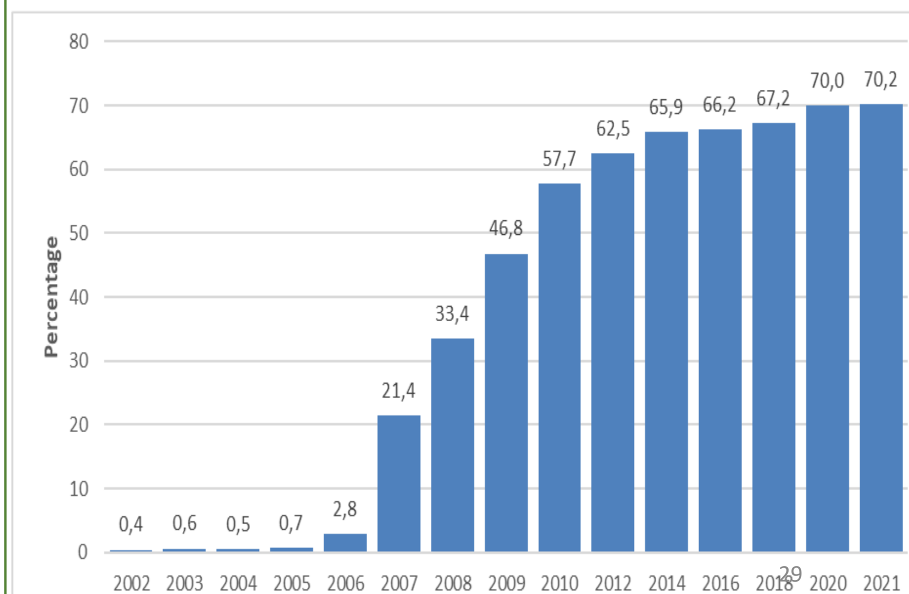
- Massive gains have been made in access to education since dawn of democracy
- However, concerns about dropout rates have increased because of the protracted and intensified cost of living crisis
- Households report that 22.5% of females and 15.5% of males between the ages of 7 and 18 state are not attending an educational institution because they do not have money for fees
- Of the 8 million unemployed individuals in Q2 2022, 40.1% had education levels below matric, 35% had a matric, 10.3% were graduates and 23.3 % had other tertiary

Reasons for individuals aged 7 to 18 years not attending an educational institution, by sex, 2021



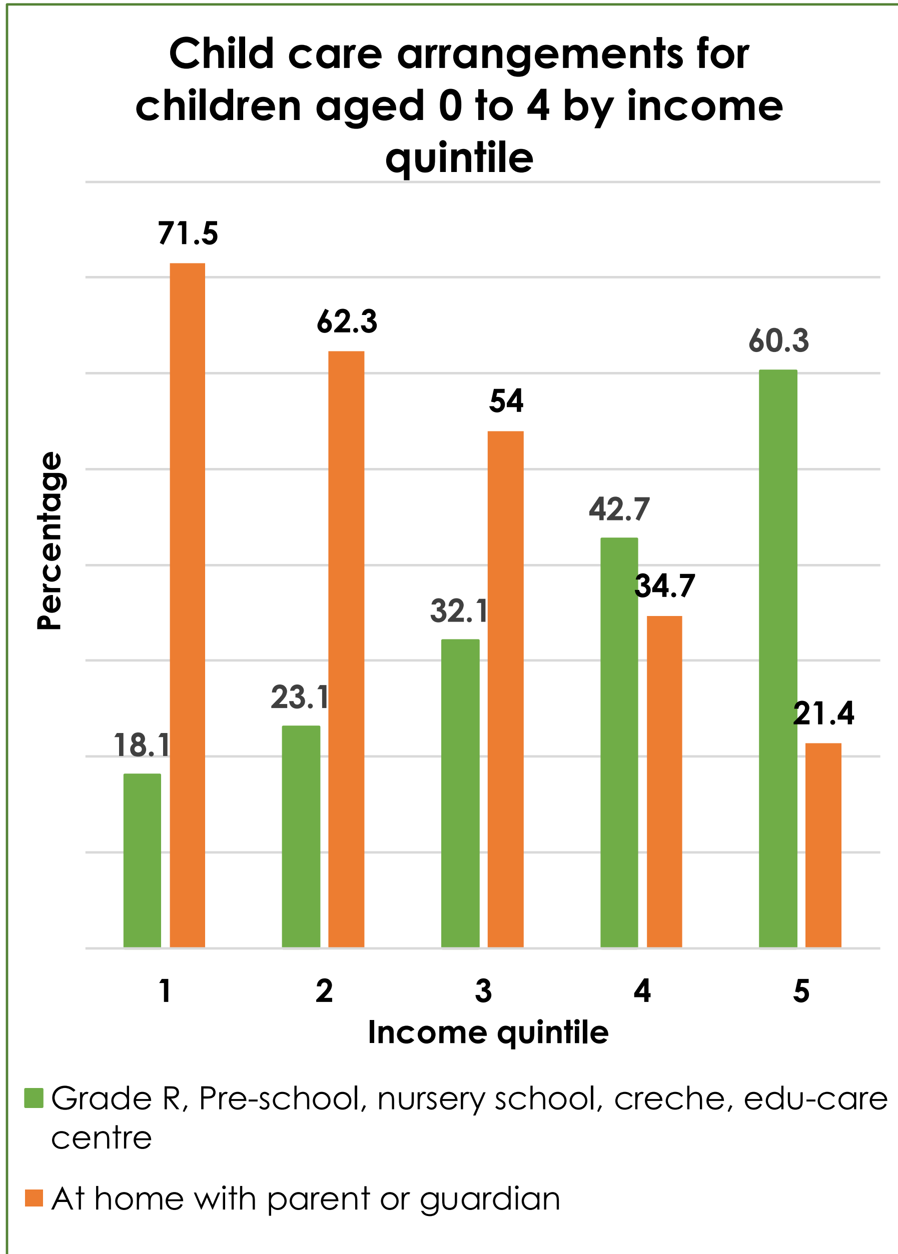
	Illness and disability	Poor academic perfor-mance	No money for fees	Family commit-ments	Completed education	Education is useless	Working at home	Getting to school	Other
Male	25,9	26,1	15,5	0,5	4,1	4,6	3,8	1,4	18,1
Female	20,2	17,5	22,5	13,4	6,7	0,6	0,6	0,4	18,2
RSA	22,7	21,2	19,5	7,8	5,6	2,3	2,0	0,8	18,2

Percentage of individuals aged 5 years and older who attended schools and who do not pay tuition fees, 2002–2021



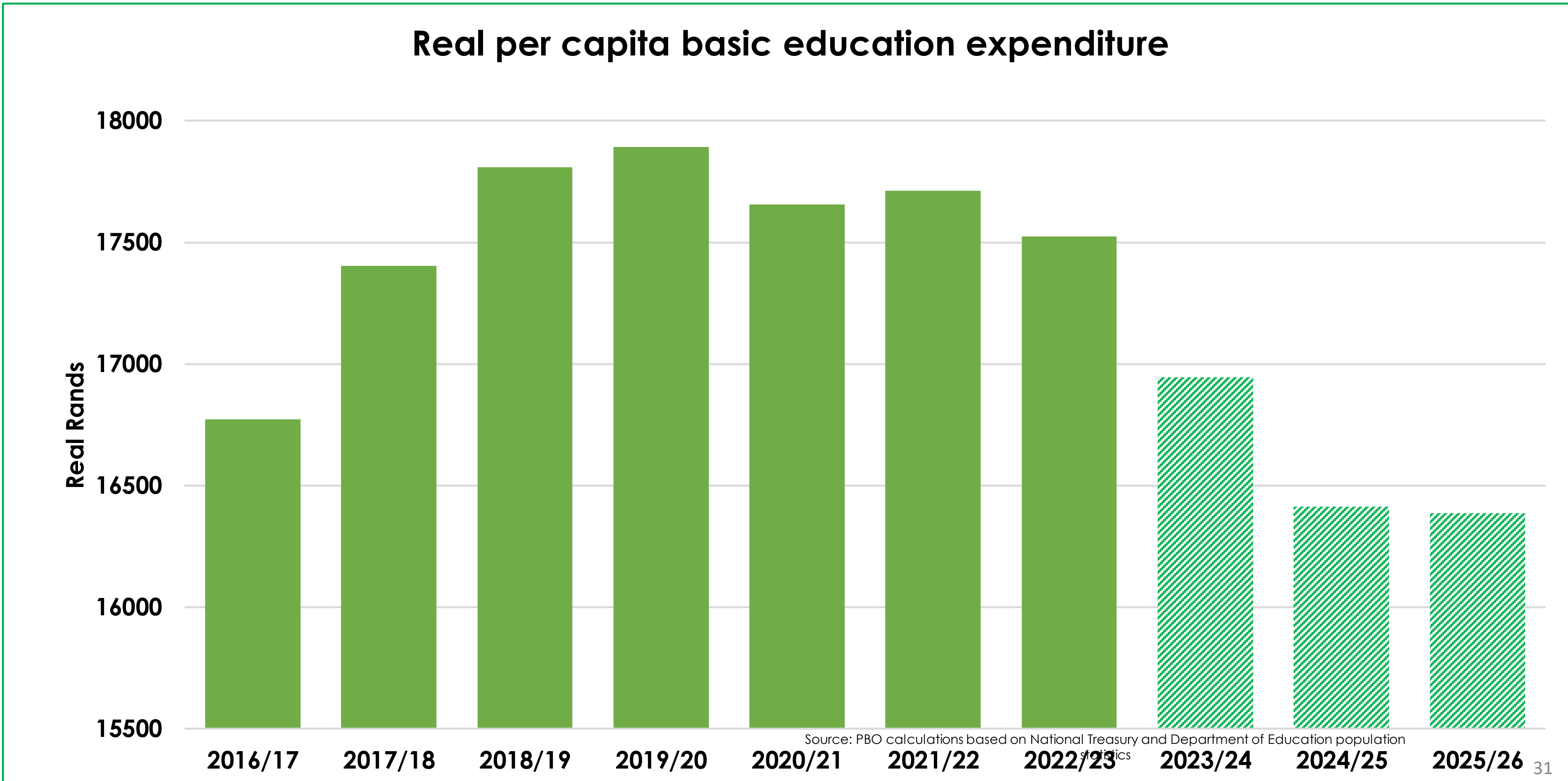
Trends in education

- According to Stats SA, there was a decline from 36.8% in 2019 to 28.5% in 2021 in children aged 0 to 4 who attended Grade R and pre-school
- Children from poorer households are more likely to stay at home with parents or guardians than attending ECD centers
- Socioeconomic status is still a determinant of education
- The percentage of individuals aged 18 to 24 who are still attending secondary school was higher for households in poorer income groups than households in higher income groups
- Youth aged 18 to 24 from the highest income households are more likely to attend university than those in lower quintile groups



Trends in the learning and culture function expenditure

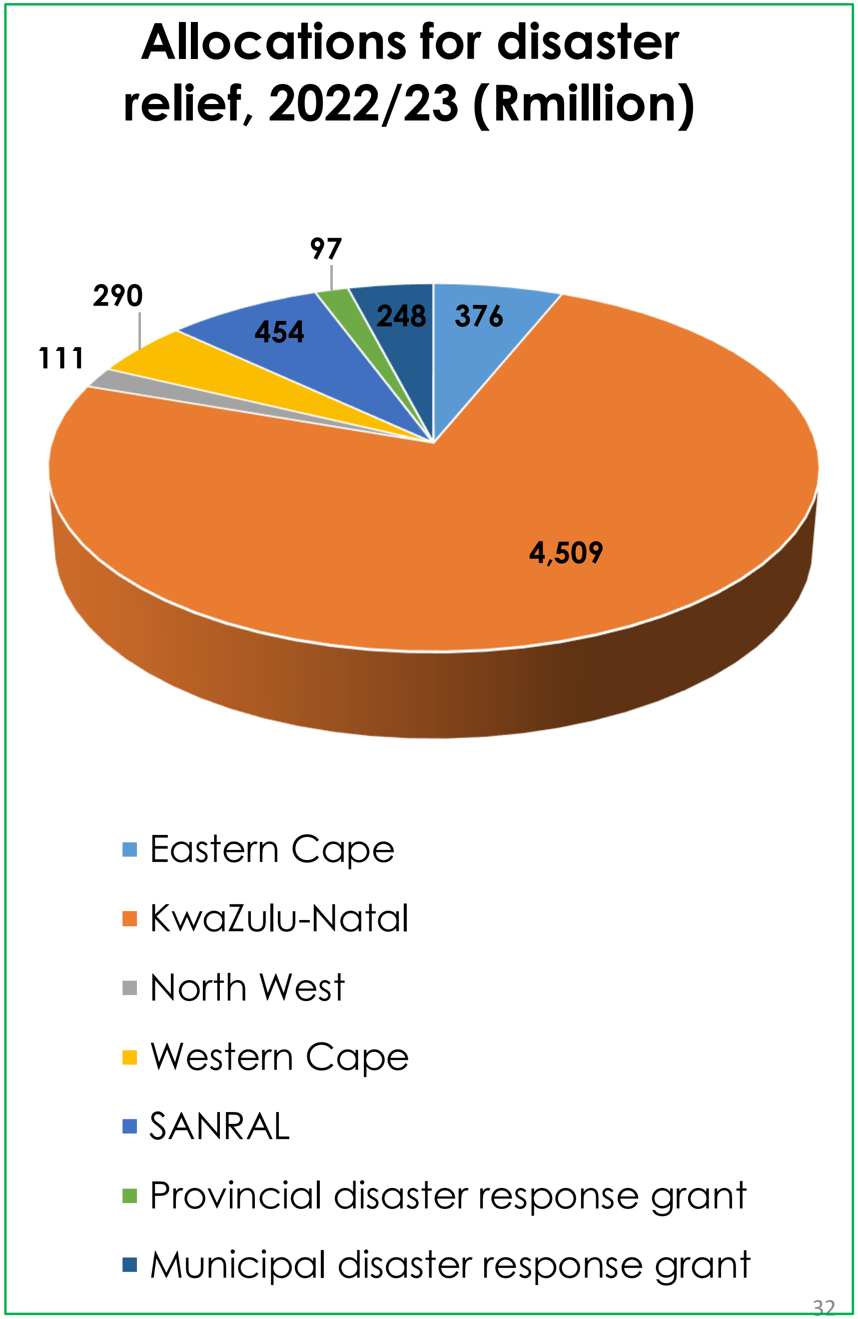
- In real per capita terms, the government will be spending less per student in 2025/26 than it did in 2016/17
- In 2016/17, the government spent R16 772 per learner. Projected spend per learner in 2025/26 is R16 384



Source: PBO calculations based on National Treasury and Department of Education population statistics

Disaster spending and allocations

- Emergency response and relief spending is critical for the protection of human rights and mitigating against economic scarring, i.e., long term impacts on individuals and the economy
- In May 2022, the government announced that R1 billion would be allocated to the disaster reponses in KwaZulu Natal and the Eastern Cape
- The National Treasury reported that in the first quarter of the fiscal year, approximately R359 million had been spent in response to the disasters
- As of 12 August 2022, KwaZulu Natal had submitted a request for more than R2.9 billion for reconstruction and rehabilitation interventions. The Eastern Cape had requested R50 million
- The 2022 MTBPS proposes R6.1 billion in disaster relief



Disaster spending: "too slow and inadequate"- Auditor General SA

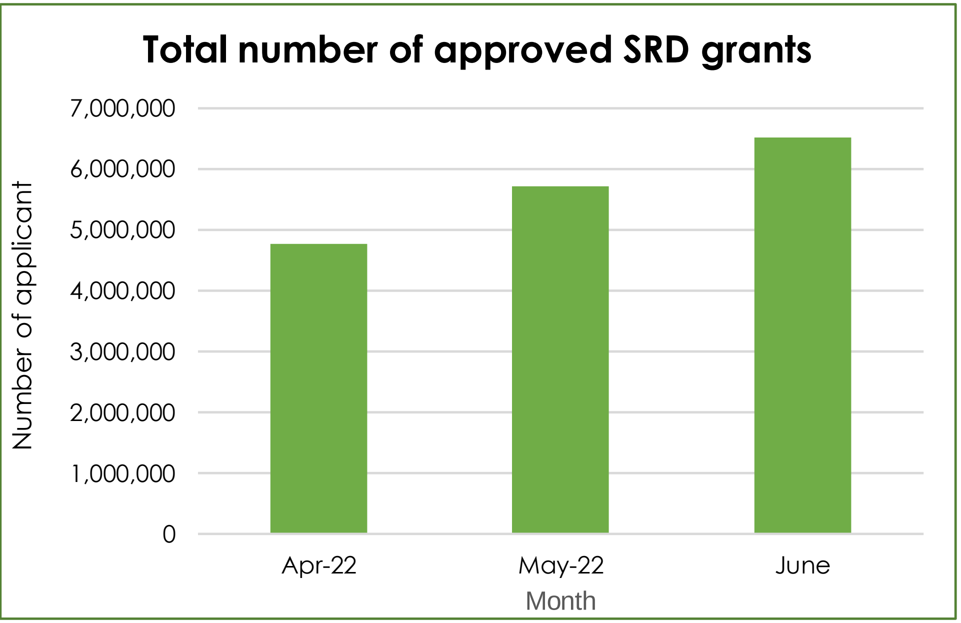
Provision of mobile classrooms and kitchens to severely damaged schools	• The floods caused damage to 356 schools in the province. The provincial education department estimated that the repairs would cost R235.38 million. The repairs are planned to commence in September 2022 for completion by March 2023
Provision of temporary residential units for residents	• In KwaZulu Natal, only 736 of the 1 810 temporary residential units had been completed and were in use. In the Eastern Cape, only 45 of the 4 799 temporary residential units had been completed – and some of these were not in use as they had not yet been handed over to beneficiaries by 31 July 2022
Water tank services	• 198 water tanks were secured to ensure water services to eThekwini communities During the AGSA's site visits from 13 May to 27 May 2022, 83 per cent of communities in the metropolitan area indicated that they had not received water for at least one day and 57 per cent for more than three days
Repairs to government properties	• The Property Management Trading Entity (PMTE) determined that 65 properties (48 projects), which included state-owned properties leased to user departments, suffered damage to roofs, ceilings, gutters and structures. The AGSA selected 20 KwaZulu-Natal projects for testing. Their findings show that 17 were still in progress and three had been completed as at 19 May 2022
Social relief efforts	• SASSA provided social relief to flood victims by 31 July 2022 in the form of approximately 99 500 hot meals and 10 894 food vouchers for groceries in KwaZulu-Natal. In addition, 2 637 items of humanitarian goods were delivered, 4 159 cash distributions were paid directly into bank accounts, and 816 school uniforms were provided in KwaZulu Natal and the Eastern Cape

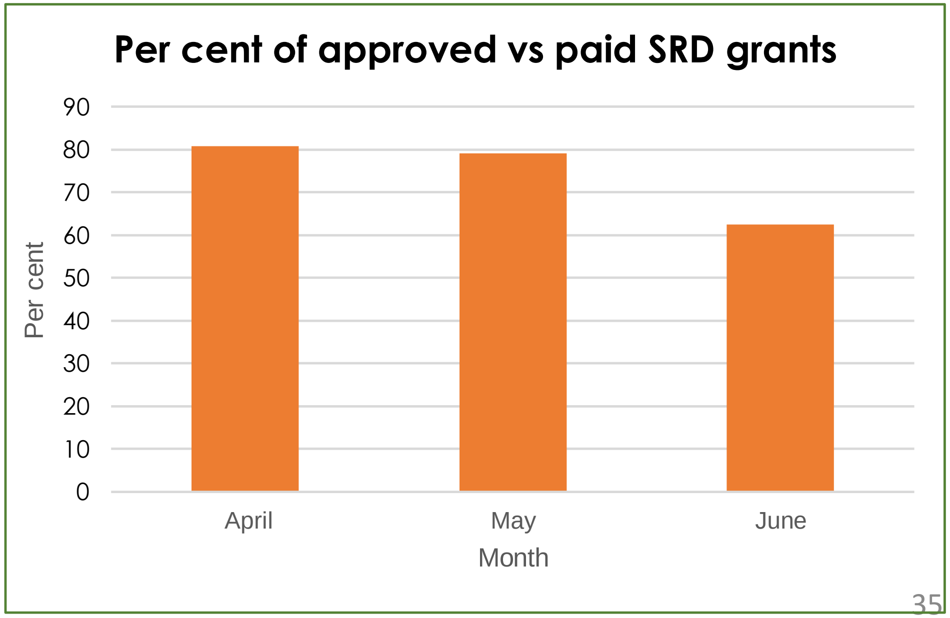
Disaster management

- Extreme weather events associated with climate change, such as floods and droughts, have become more frequent and intense
- Therefore, it is important for the government to invest in disaster preparedness and responsiveness to prevent humanitarian crises
- According to the Country Climate and Development Report of the World Bank:
  - "Climate change negatively affects SA's infrastructure, productivity, human capital, and scarce water resources. The country is vulnerable to rising temperatures and variable precipitation that result in droughts, floods, and heatwaves."
- South Africa declared three national states of disaster for drought between 2017 and 2021; there were major droughts in 2020 and 2022
- The government has to shift from being reactive to being proactive. The AGSA highlighted the need for robust needs assessments
- A systemic review of past disaster spending and outcomes should be undertaken and backlogs should be addressed
- Failure to adequately prepare for and address disasters leads to cumulative build up of burdens for communities that render them increasingly vulnerable to future events
- Improved social security and services builds societal resilience to disasters. Enhanced social security acts as automatic economic stabilisers during economic downturns and disasters because households have money to keep spending

The 2022/23 extension of the SRD grant

- In Budget 2022, R44 billion has been allocated to serve 10.5 million people until the end of March 2023.
- The allocation was not enough for the 10.9 million people who were identified as potential beneficiaries for the grant
- The Department of Social Development introduced additional qualifying criteria for the grant so that the department could remain within the budget allocation:
  - The means test threshold was initially R350
  - Renewal of application every three months plus means testing
  - Low levels of approved payments (or low uptake) and payment delays





August 2022 amendments to the SRD regulations

- On 16 August 2022 the DSD published amended regulations for the SRD grant
- Notably, the means test threshold was increased from R350 to R624. The new level is in line with the estimated Food Poverty Line for 2022
- In August 2022, the DSD reported that 7.5 million people were receiving the benefit on a monthly basis
- Even with these amendments, it was clear that the DSD was likely to underspend

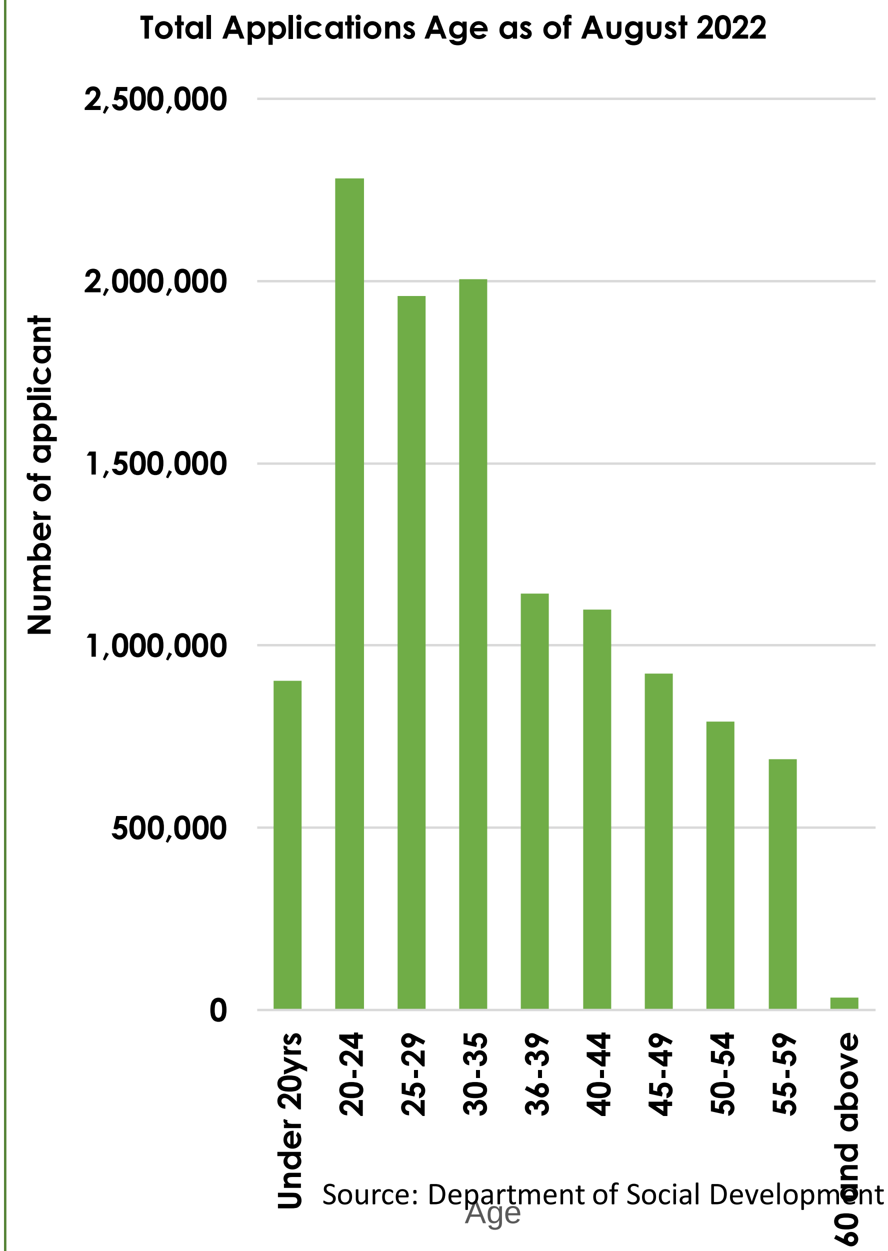
Projected SRD grant expenditure against the February 2022 Budget allocation

Budget allocation (R44 billion)	Amount	Per cent of total budget allocation
Approved (as of 2 August 2022)	R4, 76 billion	10,8%
Paid (As of 2 August 2022)	R4,36 billion	9,9%
Projected spend total spend (assuming 7.5 million beneficiaries going forward)	R27,99 billion	63,6%

Source: PBO calculations using Department of Social Development data

Why the SRD Grant is important?

- "[E]veryone has the right to have access to social security, including, if they are unable to support themselves and their dependants" (SA Constitution, Chapter 2)
- The extensions of the SRD grant have provided a lifeline to many people in South Africa
- The grants have been shown to have made a significant impact on poverty and hunger
- A study by Bhorat and Kohler (2021) on the fiscal incidence of the COVID-19 grant estimates that in 2020 the grant reduced :
    - poverty by 5.3% amongst the poorest households, and
    - household income inequality by 1.3% to 6.3% depending on the measure
- The grant has partially addressed the long-standing gap in social protection for the 18 to 59 age group in the context of high structural UPI

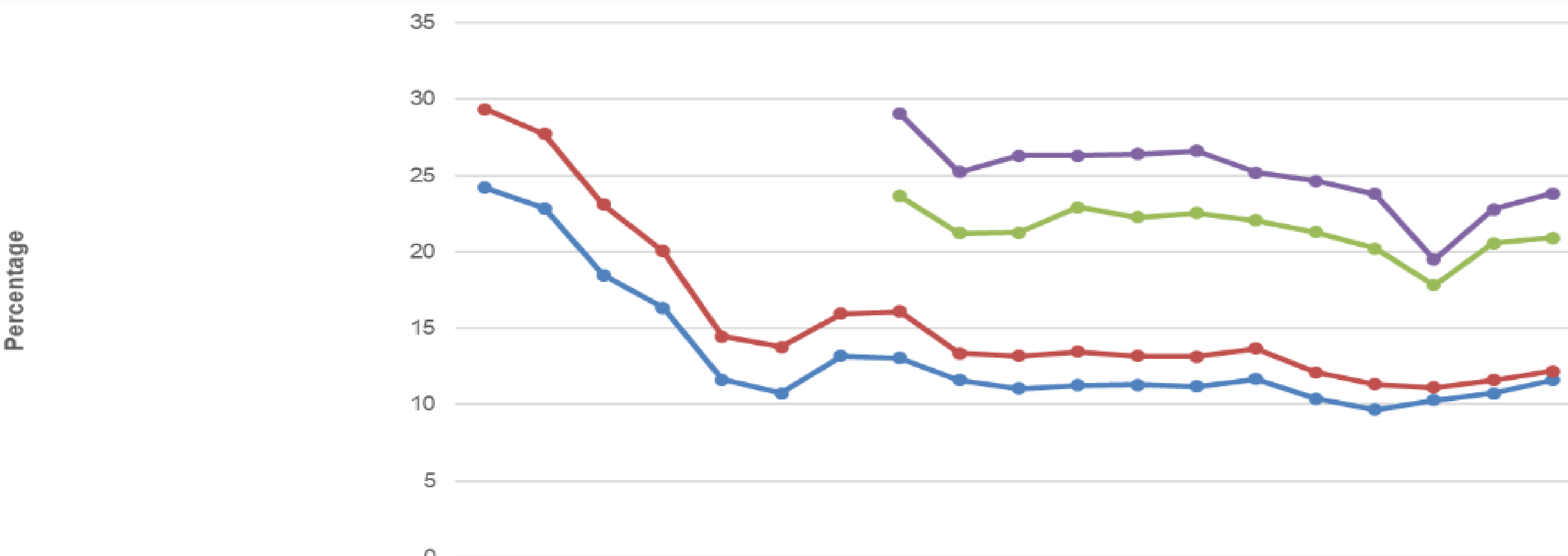


Source: Department of Social Development

People are experiencing an ongoing, intense long-term cost of living crisis

- Failure to address unemployment combined with inadequate social provision has caused persistence of poverty and inequality (UPI)
- The result has been long term, cumulative negative impacts on households, communities and society. The majority of South Africans live in poverty
- UCT's Children's Institute estimates that in 2021 the overall food poverty rate among children in South Africa was 37% (i.e., nearly eight million children were living in households where the cost of basic food could not be met). The food poverty rates in the rural former homelands was 54%

Vulnerability to hunger, 2021



	2002	2003	2004	2005	2006	2007	2008	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Vulnerability to hunger: Households	24,2	22,8	18,5	16,3	11,7	10,8	13,2	13,0	11,6	11,1	11,2	11,3	11,2	11,7	10,4	9,7	10,3	10,8	11,6
Vulnerability to hunger: Persons	29,3	27,7	23,1	20,1	14,5	13,8	16,0	16,1	13,4	13,2	13,5	13,2	13,2	13,7	12,1	11,3	11,1	11,6	12,2
Complex food access: Households								23,6	21,2	21,3	22,9	22,3	22,5	22,1	21,3	20,2	17,8	20,6	20,9
Complex food access: Persons								29,1	25,2	26,3	26,3	26,4	26,6	25,2	24,7	23,8	19,5	22,8	23,8

Source: Stats SA

Can we afford not to spend more to address ongoing risks to livelihoods & the economy at large?

- The Cost of Living crisis threatens to plunge more people into poverty
- The current SRD is only 25% of the amount needed for individuals to be at the upper-bound poverty line
- The exclusion criteria means that 3 million people in the target group identified by the DSD in February 2022 are not receiving the grant
- Nominal wages have been declining since 2010
- Even for those who are employed, overall, wages in South Africa are not increasing fast enough to support households

MTBPS 2022 Summary of adjustments: Social Development

- R3,7 billion + **- R1,8 billion** = **- R5,5 billion**

Shifting of funds between votes

Declared unspent funds and projected underspending

Total amount shifted away from Social Development

Parliament Budget Process

Money Bills and Related Matters Act 2009

- Section 73 (2) of the Constitution of the Republic of South Africa about introduction of money Bills in National Assembly;
  - Only the Minister of Finance
- Section 77 (3) of the Constitution state that;
  - An Act of Parliament must provide for procedure to amend money bills before Parliament
- Money Bills Amendment Procedures and Related Matters Act of 2009 (Money Bills and Related Matters Act);
  - Guide Parliament's role in the budget process, the act came into effect in April 2009
  - It gives Parliament powers to amend the budget and other money bills before it
  - Each House must establish a committee on Finance and Appropriations to consider specific budget instruments

Money Bills Amendment Procedure and Related Matters Act 2009

- Each House committee on finance to consider and report on:
  - The national macro-economic and fiscal policy
  - Amendments to the fiscal framework, revised fiscal framework and revenue proposals and Bills
  - Actual revenue published by the National Treasury
  - Any other related matter set out in this Act.
- Each House committee on appropriations to consider and report on:
  - Spending matters
  - Amendments to the Division of Revenue Bill, the Appropriation Bill, Supplementary Appropriations Bills and the Adjustments Appropriations Bill
  - Recommendations of the Financial and Fiscal Commission
  - Reports on actual expenditure published by the National Treasury
  - Any other related matter set out in this Act

Parliament Budget Process in terms of Money Bills Act 2009

Executive

- Minister of Finance (MoF) tables budget documentation in February:
- Division of Revenue Act (DORA), Appropriation Bill, Estimates of National Expenditure over the MTEF and Budget Review

Committees

- Consider and hold public hearing on proposals by MoF
- Report to NA and NCOP within 16 days after the tabling
- Report to adopt DORA, 35 days after adoption of Fiscal Framework; in April
- Adopt Appropriations bill within 4 months, usually after June. Amendments can be proposed and discussed during this period (Ministers must be given 10 days to respond)

Mid-year -(Finance and Appropriation Committees)

- Mid year adjustments in October;
- Medium Term Budget Policy Statement (MTBPS)
- Reporting on the Revised Fiscal Framework (Finance) and Revised DORA (Appropriations) must be done within 30 days;, after the tabling to NA and NCOP

Auditing

- Budget Review and Recommendations Reports considered by Parliament;
- AGSA audit financial statements and performance reports considered
- Publication of Audit Reports and Revision by Parliament

Budget Amendments procedure- Money Bills Act 2009

Committees table BRRR in the NA

Minister of Finance: National Treasury tables money Bills

Budget Review and Recommendations Report

Adjusted: Current Budget/Appropriations/ DORA

MTBPS: new MTEFF

National Budget:

Appropriations Bill

DOR Bill

Revenue Bills

After the approval of the Appropriations Bill and before the tabling of the MTBPS

Three months before the tabling of the Budget October/November

February/March

National Assembly approves

a House or committee may consider an amendment to a money Bill proposed by the Minister

Committees:

-must provide an assessment of the department's service delivery performance given available resources;

-must provide an assessment on the effectiveness and efficiency of the departments use and forward allocation of available resources; and

-may include recommendations on the forward use of resources

Finance Committees Consider and Report:

-the national macroeconomic and fiscal policy;

-the fiscal framework, revised fiscal framework and

-revenue proposals and Bills and amendments thereto;

-actual revenue published by the National Treasury; and

-any other related matter set out in this Act.

Appropriations Committees consider and report on:

-the Division of Revenue Bill, the Appropriation Bill, Supplementary Appropriations Bills and the Adjustments Appropriation Bill and amendments thereto;

-recommendations of the Financial and Fiscal Commission, including those referred to in the Intergovernmental Fiscal Relations Act, 1997 (Act No. 97 of 1997);

-reports on actual expenditure published by the National Treasury; and

-any other related matter set out in this Act.

Parliament and fiscal oversight process

Over the recent years, in South Africa and in other jurisdictions we have seen an increase demand for a rigorous legislative oversight and governance mechanisms over government service delivery and development strategies

The form of governance or oversight system (2 or 3-tier spheres) inherently affects or determine state service delivery capabilities and related oversight;

- National developed policy priorities are not always implemented by other spheres of government; due to in part the contestations around fiscal powers and weaker coordination between the three spheres
- Capable Local sphere is prerequisite and necessary to realising service delivery goals and objectives set out at National sphere. Therefore, it is necessary that local government has sufficient technical and administrative competence
- Three-teir governance system requires a great cooperation between the provincial and local government spheres in relation to fiscal powers. This system also reduces service delivery complexity and governance measures

- Budget or Appropriations Committee to include other functional Committees MPs for better fiscal oversight
- Ineffective follow-through mechanism on Committees recommendations contribute to unresponsive of government and failed accountability, and failure to use of the budget-cycle processes or enhance oversight
- Oversight information from various stakeholders and these are used for recommendations for improvement of government service delivery and accountability, but how useful in the information for oversight. e.g. Annual Reports

Parliament and fiscal oversight

Some of the key challenges facing Parliament Oversight	Need to improving quality of life of South Africans
Improved and meaningful public participation, improved scrutiny over the Executive in service delivery and to ensure improved developmental indicators	Increasing the pace and quality of service delivery will require a more responsive and accountable government
Access for better or useful information and analysis to ensure deeper scrutiny by the legislature	Greater responsiveness and accountability by the Executive requires Parliament to strengthen oversight and involvement
Integration of technology and new business models into the oversight process without exaggerating inequality in accessing Parliament by citizen in our unequal society	Deeper scrutiny by Parliament Committees, more effective public involvement and hearings, and more effective recommendations and resolutions by the Houses. Further need for follow through on oversight processes
Limited facilities, resources and budget available to Parliament and oversight process	More time allocated for oversight activities, enhanced MPs capacity to ensure effectiveness, deeper insights into issues at hand,

Public participation and the budget

- The extent of public participation in the law-making processes has been the subject of some of the matters brought before the Constitutional Court by civil society organisations. This includes making provision for appropriate time in the law-making processes for adequate public involvement in the budget process
- Civil society has also raised concerns on meaningful participation in the budget process, particularly for people who experience the greatest levels of marginalisation and exclusion
- While South Africa ranks highly on transparency in the Open Budget Index, concerns have been raised on transparency at provincial (regional), municipal and departmental levels. This includes delays in data availability
- Low numbers of submissions are made to Parliament committees. For example, only 3 presentations made in public hearings on the 2022 Fiscal Framework and Revenue Proposals.

Key consideration for public participation

Transparency

Improve the comprehensiveness of the enacted budget by presenting approved estimates of expenditure by functional classification and approved estimates of revenue by category and individual source

Public participation

Government has established pre-budget submissions during budget formulation but, to further strengthen public participation in the budget process, should also prioritize the following actions:

- Pilot mechanisms to monitor budget implementation
- Actively engage with vulnerable and underrepresented communities directly or through civil society organizations representing them

Parliament has established public hearings related to the approval of the annual budget, but should also prioritize the following actions:

- Allow any member of the public or any civil society organization to testify during its hearings on the budget proposal prior to its approval.
- Allow members of the public or civil society organizations to testify during its hearings on the Audit Report

Key consideration for public participation

Could AGSA consider to prioritize the following actions to improve public participation in the budget process:

- Establish formal mechanisms for the public to assist in developing its audit program and to contribute to relevant audit investigations

Budget oversight

Parliament provides adequate oversight during the planning stage of the budget cycle and adequate oversight during the implementation stage. To further improve oversight, could the following actions be considered:

- The Executive's budget proposal should be submitted to legislators at least two months before the start of the budget year
- The Parliament consider approve the Executive's budget proposal before the start of the budget year
- In practice, ensure the Parliament is consulted before the executive reduces spending due to revenue shortfalls, with clear analysis on service delivery impact

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