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DEBATE ON BUDGET VOTE 9 – NATIONAL TREASURY (INCLUDING SARS)

SPEECH BY DEPUTY MINISTER OF FINANCE NHLANHLA NENE, MP

11 May 2010

Honorable Chairperson

Honorable Ministers and Deputy Ministers

Honorable Members

This government has set itself a clear vision for the next five years. Its vision is embodied in the Medium Term Strategic Framework (MTSF) and the 12 outcomes which government intends achieving over the medium term. The MTSF and these outcomes are the guiding principles that inform the work of the National Treasury and are in line with its strategic focus areas of promoting economic growth and work opportunities; reducing poverty; promoting the optimal allocation and utilisation of resources ensuring good governance and accountability; and maintaining macroeconomic stability. That is why Chairperson we present our budget vote in this house today, to ask this house to approve our allocation such that we are able to deliver on these.

Improved financial management

The National Treasury's resolve to improve financial management and ensure that funds are spent effectively remains unwavering. The Office of the Accountant-General and Specialist Functions is to accelerate current efforts targeted at, rooting out wastage, corruption and promoting cost efficiency. Procurement reforms are now currently underway to address the current supply chain management challenges and at the same time align it to government's broader economic objectives. Some of the interventions being explored include analyses of the market; benchmarking of prices; determining the most appropriate method of procurement; and due diligence audits on information provided by bidders prior to the awarding of contracts. This may also result in the centralisation of bids for strategic commodities. Oversight in respect of procurement planning and the auditing of the processes of adjudication and selection of suppliers before the award of large contracts is also to be strengthened.

Integrated financial management systems

National Treasury will maintain government's current financial management systems at a level of 98 per cent availability to users by implementing the third phase of the integrated financial management system, which will focus on rolling out the completed procurement, human resource and asset management modules in 2010/11 and fast tracking the development and implementation of the remaining modules in 2011/12.

Strengthening of the country's intergovernmental fiscal system

The period ahead will also see a further strengthening of the country's intergovernmental fiscal system. In line with some of the proposals made by the relevant parliamentary committees when the Division of Revenue Bill was processed, the National Treasury is reviewing the fiscal framework for provincial and local government. Specifically, the provincial equitable share formula is reviewed to improve targeting and to ensure alignment between the delivery agreements signed between the President and the Ministers responsible for concurrent functions like education and health.

Honorable Chair, Members will appreciate the vast fiscal differences that exist between the country's municipalities. The review of the local government fiscal framework will attempt to align, without compromising local accountability, the fiscal system to these differences. In addition, a process is currently underway to review all conditional grants with the aim of rationalising them to ensure that the sphere of government that is closer to the people is funded directly to accelerate the delivery of quality basic services. These reforms will be phased in from next year.

Improving municipal financial performance

Steps to improve the quality of local government budgets are at an advanced stage. The quality of municipal budget information has improved considerably following the implementation of the new Municipal Budget and Reporting Regulations, which prescribes norms and standards for the preparation and format of municipal budgets. As from the 2010/11 municipal financial year, all 283 municipalities are required to prepare their budgets, adjustment budgets and in-year financial reports in a uniform, prescribed format. This will greatly facilitate transparency and understanding of municipal budgets by councils, communities and other stakeholders and thus enhance oversight.

The Siyenza Manje programme, currently administered by the Development Bank of Southern Africa (DBSA), seeks to build capacity in municipalities. In the past financial year, the programme succeeded in unlocking capital spending of R8.2 billion. Government is currently reviewing the programme to improve its targeting and to ensure its impact is sustainable. Part of the review would look at options to strengthen local government governance, infrastructure delivery and financial management.

It is expected that that these interventions, together with the review of the local government fiscal framework, will put government in a better position to attain a responsive, accountable, effective and efficient local government system. This intervention Chairperson speaks directly to (outcome 9); sustainable human settlements (outcome 8); and vibrant, equitable and sustainable rural communities (outcome 7).

Development Finance Institutions (DFIs) as a catalyst for growth

As government, we are continuously confronted with the question of how best to position our DFIs in order to enhance their capacities to effectively and efficiently deliver significant and tangible developmental results to all the qualifying needy individuals and institutions of South Africa. This means that the contributions of DFIs must be measured not by meaningless statistical numbers, but by their direct impact on the lives of the ordinary people of South Africa observable through sustained improvements in incomes and standards of living as a result of access to DFI funding, projects, facilities, and infrastructure base.

In spite of government’s concerted efforts, there are still some very significant challenges our DFIs face. These include the sheer quantum and volume of under-development especially in provinces such as the Eastern Cape, Limpopo as well as several places even within the metro areas and the limited capacities of our DFIs in terms of financial resource base to satisfy these needs. These constraints are further impacted by lack of institutional capacities in most implementing institutions such as municipalities, beneficiary contractors, emerging farmers and SMMEs.

The total combined balance sheet of all our national DFIs put together was approximately R142 billion in 2009. A strategic partnership with banks and capital market funds is going to be key to leveraging development finance to ensure greater impact moving forward.

Approximately 98 per cent (R139 billion) of the total Assets of South Africa’s DFIs is concentrated in four major DFIs (DBSA, IDC, Land Bank, NEF and NHFC). The IDC constitutes 52 per cent of the total DFIs asset base, whilst the DBSA constitutes 28 per cent.

The National Treasury is the Executive Authority to two DFIs –DBSA and Land Bank.

DBSA

Currently the DBSA's geographical spread of its developmental loans exhibit a bias towards resourceful metros – Gauteng, Kwazulu Natal and the Western Cape followed by significant presence in the SADC and Multinational Investments.

Due to this bias, government challenged the DBSA to deepen its development impact and in particular to increase its support to poorer municipalities as follows:

I. Assist weaker municipalities with project identification, preparation and implementation to enhance service delivery, growth and improved revenues;
II. Assist municipalities' capacities through improved access to appropriate funding, including securing the participation of appropriate private sector partners for enhanced project quality and risk mitigation in project delivery;
III. Assist municipalities' administrative systems, management quality and operational processes through the Siyenza Manje Programme in order to ensure their diversified revenue streams; and
IV. Assist with the eradication of classroom backlogs in some provinces.

To achieve this, the current budget includes measures intended to enhance the DBSA's capital structure by increasing its callable capital by R15.2 billion from R4.8 billion to R20 billion. This will effectively increase the DBSA's lending capacity from R38 billion currently to R140 billion. Since the increase of the DBSA's callable capital requires the amendment of the DBSA Act, which normally takes time for Parliament to approve, the Minister of Finance has in the interim provided a guarantee of R15.2 billion to the DBSA.

Land Bank

In order to allow the Land Bank to effectively implement its turnaround strategy, the Minister of Finance announced support for the Land Bank with a guarantee of R3.5 billion which will be converted into a capital injection over the MTEF period. In December 2009, the Land Bank received R1 billion from the Adjustment Appropriation

Act 2009, reducing the guarantee to R2.5 billion. The Land Bank has been allocated R750 million in 2010/11 financial year, a further R750 million in 2011/12 and R1 billion in and 2012/13.

Official Development Assistance (ODA)

While ODA makes up just less than 1 percent of our budget, it is important in assisting our country to achieve its overall developmental agenda. The targeted programmes in some sectors like water, health, and science and technology is significant, demonstrating the significant value added by donor agencies. It is therefore important that all government departments receiving ODA improve their reporting and ensure that such assistance is aligned to their budget priorities and adds value to their key development goals. In the spirit of accountability and in affording Parliament an opportunity to engage on ODA related matters the National Treasury will report on a regular basis to Parliament on Government's interaction with our development partners.

The 2010 FIFA World Cup

The 2010 FIFA World Cup is an African event. Africa is the theatre and South Africa is the stage. The awarding of the right to host the 2010 FIFA World Cup to South Africa in 2004 was a great achievement in itself. Through the medium of television, radio, the internet and print media, a further opportunity exists, between 11 June and 11 July, to showcase the country to billions of people all over the globe including the key decision makers in the global investment community. Even beyond this event we will continue to work with the global investment community to attract the much needed funding for further economic growth.

Hosting the event also contributed to the development of skills; enhanced construction capacity; the creation of employment and economic growth. For example construction of the stadiums sustained 130 200 direct and indirect jobs during the 2007 and 2010 period. Direct jobs accounted for the majority of jobs and was sustained at 66 800. Stadiums construction had a R15 billion direct, indirect and induced economic impact.

R7, 4 billion of benefits accrued to households. R2 billion accrued to low income households.

As we get closer to this event I thank those who have worked diligently to make the hosting of this event a reality. We are indeed ready to host this great event and we now have the skills, competencies and types of structures to deliver mega multi- faceted and integrated infrastructure projects in the future.

Chairperson, I wish to thank the Finance Minister Mr. Pravin Gordhan for his steady hand in the Ministry of Finance, officials from the departments and entities reporting to the Minister of Finance for their dedication and commitment to the to the public service, Members of the Standing Committee on Finance and the Standing Committee on Appropriation, under the leadership of Honorable Thaba Mufamadi and Honorable Elliot Sogoni, for the valuable contribution to our work in government, and my family for their support.

I thank you.