



Ministry of Finance



Presentation by Finance Minister Pravin Gordhan
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Ministry of Finance

The National Treasury draws its mandate from Chapter 2 of the Public Finance Management Act based on Chapter 13 of the Constitution. It is mandated to:

- ❖ To coordinate macroeconomic policy,
- ❖ Promote government's fiscal policy framework,
- ❖ To manage the budget preparation process,
- ❖ To coordinate intergovernmental financial relations,
- ❖ To facilitate the Division of Revenue Act, which provides for an equitable distribution of nationally raised revenue between national, provincial and local government; and
- ❖ To monitor the implementation of provincial budgets



Ministry of Finance (cont)

- ❖ Create an enabling regulatory environment for the financial sector,
- ❖ Defend the integrity of the financial system,
- ❖ Ensure efficient and effective revenue collection,
- ❖ Programmes of the Development Finance Institutions (DFIs).



The Finance Family

The Minister of Finance is responsible for a range of state entities, through the Finance Family, that aim to advance economic growth and development, and strengthen South Africa 's democracy. These include

- ❖ National Treasury
- ❖ South African Revenue Service
- ❖ Government Employees Pension Fund (GEPF)
- ❖ Public Investment Corporation
- ❖ Financial Intelligence Centre
- ❖ Financial Services Board
- ❖ Development Bank of Southern Africa
- ❖ Land and Agricultural Development Bank
- ❖ Co-operative Banks Development Agency
- ❖ (Registrar of Banks – SARB)



Working better and differently

- ❖ The Finance Family consolidating its operations to meet the changing structure of government
- ❖ Medium and long term planning to be driven by the Minister in the Presidency
- ❖ Strong emphasis on reducing fragmentation in government in order to improve efficiency, collaboration, greater oversight and cohesion
- ❖ New focus on government performance monitoring and evaluation at all spheres of government



Key national priorities

- ❖ Create decent work and sustainable livelihoods
- ❖ Build an economic and social infrastructure
- ❖ Comprehensive rural development strategy
- ❖ Strengthen skills and human resource base
- ❖ Fight against crime and corruption
- ❖ Build a developmental state



Economic environment

- ❖ **South Africa is in a recession (the first since 1992)**
 - 1st quarter GDP growth -6.4%
 - Economic forecasts at the time of the budget are likely to be revised lower in October
- ❖ **Employment is falling**
- ❖ **Revenue trends are worrying**
 - R10 billion behind on revenue collection
- ❖ **Exports have fallen sharply**
 - Exports fell by 55% in 1st quarter of 2009 in value terms
- ❖ **Public investment is rising but private investment growth has slowed sharply**
- ❖ **Current account deficit remains high**
- ❖ **Inflation is proving to be more stubborn than anticipated**



Strategic challenges

Working within a new structure of government

- ❖ Working collaboratively to ensure that resources are shifted towards government's priorities
- ❖ Improving alignment between planning and budgeting
- ❖ Working with the centre of government to improve the performance of the state

Responding to the global economic crisis

- ❖ Pursue counter-cyclical fiscal policy to support growth and employment creation
- ❖ Ensure that government is able to finance its infrastructure programme
- ❖ Work with other stakeholders to minimise the impact of the global slowdown



Strategic challenges

Improving value for money

- ❖ Take steps to limit spending on luxuries and on ineffective programmes
- ❖ Evaluate the impact of public spending
- ❖ Work with the legislatures to enhance oversight of public spending
- ❖ Enhance capacity in financial management and oversee compliance in supply chain management

Regulatory system

- ❖ Enforcement of the system and improved compliance

Revenue collection

- ❖ Continue to improve and to make revenue collection more efficient

Development Finance Institutions

- ❖ Manage the mandate and spending



Government's response

❖ **Expansionary fiscal stance**

- ... but there are limits as to how much government can or should borrow

❖ **Support the investment programmes of SOEs**

- Through guarantees and direct support

❖ **Budget makes provision for**

- acceleration of the expanded public works programmes,
- gradual extension of social security net

❖ **Additional resources will be allocated for these programmes if capacity to deliver is demonstrated**

- Working together with business to improve delivery on employment programmes

❖ **DFIs supporting public and private investment**

- Role is to crowd in private investment into infrastructure programme and to keep costs down for municipalities

❖ **Regulatory**

- improved management of the regulatory system and enforcement



Better value for money

What are some of the lessons

- ❖ Seven years of growing budgets has led to a degree of fiscal looseness
- ❖ In many areas, government spends more than comparable countries but impact is less
- ❖ In several sectors, budgets have grown exponentially but outputs have not increased in tandem

What should we be doing better

- ❖ Budget guidelines emphasise value for money and cost containment
- ❖ Together with the Presidency, embarking on a Comprehensive Expenditure Review
- ❖ Working with legislatures to enhance oversight
- ❖ Setting up a Tender Compliance Office
- ❖ Improving financial management
- ❖ Use of PPPs to enhance infrastructure and capacity



National Treasury

The National Treasury is responsible for managing South Africa's national government finances. The Constitution mandates the National Treasury to ensure transparency, accountability and sound financial controls in the management of public finances



SARS

Is mandated by the South African Revenue Service Act (1997) to collect all tax revenues that are due, provide a customs service, protect national borders and facilitate trade



Public Investment Corporation (PIC)

- PIC was established as a corporation on 1 April 2005 by the Public Investment Corporation Act, 2004
- In the four years since its corporatisation PIC has been successful in restructuring its investment activities and operations in a manner comparable to that of private sector investment managers



PIC: strategic priorities

- PIC is in the process of strengthening its operational capacity and will also pursue opportunities to partner with DFI's and private sector entities
- There are maturing transactions and there will be unwinding of these and other investments over the next 12 to 24 months. This provides an opportunity for a significant repositioning of the fund
- There will be increased focus on areas such as SMME funding, improving regional diversification of the fund and increasing infrastructure funding
- Hopes to grow its property portfolio to meet its mandate requirements
- Seeking to retain additional public sector entities as clients
- Increasing investments on the African Continent



Financial Intelligence Centre (FIC)

- The Financial Intelligence Centre aims to identify and track the proceeds of crime unlawful activities
- Reduce the opportunities for the financial system being abused by criminals
- Monitors compliance with the FICA and gives guidance to accountable institutions, supervisory bodies and others



FIC: strategic priorities

- Consolidate strategic partnerships with specialised units of law enforcement agencies
- Oversee plans to the anti-money laundering and combating of terror financing system after Financial Action Task Force 'Mutual Evaluation' (audit) of SA's framework
- Establish an enforcement function (inspectorate) as a result of amendments to the Act



Financial Services Board (FSB)

- Regulator of non-banking financial sector, specifically related to insurance, pensions, capital markets and collective investment schemes
- Monitors market abuse and conduct and undertakes consumer education initiatives
- Impact of the financial turmoil on insurance companies and pension funds
- Increase in the number of cases as a result of the financial crisis fraud



FSB: strategic priorities

- Trustee training in governance and investment skills
- Transparency and disclosure
- Improved corporation and co-ordination of regulation
- Consumer education



Development Bank of Southern Africa (DBSA)

- The purpose of the DBSA is to accelerate sustainable socio-economic development by funding physical, social and economic infrastructure, to improve the quality of life of the people of the region
- The Bank plays multiple roles as financier, advisor, partner, implementer and integrator to mobilise finance and expertise for development projects



DBSA: strategic priorities

- The DBSA Development Fund will continue to improve human and institutional capacities at municipal level through a range of programmes. These include the Siyenza Manje and Sustainable Communities programmes
- Market weaknesses will be addressed with key focus areas including financing both in and outside of South Africa
- Research and development planning will focus on issues related to demographics, social and economic infrastructure, and cross-cutting themes such as climate change



Land and Agricultural Development Bank of South Africa (Land Bank)

- The Land Bank is undergoing transformation to normalise its operations
- Transformation process involves addressing two short term work streams:

Clean-up – Addressing audit qualifications

Stabilisation – Measures to stabilise the Bank both financially and operationally



Land Bank: strategic priorities

- The Bank's turnaround strategy and three year plan have now been approved
- Development accepted as core business of Bank
- A guarantee to the amount of R3.5 billion has been approved
- Liquidity position improved
- Cost-to-income ratio improved
- Successful collection of major non-performing loans
- Is attracting people with appropriate skills
- New control measures put in place to address previous deficiencies



Other institutions associated with the Ministry of Finance

- Accounting Standards Board
- Financial and Fiscal Commission
- Independent Regulatory Board for Auditors
- Registrar of Banks
- South African Special Insurance Risk Association (SASRIA)



Thank you