MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

Private Bag X115, Pretoria, 0001 • 40 Church Square, PRETORIA, 0002 • Tel: +27 12 315 5372, Fax: +27 12 406 9055 • www.treasury.gov.za

SPEECH BY MINISTER OF FINANCE

BUDGET VOTE 8 DEBATE
REMARKS BY THE MINISTER OF FINANCE, ENOCH GONDONGWANA

16 May 2023

Honourable Speaker/House Chairperson;
Chairpersons of the Standing Committee on Finance, Honourable Joe Maswanganyi, and Standing Committee on Appropriations Honourable Sifiso Buthelezi and the Committee Members;
Fellow Members of this August House;
Thank you for this National Assembly mini-plenary sitting on the Budget Vote debate for the National Treasury.

INTRODUCTION

I am grateful for the budget vote debate because it provides an opportunity for Parliament to consider and formally adopt the budget of each vote. I am especially grateful that the debate allows us as Ministers to detail the spending priorities of our respective departments, and link these to performance outcomes. In this way, we account to Parliament and the public on how public money is being used.

Before I delve into the priorities and outcomes set out in the 2023/24 Annual Performance Plans, allow me to reflect briefly on the economic outlook.

The noteworthy developments since I presented the Budget in February are:

- Inflation, globally, has remained stubbornly high pushing up the cost-of-living for households and government's borrowing costs. The IMF's global outlook corroborates that the world is "entering a perilous phase during which economic growth remains low by historical standards and financial risks have risen, yet inflation has not yet decisively turned the corner."

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- Secondly, the persistence and severity of load-shedding domestically remains a binding constraint to production, investment and employment. As such, real GDP growth in the final quarter of 2022 was worse than anticipated, contracting by 1.3 per cent. The result is that GDP growth in 2022 was weaker than expected, at 2 per cent.
- Thirdly, some of the downside risks to the fiscal outlook that I outlined during the Budget have materialised. Key among these is the outcome of the public sector wage negotiations, which the Budget did not pre-empt. The result is that the macro-fiscal position presented in the Budget has changed adversely and significantly. The risks into the future remain high.

DEPARTMENTAL BUDGET

Because of the dire economic situation, urgent and considered actions are required. The Budget Vote of the National Treasury aims to contribute to fostering higher and more inclusive economic growth, address fiscal vulnerability and stabilise public finances. These are preconditions for addressing poverty and unemployment.

The total allocated budget for the National Treasury for 2023/24 amounts to R34.9 billion. Of this, 85% is allocated for transfers and subsidies mainly to South African Revenue Services (SARS), State Security Agency, conditional grants to municipalities and funding for Civil and Military pensions.

The allocation to SARS is R12.2 billion and it is to support continued efforts to rebuild SARS. I am pleased to report that the efforts are bearing fruits. SARS has seen a net tax revenue growth of 7% per annum since 2019. Public trust in SARS has also increased from 48% in 2018 to 66% this year, whilst public attitude toward tax compliance is at 76,5%.

The Financial Intelligence Centre is allocated more than R265 million over the medium-term to implement the Financial Action Task Force’s recommendations and get the country off the grey list. I will unpack this later.

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NAVIGATING UNCERTAINTY AND NURTURING ECONOMIC GROWTH

Similarly, it allows us to expand our efforts dedicated towards stabilising state-owned companies (SOCs) to be financially and fiscally sustainable while delivering on the national growth and development objectives. This along with our sustained efforts to narrow the budget deficit, which is key to stabilising the debt-to-GDP ratio; investment in infrastructure; strengthening public sector financial management, overall governance and compliance.

We also remain committed to navigating the difficult domestic and global economic conditions through stable, balanced and clear policies that support faster growth and address emerging fiscal risks. We have responded to the electricity crisis by taking over R254 billion of Eskom's debt, to ease pressure on the company's balance sheet, and enable it to invest in transmission and distribution infrastructure, while conducting the maintenance essential to improving the availability of electricity.

The conditional write-off of the debt owed to Eskom by municipalities is another urgent step we have taken to stabilise the energy sector. At the time of tabling the Budget, we made an undertaking to publish details for accessing the debt relief in a circular – the National Treasury has fulfilled this through the issuing of a municipal circular published on 3 May 2023. This enables municipalities to have some of their past debt to Eskom written off subject to tough conditions, including to change non-payment behaviour and start paying their bills to Eskom each and every month.

In the 2023 Budget, we also introduced tax incentive measures to support the rollout of rooftop solar for households to encourage electricity generation and expanded the renewable energy tax incentive for business.
We have published a draft taxation legislative amendments for public comment, to give effect to the two renewable energy tax incentives, announced in the 2023 Budget. These proposals assist in partially addressing the country's energy crisis and encourage private investment into expanding electricity generation. It provides more information to taxpayers, to enable them to use the incentive even before it is finally legislated later this year.

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As a complementary measure, National Treasury has also made changes to the Bounce Back Loan Guarantee Scheme (introduced in 2022) to incentivise rooftop solar investments with the aim to reducing energy-related constraints experienced by small and medium enterprises. Specifically, Government will guarantee solar-related loans for small and medium enterprises on a 20 per cent first-loss basis, as well as facilitate the leasing of rooftop solar by households and SMEs. The Bounce Back measures will be introduced in the coming weeks.

These are few, among a suite of reforms that the National Treasury has championed as part of Operation Vulindlela. In addition to securing the energy supply, the joint operation with the Presidency also aims to ensure sustainable water supply, establish a competitive logistics network, improve digital communications, and reform the visa regime. Overall, over half of the OV reforms are either completed or on track to be completed within the next 12 months.

Madam Speaker, we are also taking strategic action to secure our long-term growth prospects. There are no silver bullets or easy solutions to our economic challenges. What is needed is for us as a department, as a government, and as a nation, is to make the difficult and informed trade-offs necessary to revive our economy.

STREAMLINING PROCUREMENT AND TRANSFORMING THE ECONOMY

Honourable Members, Cabinet has approved the Public Procurement Bill which I intend to table in Parliament soon. The Bill is aimed at ensuring that the procurement system is modernised, to provide value for money to the state, but also to be more strategic and leverage the procurement system to advance economic opportunities for historically disadvantaged people, women, young people, people with disabilities and small businesses, and to stimulate local production where feasible.

The proposed legislation also takes into account recommendations of the Zondo Commission, and aims to better prevent corruption, collusion, and bid-rigging in public procurement, by establishing a central procurement authority and procurement oversight bodies.

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We are engaging with the OECD and the World Bank to undertake an international benchmarking on procurement and deepen our application of technology and machine learning.

The National Treasury has also assumed chairpersonship of the Financial Sector Transformation Council and is working on accelerating discussions on the finalisation of the review process of the financial sector codes.

Speaker, despite experiencing protracted delays in implementing the Integrated Financial Management System (IFMS), it remains critical to strengthening how government departments across the board spend scarce public resources. By providing accurate and timely financial information for effective decision-making.

During 2023/24, National Treasury will redouble efforts to implement the IFMS. We are working closely with the Department of Public Service and Administration (DPSA) and SITA to address shortcomings in the procurement procedures for the system, to enable the piloting of the system in select departments, for roll out to the broader public services.

TRADE-OFFS AND RISING TO THE FISCAL CHALLENGE

Madam Speaker, over the medium-term, the National Treasury will continue to ensure that public finances are restored to a sustainable footing, by stabilising debt, promoting economic growth, and cushioning the economy from financial and other shocks. A key challenge for the fiscus is the management of the public sector wage bill.

Honourable Members, government currently spends roughly one-third of the budget on the salaries and benefits of public servants and political office bearers. In 2025/26, the public sector wage bill is set to rise to over R760 billion. The recent wage agreement has placed upward pressure on the wage bill. This means that in the current financial year, the National Treasury must identify over R37.4 billion in savings to cushion the blow on the fiscal framework.

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This will involve executing difficult trade-offs and may entail a rationalisation of staffing levels and deployment of headcount management strategies as a means to curb the wage bill. Simply put, and as I indicated in the Budget Speech, a higher-than-budgeted wage agreement means less space for the recruitment of staff.

The Treasury is working with the Department of Public Service and Administration (DPSA), as well as the provinces, to coordinate the process of identifying ways of restricting headcounts, among other things, so that the funds for the wage increase can be recouped.

SPENDING PRIORITIES AND REVIEWS

Honourable Speaker, 2023 marks 3 years of the National Treasury conducting spending reviews using the improved methodology. Collectively, these reviews have highlighted potential inefficiencies of R27 billion across programmes, with proposals for closure, scaling down of programmes, allowing the government to reallocate spending to support some of our most pressing priorities.

This is in-line with the President Ramaphosa’s pronouncements in his State of the Nation Address that cost-saving and the reprioritisation of departmental budgets must be evidence-based.

MANAGING SPENDING IN MUNCIPALITIES AND PUBLIC ENTITIES

Given the concentration of our spending, and the need to find savings and drive efficiencies, the National Treasury is encouraging public institutions under the Ministry of Finance to align their remuneration policies with the broader government fiscal strategy.

As part of the response measures to the recent placing of the country on the grey listing, the Financial Intelligence Centre has been allocated additional funding of more than R265 million over the medium-term to implement the Financial Action Task Force’s recommendations and get the country off the greylist.

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Our efforts to get the country off the grey list are well underway, we have committed to provide periodic updates to Cabinet on progress.

Last year, we led an unprecedented process to pass an omnibus of statutory amendments that address the gaps in our anti-money laundering regime. The National Treasury, as the lead in the Interdepartmental Committee on Anti-Money Laundering and the Combating of the Financing of Terrorism, continues to coordinate government-wide efforts to comprehensively address the remaining weaknesses in our legal system. For example;

- We have frozen assets of individuals and entities designated by the United Nations to be linked to ISIS, the Taliban and al Qaeda.
- We have also updated and strengthened systems for supervising non-financial businesses that are at risk of being used for money laundering or the financing of terrorism.
- We have also strengthened the systems needed to identify the beneficial owners of business and trusts, so that they cannot hide behind the veil of corporate secrecy when engaged in money laundering.

We have submitted updates to FATF on all of this, and we expect positive re-ratings of our system’s technical compliance with FATF standards in the next six months.

MENDING MUNICIPAL FINANCES

In relation to municipalities, decisive action is needed to restore the integrity of the sector.
Unfunded mandates, over expenditure, and ineffective revenue management practices have manifested in many municipalities defaulting on payments to creditors and falling into financial and service delivery crisis. Furthermore, personnel expenditure is crowding out spending on service delivery and investment.

In response, the Treasury has placed 25 municipalities under mandatory intervention under S139(5) of the Constitution, while three municipalities are subject to mandatory intervention under S139(7).

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Professionalizing the administration of the municipalities is a critical pillar of addressing these issues, particularly the training of chief financial officers and municipal managers. The Treasury is supporting the countrywide roll-out of training to support the implementation of the Municipal Standard Chart of Accounts (mSCOA), in addition to a number of free tools and training opportunities.

Over the last 12 months, thirty-one special council induction sessions were conducted for the 43 municipalities identified as being in financial and service delivery crisis.
We are not resting on our laurels. Our interventions are beginning to bear fruit.

SUPPORT TO THE CITIES

The National Treasury continues to support economic development at the local government level through various grants. Through the Cities Support Programme (CSP), for example, support for township economic development (TED) is gaining traction, with the five TED strategies approved by the pilot metros. The focus is now on supporting the five metros in implementing a sample of key priority projects.

Transfers to these types of grants are projected at R6.3 billion over the medium term in the Facilitation of Conditional Grants subprogramme in the Public Finance and Budget Management programme.

SUPPORTING EMPLOYMENT

Honourable Members, the National Treasury continues to be committed to supporting the millions of South African, especially young people, who are unemployed to access the job market and acquire the necessary skills allowing them to meaningfully participate in the formal economy.

Through the Employment Tax Incentive, a cost-sharing mechanism between government and employers allowing them to reduce what they pay in tax when hiring young people, we are encouraging youth employment.

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Similarly, the Jobs Fund has concluded nine funding rounds, including the COVID-19 relief support funding round. As at 31 March 2022, the fund had disbursed R6.1 billion and leveraged an additional R11.9 billion from project partners.

REGIONAL AND INTERNATIONAL DEVELOPMENT

Honourable Members, the National Treasury is also working on deepening the country's trade links with the region and with other parts of the world. South Africa is the chair of the BRICS group in 2023. This will culminate with the hosting of the 15th BRICS Summit in August. South Africa will use the event to highlight national and continental efforts to revive and reform the global economy in a more equitable manner.

This, together with our participation in other global forums such the World Bank, the IMF, and the G20, is key to strengthening our position within multilateral forums.

In our discussions, for instance about the Common Framework for Debt Resolution, South Africa has stressed the importance of creditors committing to providing debt treatments that do not further indebt low income countries, and that the burden of restructuring is shared equally.

As the MDB's evolve, we must ensure that the policies of these key multilateral development banks and institutions are reflective of the economic, developmental, and social challenges of Africa, and that they advance our own strategy of borrowing at the lowest cost possible. We must also ensure they remain committed to the Sustainable Development Goals.
This last element is particularly important within the context of the Just Energy Transition. South Africa is using these platforms to argue that developed nations should do more to support the energy transitions of developing nations, in a manner that does not exacerbate pre-existing financial and fiscal vulnerabilities.

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CONCLUSION

Speaker, what I have presented represents only a fraction of the work being done by the National Treasury in the face of limited resources and mounting demands on the government to do more to make a difference in the lives of our people.

Our budget vote, and the strategic decisions it embodies, is the product of a clear understanding of our Constitutional mandate which has the prosperity and wellbeing of the people at its heart, an appreciation of the nature of the challenges that we face and the need to make difficult decisions to overcome them.

My gratitude goes to the National Treasury team led by Acting Director-General Mr Ismail Momoniat, as well as to the Chairpersons of all our oversight committees.

Thank you.

Ends