PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

2022 Pre-budget Brief

Parliamentary Budget Office

The Parliamentary Budget Office (PBO) has been established in terms of the Money Bills Amendment Procedure and Related Matters Act (Act 9 of 2009). The PBO provides independent, objective and professional advice and analysis to Parliament on matters related to the budget and other money Bills. The PBO supports the implementation of the Act by undertaking research and analysis for the Finance and Appropriations Committees.

Director: Dr Dumisani Jantjies

Authors: Rashaad Amra, Seeraj Mohamed, Sithembiso Mthimkhulu, Nelia Orlandi, Mmapula Sekatane, Siphethelo Simelane, Sbusisiwe Sibeko, Tshepo Moloi

Enquiries: norlandi@parliament.gov.za

Ref. no. 21/2/2 (February 2022)

To obtain additional copies of this document, please contact:
Parliamentary Budget Office
4th Floor Parliament Towers
103-107 Plein Street
Parliament of the Republic of South Africa
Tel: +27 021 403 2360
Fax: +27 403 3153
Email: pboinfo@parliament.gov.za

Executive summary

The 2022 pre-budget brief provides research and analysis to support Members of Parliament(MPs) process of deliberations on the 2022 Budget documents to be tabled by the Minister of Finance. In particular, this brief includes a summary of the progress made with the implementation of the 2019-2024 Medium Term Strategic Framework (MTSF) and the immediate funding priorities identified by the President in the 2022 State of the Nation Address, the global and domestic economy context which informs planning and budgeting decisions on policy priorities, and revenue and expenditure estimates, guides future budget decisions. The brief further provide progress with the implementation of the 2021 Budget. This brief' analysis aim to enable MPs to measure the development outcomes of government policies funded by the fiscus as preparation for the 2022 Budget proposals.

a) Progress on the implementation of the 2019-2024 Medium-Term Strategic Framework (MTSF)

The Bi-Annual MTSF progress report[1] that was released at the end March 2021 provide assessment of the progress of the government performance outcomes against the seven priorities set out in the 2019-2024 MTSF. The progress report key outputs are summarised as follows:

Public Sector: One of the measurements to determine whether the country is moving towards a capable, ethical and developmental state is the level of trust in government institutions.

- The large number of service delivery protests show that there are concerns amongst citizens regarding the delivery of basic services by the government.
- In terms of corruption, South Africa scored 44/100 and was ranked 69/180 in the 2020 Transparency International ranking. The 2024 target is to reach a score of 68/100.

Education and skills: The 2020 trends in International Mathematics and Science Study (TIMSS) results show that grade 5 scores achieved are 374 and 324 for maths and science respectively. Maths results show a slight drop from 376 in 2015. Both results are below the 2023 target of 426, which indicates that the MTSF grade 5 TIMSS mathematics score target of 426 in 2023 does not seem attainable.

Health: According to StatsSA data released in 2021, South Africa's Life Expectancy (LE) at birth is at 62.5 years for males and 68.5 years for females. The StatsSA data further show that the average LE of South Africans was 65.5 years in 2020 against the MTSF target of at least 70 years by 2030.

The child under-5 severe acute malnutrition case fatality rate was at 7.1 per cent for the period October 2020 to March 2021, and 7.2 per cent for the year 2020/21. The MTSF target is to reduce this rate to below 5 per cent by 2024. These indicators are directly linked to malnutrition caused by poverty and inequality.

Social Protection: This function includes programmes aimed at income protection and social welfare, and social support for women, youth and persons with disabilities. On average 18.3 million South Africans receive one or another form of social grant. The receipts of the Covid-19 Social Relief Grant are not included in the reports stats.

Social Cohesion: The 2020 UNDP Human Development Report shows that, South Africa's Inequality Adjusted Human Development Index regressed by 25.6 per cent to 0.468 from a baseline of 0.629. The 2019-24 MTSF target is to improve this Index by 10 per cent from 0.629 to 0.69 by 2024.

b) Progress on the Presidential Employment Stimulus Programme

According to the Presidency a total of 532 180 people had directly benefited from the Presidential Employment Stimulus, including 422 786 jobs created or retained and 109 394 livelihoods supported by the end of March 2021.

[1]Bi-Annual MTSF report is compiled by the Department of Planning, Monitoring and Evaluation in the Presidency

The R11 billion that was provisionally set aside in the 2021 Budget for phase 2 of the presidential employment initiative has been allocated in the 2021 adjusted estimates. This provision will support the creation of more than 440 000 short-term jobs until March 2022[2].

c) Policy requirement: Structural reforms

The 2021 IMF report has revealed that, the slow progress in the implementation of structural reforms and continued weaknesses in State Owned Enterprises (SOEs) are the main reasons for the weak economic productivity and competitiveness. The report further revealed that structural rigidities are depressing private investment and hindering inclusive growth and job creation[3].

President Ramaphosa has in his 2022 State of the Nation Address (SONA) committed that in order to address structural challenges government is accelerating the implementation of far-reaching structural reforms to modernise and transform industries, unlock investment, reduce costs and increase competitiveness and growth.

d) Policy outlook

The President in his 2022 SONA further pointed out that government was given 100 days to finalise a comprehensive social compact to grow the economy, create jobs and combat hunger. This work will build on the foundation of the Economic Reconstruction and Recovery Plan (ERRP), which remains the collective programme to rebuild the economy.

The 2022 SONA points out that Government remains focused on the priorities identified in the 2021 State of the Nation Address:

- Overcoming the COVID-19 pandemic
- A massive rollout of infrastructure
- A substantial increase in local production
- An employment stimulus to create jobs and support livelihoods
- The rapid expansion of our energy generation capacity

e) Spending priorities by function group for the 2022 MTEF

Spending in the community development function, which mainly provides basic services to households, grows at the fastest rate over the 2022 Medium Term Expenditure Framework (MTEF), averaging 5.5 per cent per year. Over the same period, social development spending will contract by an average of 5.9 per cent given that the special COVID-19 social relief of distress grant is due to conclude on 31 March 2022 (now expanded for another year as announced by the President). Debt-service cost is estimated to grow by 10.8 per cent over the medium term.

The 2021 Budget proposed large reductions in employee compensation to ensure fiscal sustainability. Over the medium term, government institutions will continue to manage headcounts and compensation to remain within available budgets.

According to government, departments aim to reprioritise their budgets to provide for longstanding policy priorities. Doing so will ensure no further spending reduction are imposed on their budgets.

Global economy, the pandemic, inequality and economic development

The triple crises of unemployment, poverty and inequality are the most important problems facing the global economy, including the South African economy. The Covid-19 pandemic has not only highlighted the seriousness of these problems on social, political and economic instability across the world but has also

[2] 2021 Medium Term Budget Policy Statement, National Treasury
[3] South Africa: Staff Concluding Statement of the 2021 Article IV Mission, IMF 8 December 2021

exacerbated these problems. The pandemic has also highlighted structural problems in the global economy related to financialisation and the functioning of global value chains (GVCs). Global value chains have spread production across the world. At the same time, the influence of finance, particularly institutional investors over nonfinancial corporations have pressured them to focus on extracting high short-term returns rather than commit to long-term investments and employment in the real, productive sectors of the economy. This situation has allowed large corporations and wealthy individuals to move their money across the world to extract rents and profits without having to reinvest back into individual economies. In order to effectively address the triple crises, governments will have to align measures such as improving basic services, provision of comprehensive social security and industrial and economic development policies to restructure economies.

g) The South African economy

Inequality and unemployment were severe in South Africa before the pandemic and has grown worse during the pandemic. The associated political, social and economic stability risks constrain growth and development and threaten democracy within society. Household health and finances for the vast majority of South Africans require support from government. Investment and the building of capital stock has been insufficient and not in areas that support economic transformation and employment creation. The current approach focused on structural reforms has been inadequate to adequately address these serious problems. What is required to address poverty is improved service delivery and provision of comprehensive social security plus recognition of the scale of support required to implement industrial policy for deepening and diversifying manufacturing, which is an engine for growth and economic development.

h) The fiscal framework

Since the tabling of the 2021 MTBPS there has been a marked increase in global volatility contributing to several revisions to the forecasts for the global economy and the South African economy. Stronger-than-expected economic performance over 2021 to date has resulted in strong revenue performance over the current fiscal year. This has reduced the net-borrowing requirement of government for the current fiscal year.

Based on the improved economic performance and revenue growth over the current year, as well as the revised outlook, the PBO expects a smaller primary and main budget deficit, as well as an improved debt outlook when compared with the projections in the 2021 Budget and the 2021 MTBPS. It should be noted that PBO's projections are not policy-adjusted and thus do not reflect any steps that may be taken by government to raise revenue and/or decrease/increase expenditure over the medium-term.

i) Revenue collection rates

The revised estimated gross national tax revenue collection for 2021/22 amounts to R1.49 trillion. This is R120.3 billion more than the 2021 Budget estimates. By the end of the quarter 3 of 2021/22, R1.13 trillion (76.4%) had been collected. This collection rate is 2.3 per cent less than the collection rate in 2020/21, which amounted to 78.7 per cent.

Tax developments

Some of the expected tax policy changes over the medium term includes;

- Revisions to the design, implementation and impact of South Africa's research and development tax Incentives
- National Treasury published discussion paper for public comment on:
    - The Most Appropriate Tax Regime for the Oil and Gas Industry.
    - Taxation of electronic nicotine and non-nicotine delivery systems (Vaping).
- Revisions to the travel and home office allowances to investigate their efficacy, equity in application and simplicity of use.

j) Current spending: National departments

Total expenditure by vote amounts to R762.6 billion or 74.1 per cent of the total budget of R1 028.5 billion for 2021/22 by the end of third quarter of the year, ended on the 31 December 2021. National departments transferred R529.1 billion, of the R695.22 billion estimated allocations, to other institutions or spheres of government in the first nine months of the financial year.

k) Current spending: Provinces

Provinces spent R501.62 billion of the R690.61 billion or 72.6 per cent of their adjusted budget in the first nine months of the 2021/22 financial year. This spending includes 74.7 per cent spent of the compensation of employees budgets. Expenditure on goods and services was at 69.9 per cent at the end of December 2021. Education and Health comprise 39.8 and 34.8 per cent respectively of provincial budgets. Spending on education amounted to 74.3 per cent and health expenditure amounted to 73.4 per cent at the end of December 2021.

l) Expenditure outlook: Division of revenue

National government is estimated to receive 48.7 per cent of the main budget in 2022/23 mainly to provide the following services:

- Central Government Administration
- Justice & Protection Services
- Financial & Administration Services
- Economic Services & Infrastructure Development
- Social Services

Provinces are responsible for basic education and health services, roads, housing, social development, and agriculture with the estimated 42 per cent of the main budget allocated in 2022/23. Almost 20 per cent of the provincial share is allocated in the form of conditional grants, while compensation of employees remains the largest spending category in the remaining 80 per cent of the provincial share.

Municipalities provide basic services such as water, sanitation, electricity reticulation, roads and community services, mainly with own receipts supplemented with 9 per cent of the main budget for specific purposes. Over the 2022 MTEF period, transfers to provinces and municipalities are expected to grow below inflation.

m) Monitoring Systems and processes implemented by government

The Department of Planning, Monitoring and Evaluation (DPME), the National Treasury (NT) and National Departments are required by law to establish procedures for reporting and monitoring progress on the achievement of objectives and the use of allocated funds, to Parliament.

the Parliamentary Budget Office, in its role to provide research and analysis to support Parliament oversight, relies on the publications of the DPME, National Treasury, National and Provincial departments and municipalities. The lack of quality information and delayed publications within the reporting and monitoring mechanism, specifically on conditional grants have negatively impact on the monitoring role of Parliament.

Contents

1. Purpose of the 2022 pre-Budget brief

The 2022 pre-budget brief provides research and analysis to support Members of Parliament process of deliberations on the 2022 Budget documents to be tabled by the Minister of Finance; National Budget, the Division of Revenue Bill, the Appropriation Bill and Tax and Revenue proposals.

2. Introduction

The Parliamentary Budget Office has been established to support the Committees of Finance and Appropriations with the implementation of the requirements of the Money Bills Amendment Procedure and Related Matters Act, which includes, amongst others, to ensure:

- An appropriate balance between revenue, expenditure and borrowing
- Reasonable debt levels and debt interest cost
- That the cost of recurrent spending is not deferred to future generations
- Adequate provisioning for spending on infrastructure development, overall capital spending and maintenance

The finance and Appropriations Committees are further required to:

- Consider the short, medium and long -term implications of the fiscal framework, on economic growth and the development of the country
- Take into account economic and public finance factors including extra-budgetary funds, and contingent liabilities

This brief provides a summary of the progress made with the implementation of the 2019-2024 Medium Term Strategic Framework (MTSF) and the immediate funding priorities identified by the President, highlights some of the dilemmas faced when monitoring the outputs linked to funding, specifically the systems and processes implemented by government. The brief further provides an update on the global and domestic economy, which informs planning and budgeting decisions on policy priorities, and revenue and expenditure estimates. Lastly, the brief provide progress with the implementation of the 2021 Budget and service delivery plans.

3. Policy: progress, requirements and outlook

The National Development Plan (NDP) remains the country's blueprint to unite all South Africans to address the triple challenges of unemployment, inequality and poverty. The 2019-24 MTSF is the organising framework to advance the national development goals and objectives in line with the NDP, Vision 2030.

The National Development Plan; Vision 2030, aims to:

- Grow the economy at a rate of 5.4 per cent
- Reduce the unemployment rate to 6 per cent
- Increase investment as a share of GDP to 30 per cent
- Reduce inequality as measured by the Gini Coefficient to 0.60; and
- To totally eradicate of poverty.

The attainment of Vision 2030 has been made more difficult by the COVID-19 crisis. In addition to the seven priorities of the 2019-2024 MTSF, conditional grant funding continues to fund policy priorities. In the short term, funds were allocated to address the impact of the corona virus pandemic, particularly increased unemployment, support low income household and business.

3.1. Progress on the 2019-2024 Medium-Term Strategic Framework (MTSF)

Amongst other budget allocation considerations, Parliament may request government to provide evidence that the 2019-2024 MTSF priorities will be realised over the MTEF. The 2019-2024 MTSF, as government's fiveyear programme for the implementation of the NDP 2030 and of the electoral mandate of the sixth administration is anchored on seven priorities:

- Priority 1: Building a capable, ethical and developmental state
- Priority 2: Economic transformation and job creation
- Priority 3: Education, skills and health
- Priority 4: Consolidating the social wage through reliable and quality basic services
- Priority 5: Spatial integration, human settlements and local government
- Priority 6: Social cohesion and safe communities
- Priority 7: A better Africa and World

The Bi-Annual MTSF progress report[4] that was released at the end March 2021 has shown government performance outcomes against the seven priorities set out in the 2019-2024 MTSF. The progress on specific sector can be summarised as follow;

Public Sector

One of the measures to determine whether the country is moving towards a capable, ethical and developmental state is the level of trust in government institutions. An essential driver of trust is competence which refers to the ability of government to deliver to citizens the services they need at the quality and level they expect.

- Public trust and confidence in local government to deliver basic services has decreased from 52 per cent in 2018 to 49 per cent in 2019. The large number of service delivery protests shows that there are concerns amongst citizens regarding the delivery of basic services by the government.
- In terms of corruption, South Africa scored 44/100 and was ranked 69/180 (The 2024 target is to reach a score of 68/100).

A Position Paper by the National Planning Commission (NPC) on A Capable, Professional and Ethical Developmental State highlights the pertinent issues in government and outlines some of the key recommendations for government to consider towards achieving the goal of making South Africa a capable, professional and ethical developmental state.

- Firstly, strengthening a capable and developmental state can be achieved by rethinking and constructing an agile public sector.
- Secondly, government plans and programmes that meant to advance ethical behaviour have to be implementable
- Thirdly, the establishment of the necessary interventions that will improve co-ordination and implementation capacities of state institutions and officials must be vigorously pursued.

Arguably, to make South Africa an effective and capable developmental state these three main areas and the recommendations of the various NPC colloquia need to be central to government efforts.[5]

The economy

- The 2019-2024 MTSF target is to reduce unemployment to 20-24 per cent with 2 million new jobs.
- The 2019-2024 MTSF target for Gross fixed capital formation is 23 per cent of GDP

Section 7 of the brief provide detail analysis the economy, including on employment and investment.

---

[4]Bi-Annual MTSF report is compiled by the Department of Planning, Monitoring and Evaluation in the Presidency
[5]Position Paper Capable, Professional and Ethical Developmental State, September 2021. National Planning Commission.

Education and skills

- About 3 197 822 children, between 0 and 4 years of age, have accessed ECD services by March 2021, almost reaching the target of providing 3.6 million children with access to ECD services by 2024.
- Enrolments of children aged 5 to 6 years in school or ECD centers had grown to 89.2 per cent for 5-year old and 96.3 per cent for 6-year old children.
- The 2020 Trends in International Mathematics and Science Study (TIMSS) results show that grade 5 scores achieved are 374 and 324 for maths and science respectively. Math results show a slight drop from 376 in 2015. Both results are below the 2023 target of 426, which indicates that the MTSF Grade 5 TIMSS mathematics score target of 426 in 2023 may not be attainable.
- The proxy for quality education is tracked through the number of learners achieving 60 per cent and above in Maths and Science in grade 12. The 2020 results reflected rates of 13.2 per cent and 15.3 per cent respectively in the two subjects.

Health

According to StatsSA data South Africa's average Life Expectancy (LE) at birth was 65.5 years, in 2020, against the MTSF target of at least 70 years by 2030.

Child indicators show that in 2020, StatsSA estimated South African's Infant Mortality Rate (IMR) as 23.6 deaths per 1 000 live births and the under-5 mortality rate (U5MR) as 34.1 deaths per 1 000 live births compared to 2019, when the country's IMR was 22.1 per 1 000 and the U5MR was 28.5 per 1 000. The MTSF target is to decrease the 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 child under-5 severe acute malnutrition case fatality rate was at 7.1 per cent for the period October 2020 to March 2021, and 7.2 per cent for the year 2020/21. The MTSF target is <5 per cent by 2024. Malnutrition is linked to poverty and inequality.

Social Protection

This function includes programmes aimed at income protection and social welfare, and also supports women, youth and persons with disabilities. Excluding the special COVID-19 social relief of distress grant, on average 18.3 million South Africans receive one or another form of social grant.

At the end of September 2021, there were 18 439 185 social grants paid to 11 431 843 beneficiaries.

The number of new grant applications in September 2021 was 147 595, an increase of 27 705 applications from the previous month. The largest number of applications was in respect of the Child support grant (CSG, 80 846) followed by the Disability Grant (34 630).

In addition to the normal social grants, social grant-based relief of distress will amount to R28.3 billion in 2021/22. It is estimated that more than 9.5 million recipients will receive this short-term income protection in 2021/22.

A second special appropriation of R26.7 billion was approved in Parliament to fund the reinstatement of the special Covid-19 social relief of distress grant (SRD) until 31 March 2022 (now extended to 2023). Social Development estimated that approximately 13.2 million people will be eligible to receive the special Covid-19 SRD grant:

- 5 853 661 beneficiaries based on previous grant recipients as at 31 March 2021 (SASSA report for 2020/21) and
- 7 360 011 Caregivers

During September 2021 there were 13 787 072 applications for the second phase of the Covid-19 Social Relief of Distress (SRD)grant of which 8 836 723 applications were approved. A total of 7 385 206 grants were paid. In addition, 69 355 applications were received from Asylum seekers, which were processed separately. Table 1 shows a number of beneficiaries of social grants between March 2021 and October 2021. The table includes the estimated monthly take-up. When comparing the actual take-up of grants with the estimated numbers for 2021/22, the highest deviations are found in the CSG and the old age grant (OAG).

Table 1 Summary of the number of beneficiaries by Social Grant paid from April to October 2021

	Estimated	March	April	May	June	July	August	September	October
Care Dependency Grant	156 000	139 864	140 566	140 666	141 090	141 741	141 771	141 925	137 814
Child Support Grant	13 261 000	7 253 388	7 264 985	7 270 285	7 280 974	7 292 022	7 292 639	7 298 990	7 208 272
Combination		7 009	7 144	7 206	7 231	7 286	7 287	7 283	7 170
Disability Grant	999 000	934 153	989 657	1 007 481	1 023 520	1 040 588	1 037 813	1 040 157	1 036 735
Foster Child Grant	284 000	212 144	222 121	228 615	234 611	239 531	241 726	244 498	244 134
Old Age Grant	3 560 000	3 704 993	3 715 248	3 720 836	3 729 481	3 731 115	3 718 340	3 708 152	3 701 661
Unclaimed Benefits		2	22	15	5	5	2	5	6
War Veterans Grant	included in OAG	42	40	36	36	36	34	31	27
Sub-total	18 559 000	12 251 595	12 339 783	12 375 140	12 416 948	12 452 324	12 439 612	12 441 041	12 335 819
SRD		3 562	2 229	12 884	28 569	17 723	13 169	36 944	80 626
SRD Covid-19	9 500 000	5 657 038	5 819 285				4 726 787	7 385 206	
Grand Total	28 059 000	17 912 195	18 161 297	12 388 024	12 445 517	12 470 047	17 179 568	19 863 191	12 416 445

Source: SASSA, September 2021 and National Treasury 2021 Budget Review for estimated numbers

Table 1 further shows that Department of Social Development estimated that 9.5 million beneficiaries would benefit from the Covid-19 SRD grant per month. In September 2021 there were 7.1 million beneficiaries of SRD were recorded. Caregivers receiving the R350 SRD were not reported separately in the September 2021 SASSA quarterly report. It should be noted that the estimated number of beneficiaries of the CSG is 13.3 million. 7.3 million individuals who are the primary caregiver of a child (12.9 million children) received this grant in September 2021. When comparing the number with the amount spent on the CSG it shows that the government spent R829 per beneficiary in September 2021.

Table 2 shows a summary of the expenditure on social grants between April and September 2021. By the end September 2021 around 50 per cent of the estimated budget were given to beneficiaries. However, only 25 per cent of SRD was given to beneficiaries by the end September 2021.[6]

Table 2 National Social Grants Expenditure, per grant type

R'000	Budget	April	May	June	July	August	September	Total as at end September	% of Total budget
OAG	86 486 656	7 001 586	6 983 564	7 036 248	7 031 046	6 989 664	6 976 931	42 019 039	48.58%
WVG	1 197	76	68	45	68	64	59	380	31.75%
DG	23 578 935	2 023 388	1 972 882	1 998 362	2 042 537	2 006 943	2 026 012	12 070 124	51.19%
GIA	1 600 052	125 316	124 782	126 178	127 671	126 488	126 443	756 878	47.30%
FCG	4 338 120	370 282	369 772	384 759	390 044	376 122	390 113	2 281 092	52.58%
CDG	3 658 015	289 020	287 558	289 358	291 607	290 087	290 782	1 738 412	47.52%
CSG	73 317 920	6 029 402	6 021 463	6 044 495	6 055 174	6 038 877	6 048 873	36 238 284	49.43%
Sub Total	192 980 895	15 839 069	15 760 090	15 879 446	15 938 148	15 828 245	15 859 213	95 104 211	49.28%
Other(SRD)	390 880	3 246	5 665	4 948	13 301	14 236	14 135	55 531	14.21%
COVID-19	28 300 000	3 539 780	349 108	740 012	424 369	845 626	1 172 294	7 071 189	24.99%
Total	221 671 775	19 382 095	16 114 863	16 624 406	16 375 817	16 688 107	17 045 641	102 230 929	46.12%

Source: SASSA, September 2021

Social Cohesion

The UNDP Human Development Report (2020) shows that, South Africa's Inequality Adjusted Human Development Index regressed by 25.6 per cent to 0.47 from a baseline of 0.63. The 2019-24 MTSF target is to improve this Index by 10 per cent from 0.63 to 0.69 by 2024.

[6] September 2021 Statistical Report, Social Security Social Security Agency

The Brand South Africa, National Omnibus Survey, 2020 shows that the Social Cohesion Index has declined sharply from 80 per cent in 2019 to 62.7 per cent in 2020 when a lower percentage of citizens exhibited a strong devotion to the country than in 2019 (from 82% in 2019 to 68% in 2020)[7].

The Presidential Employment Stimulus Programme

The Presidential Employment Stimulus was developed in response to the severe economic impact of the coronavirus pandemic in 2020/21. The stimulus package is part of the state's Economic Reconstruction and Recovery Plan, and is a response to the Covid-19 pandemic and its effects on unemployment and the economy.

According to the Presidency a total of 532 180 people had directly benefited from the stimulus, including 422 786 jobs created or retained and 109 394 livelihoods supported by the end of March 2021. Livelihoods support includes, for example, production input vouchers for farmers, awards to the creative sector and income support for the Early Childhood Development sector.

The R11 billion that was provisionally set aside in the 2021 Budget for phase 2 of the presidential employment initiative has been allocated in the 2021 Adjusted Estimates. It is expected that this allocation will support the creation of more than 440 000 short-term jobs until March 2022[8]. Tables 3 and 4 shows the programmes that are supported by different government departments. Government is expected to provide progress in the implementation of the phase 2 of employment stimulus program during the 2022 Budget.

Table 3 Employment programmes

Department	Programme description	Budget (R thousand)	Short-term jobs
Basic Education	Basic education employment initiatives	6 000 000	287 000
National Treasury	Innovation in post-exposure prophylaxis for metros	841 000	35 000
Trade, Industry and Competition	Social employment fund	800 000	50 000
Women, Youth and Persons with Disabilities	Presidential youth employment intervention/National youth service	400 000	35 000
Cooperative Governance	Municipal Infrastructure Support Agent: Waste separation and treatment solutions	284 000	11 818
Forestry, Fisheries and the Environment	Environmental programmes	318 000	8 150
Higher Education and Training	Presidential youth employment intervention/National skills fund pay for performance model for digital skills	100 000	4 500
	University graduate assistance	90 000	3 000
Social Development	Social workers and National Development Agency programme	150 000	3 880
Health	Staff and assistant nurses, port health screening	365 000	2 568
Tourism	Support to 40 provincial tourism attractions and tourism monitors	108 000	1 064
Science and Innovation	Enviro-champs, water graduates and othe	67 000	1 650
Sport, Arts and Culture	District Six, Hip Hop and Phanzi museums	15 000	914
Employment and Labour	Employment counselling at labour centres	20 000	250
Total		**9 558 000**	**444 794**

Source: National Treasury

[7]Bi-Annual MTSF report (compiled by the Department of Planning, Monitoring and Evaluation) as at end March 2021used for all sector performance, except where otherwise indicated.
[8] 2021 Medium Term Budget Policy Statement, National Treasury

Table 4: Livelihood support programmes

Department	Programme description	Budget (R thousand)	Livelihoods
Agriculture, Land Reform and Rural Development	Support to subsistence farmers	750 000	67 378
Social Development	Early childhood development employment initiative	178 000	42 718
Women, Youth and Persons with Disabilities	Presidential youth employment intervention/Youth enterprise support fund	30 000	2 000
Total		**958 000**	**112 096**

Source: National Treasury

3.2. Policy requirements: Structural reforms

The South African economy is facing various challenges; lack of energy security, inefficiencies within railways and ports systems, innovation is held back by a scarcity of broadband spectrum, decline in water quality in many communities, and low private and public investment in the economy. Government has since embarked on implementing structural reforms to support economic growth guided by the Economic Reconstruction and Recovery Plan.

The IMF has noted that the slow progress in the implementation of structural reforms and continued weaknesses in State-Owned Enterprises (SOEs) contributes to low growth. The Fund further indicate that structural rigidities are depressing private investment and hindering inclusive growth and job creation. They argue that these rigidities should be tackled immediately to increase the economy's productivity and competitiveness and to reduce poverty and inequality.

President Ramaphosa in his 2022 SONA committed government to accelerate the implementation of far-reaching structural reforms to modernise and transform these industries, unlock investment, reduce costs and increase competitiveness and growth.

3.3. Policy outlook

The President in his 2022 SONA committed that government, labour, business and communities are working together, to determine the actions to be taken to build a consensus. The government has 100 days to finalise a comprehensive social compact to grow the economy, create jobs and combat hunger. According to the President, this work will build on the foundation of the Economic Reconstruction and Recovery Plan (ERRP), which remains the government's programme to rebuild the economy.

The 2022 SONA priorities are similar to those identified in the 2021 SONA:

- Overcoming the COVID-19 pandemic
- A massive rollout of infrastructure
- A substantial increase in local production
- An employment stimulus to create jobs and support livelihoods
- The rapid expansion of our energy generation capacity

4. Spending priorities by function group for the 2022 MTEF – 2021 MTBPS

Table 5 shows the estimated consolidated expenditure per function group over the 2022 MTEF announce during the 2021 MTBPS. The total consolidated expenditure is estimated to increase by 1.7 per cent over the 2022 MTEF. The spending in the community development function, which mainly provides basic services to households, grows at the fastest rate over the 2022 MTEF, averaging 5.5 per cent per year. Over the same period, social development spending will contract by an average of 5.9 per cent given that the special COVID-19 social relief of distress grant was due to conclude on 31 March 2022. Debt-service cost is estimated to grow by 10.8 per cent over the medium term.

Table 5 Estimated consolidated expenditure over the 2022 MTEF per function group

R billion	2020/21 Outcome	2021/22 Revised	2022/23 MTEF	2022/23 Growth from 2021/22	2023/24 MTEF	2024/25	Average annual growth 2021/22 – 2024/25
Learning and culture	**384.4**	**417.8**	**414.3**	**-0.8%**	**415.6**	**434.8**	**1.3%**
Health	**248.2**	**259.0**	**247.8**	**-4.4%**	**243.6**	**254.7**	**-0.6%**
Peace and security	**212.4**	**219.3**	**218.2**	**-0.5%**	**213.3**	**222.8**	**0.5%**
Community development	**203.3**	**218.0**	**235.9**	**8.2%**	**243.5**	**256.2**	**5.5%**
Economic development	**170.2**	**206.3**	**217.8**	**5.5%**	**227.6**	**241.8**	**5.4%**
General public services	**64.1**	**70.8**	**68.9**	**-2.7%**	**68.8**	**71.0**	**0.1%**
Social development	**365.7**	**399.6**	**321.5**	**-19.6%**	**320.4**	**333.2**	**-5.9%**
Payments for financial assets	**90.9**	**68.4**	**27.5**	**-59.8%**	**25.1**	**25.2**	**–**
Allocated by function	**1 739.2**	**1 859.3**	**1 751.8**	**-5.8%**	**1 758.0**	**1 839.7**	**-0.4%**
Debt-service costs	232.6	269.2	303.1	12.6%	334.6	365.8	10.8%
Consolidated expenditure	**1 971.8**	**2 128.5**	**2 075.0**	**-2.5%**	**2 126.3**	**2 239.8**	**1.7%**

Source: National Treasury

Table 6 shows the estimated consolidated expenditure per economic classification over the 2022 MTEF. The 2021 Budget proposed slow growth in spending on compensation of employees. This spending trajectory is meant to lead to fiscal sustainability. Government' s fiscal strategy is that over the medium term, government institutions will have to continue to manage headcounts and compensation to remain within available budgets.

Transfers and subsidies had previously been estimated to grow by -1.1 per cent. This was due to the estimated negative growth in transfers to households. The reduction of this transfer is due to the special Social Relief of Distress social grant that was only appropriated in 2021/22 (now extended to 2022/23).

Table 6 Estimated consolidated expenditure over the 2022 MTEF per economic classification

R billion	2020/21 Outcome	2021/22 Revised	2022/23 MTEF	2022/23 Growth from 2021/22	2023/24 MTEF	2024/25	Average annual growth 2021/22 – 2024/25
Current payments	**1 121.5**	**1 234.1**	**1 258.5**	**2.0%**	**1 281.2**	**1 354.6**	**3.2%**
Compensation of employees	635.4	665.7	665.2	-0.1%	656.0	685.1	1.0%
Goods and services	246.0	290.3	281.4	-3.1%	281.6	294.2	0.4%
Interest and rent on land	240.1	278.1	311.9	12.1%	343.6	375.3	10.5%
of which: debt-service costs	*232.6*	*269.2*	*303.1*	*12.6%*	*334.6*	*365.8*	*10.8%*
Transfers and subsidies	**694.3**	**736.4**	**669.5**	**-9.1%**	**681.1**	**712.9**	**-1.1%**
Provinces and municipalities	149.1	147.6	159.5	8.0%	161.5	167.8	4.4%
Higher education institutions	46.9	47.2	51.1	8.2%	51.4	53.5	4.3%
Public corporations and private enterprises	30.1	38.7	41.2	6.6%	45.4	51.8	10.3%
Non-profit institutions	45.4	41.3	42.1	1.9%	42.7	45.2	3.1%
Households	390.7	433.1	348.7	-19.5%	352.3	366.6	-5.4%
Payments for capital assets	**65.0**	**89.7**	**99.4**	**10.9%**	**105.1**	**112.9**	**8.0%**
Payments for financial assets	**90.9**	**68.4**	**27.5**	**-59.8%**	**25.1**	**25.2**	**–**
Total	**1 971.8**	**2 128.5**	**2 055.0**	**-3.5%**	**2 092.5**	**2 205.6**	**1.2%**
Unallocated reserve	–	–	15.1		28.8	29.3	
Contingency reserve[2]	–	–	5.0		5.0	5.0	–
Consolidated expenditure	**1 971.8**	**2 128.5**	**2 075.0**	**-2.5%**	**2 126.3**	**2 239.8**	**1.7%**

Source: National Treasury

As part of government fiscal sustainability strategy departments are required to reprioritise their budgets to provide for longstanding policy priorities. Details of key reprioritisation are outlined as follows;

Learning and culture

In the basic education sector, compensation absorbs an average of 80 per cent of provincial education budgets. Provinces have reduced compensation budgets and chosen leave vacant posts unfilled. This has led to increase in class sizes and likely to worsen teacher-to-learner ratio. The pandemic and associated restrictions in economic activity interrupted school construction, rehabilitation and maintenance. These interruptions have led to delays in all schools realising their basic school infrastructure norms and standards. The daily rollout of meals to learners through the national school nutrition programme grant should return to normal since the rotational schedules to adhere to COVID-19 protocols have been ended.

In the post-school education and training sector, growth in subsidies and grants has slowed for universities, technical and vocational education and training colleges, and the National Student Financial Aid Scheme. A report on a new student financial funding model for the higher education and training system was planned for tabling in Cabinet in November 2021.

Health

The sector needs to continue to improve efficiency to sustain service delivery and alleviate backlogs in a constrained budgetary environment. *Spending pressures associated with absorbing the large cohorts of medical graduates needing internships and community service posts are being considered.*

Infrastructure allocations will be delayed and allocated in future in line with revised cash flow projections.

Social development

Excluding the special COVID-19 social relief of distress grant, 18.3 million South Africans receive one or another form of social grant.

Three main priorities are being considered for the 2022 MTEF period:

- Addressing shortfalls in social grants
- Introducing the extended child support grant for children who have lost both parents (double orphans)
- Researching possible new social support options once the special COVID-19 social relief of distress grant ends in March 2022 (this grant has now been extended to 2023).

Community development

Providing basic services to low income households is the main priority in the community development function. As a result, the local government equitable share accounts for the largest portion of expenditure and grows faster than other items in the function over the MTEF period. In fact, almost 82 per cent of the Department of Cooperative Governance are estimated to be transferred to local government in the form of an equitable share in 2022/23. A range of conditional grants is allocated to local governments to help fulfil their mandate. In some cases, these direct transfers are converted to indirect allocations that national departments spend on behalf of municipalities. This will give national departments more flexibility in using funds where they are most needed, while strengthening governance. To provide for a more systematic response to improve water and wastewater management in municipalities, from 2022/23 conditional grants will include conditions that are aimed at incentivising improved asset management and performance. *National departments are expected to improve monitoring and regulatory compliance through periodic reporting and building capacity.*

Economic development

Over the medium term, about 80 per cent of this function group's allocation will provide transfers and subsidies to 26 departmental agencies, public corporations and private enterprises. These institutions include the:

- Companies and Intellectual Property Commission
- Export Credit Insurance Corporation of South Africa
- Industrial Development Corporation of South Africa
- South African Tourism
- Property Management Trading Entity
- Compensation Fund, including Reserve Fund
- Unemployment Insurance Fund
- Council for Scientific and Industrial Research
- National Research Foundation
- South African National Parks
- Agricultural land holding account
- Agricultural Research Council
- Central Energy Fund
- South African Nuclear Energy Corporation
- Sentech
- South African Broadcasting Corporation
- South African Post Office
- State Information Technology Agency
- Airports Company South Africa
- Air Traffic and Navigation Services Company
- South African National Roads Agency
- Rand Water
- Trans-Caledon Tunnel Authority
- Umgeni Water
- Water boards (consolidated)
- Water Trading Entity

The baseline is expected to grow by 5.4 per cent over the next three years. Medium-term priorities include reindustrialising through the implementation of master plans; by the respective Departments, growing exports through the African Continental Free Trade Area; implementing the Tourism Sector Recovery Plan; supporting township and rural economies; and promoting localisation, inclusive economic growth and job creation.

The Department of Science and Innovation will implement its recently approved decadal plan on science, technology and innovation for 2021– 2031. The plan aims to rejuvenate sectors such as mining, agriculture and manufacturing, while improving research and innovation across government. *In addition to the implementation of the master plans progress in respect of the purpose of the transferred funding needs to be monitored to ensure progress with the efforts to grow the economy.*

Peace and security

Over the medium term, the function will reprioritise funds to enhance capacity in institutions combating crime and corruption, and upgrade information and communications technology infrastructure for greater efficiency. Over the next few years, the Department of Defence will reprioritise funds to set up a rapid response unit. It will also implement reforms to manage longstanding pressure on compensation that is resulting in irregular spending.

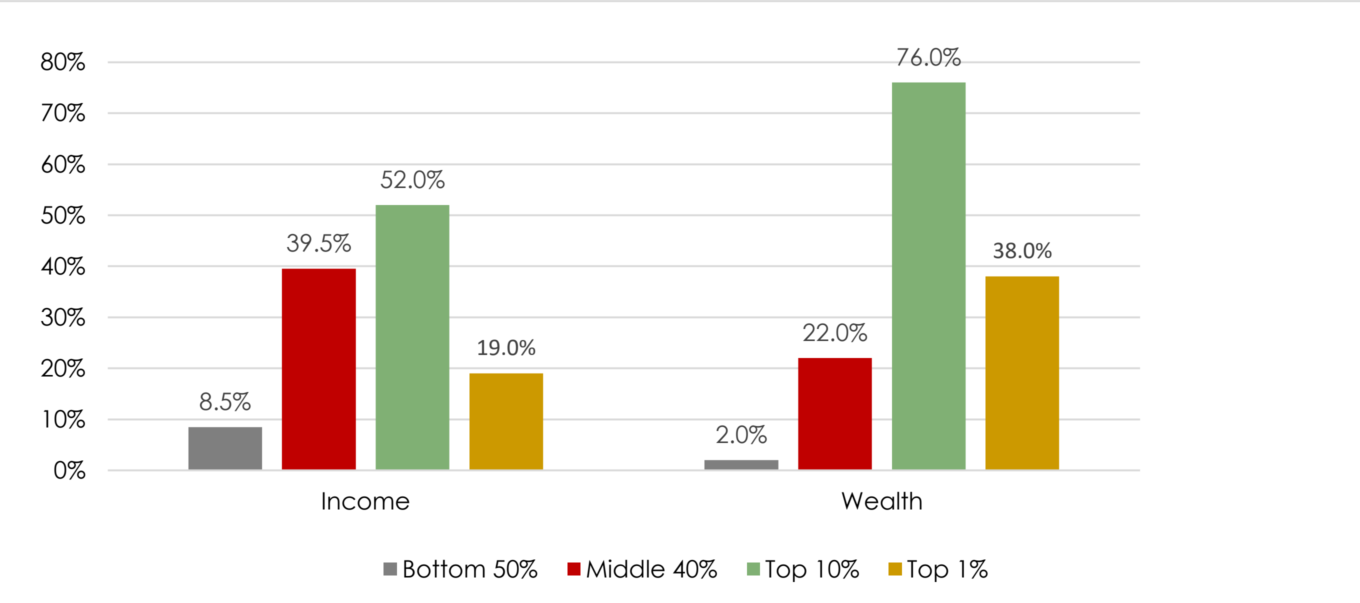
General public services

This function focuses on building a state that can play a developmental and transformative role. The Department of Public Service and Administration will continue reviewing personnel spending to reduce unsustainable growth in the public-service wage bill.

5. The global economy, the pandemic, inequality and economic development

The economic analysis section of this briefing begins with a discussion of inequality, unemployment and poverty because these are the most important issues facing South Africa and the world at present. This "triple crisis" existed before the Covid-19 pandemic and has worsened as a result of the pandemic. The 2022 World Inequality Report shows that the top 1 per cent (approximately 51 million adults) have 38 per cent of global wealth while the bottom 50 per cent (approximately 2.5 billion adults) have only 2 per cent of the wealth while the middle 40 per cent (approximately 2 billion adults) own 22 per cent of the wealth. In other words, the bottom 50 per cent (approximately 4.5 billion adults) own less than a quarter of global wealth while the top 1 per cent owns 38 per cent and the top 10 per cent (approximately 0.5 billion adults) owns more than 3 quarters of global wealth. The implication is that this top 10 per cent captures over 70 per cent of global income (with the top 1% capturing 19%) while the bottom 50 per cent receives 8.5 per cent. It is not hard to see the link between inequality and poverty.

Figure 1 Global income inequality and wealth, 2021 (in Purchasing Power Parity)



Source: World Inequality Lab, World Inequality Report 2022

5.1. Growing inequality and the disconnect between finance and the real economy

The wealth of the world's richest individuals and profits of its largest corporations grew during the pandemic. Oxfam, in a January 2022 report titled "Inequality Kills" reported that the ten richest individuals' wealth more than doubled from US$700 billion to US$1.5 trillion between March 2020 and November 2021. At the same time, according to Oxfam, global poverty and unemployment levels increased and the resulting lower income levels caused the death of 2 100 people a day. The International Labour Organisation (ILO) estimates that workers lost $3.7 trillion in earnings during the pandemic. Women and youth have experienced the largest losses. Women have been disproportionately affected by job losses because of their overrepresentation in low skilled, low wage, and precarious jobs. The crisis has also exacerbated the gender disparities in the division of labour (paid and unpaid), with women experiencing increased pressure to undertake more unpaid work during the pandemic. The negative impacts on global society of inequality and the levels of wealth controlled by a small minority of people affects political and economic stability within countries as well as geopolitical stability at a global level. It also increases vulnerability to risks such as pandemics and global climate change.

The very high levels of wealth controlled by the top 1 per cent of the population has serious impacts on how resources and finance in economies are extracted, produced and used within economies. The owners of most of the wealth increase their wealth through shifting resources and finance across the world in ways that increase their share of income and wealth not for the benefit of the majority in domestic economies. Put simply, the small group of people who control most of the world's wealth can are able to maintain and increase their wealth through extractive activities, control of global value chains spread across the world and financial speculation. They can grow wealthier within a country without having to increase investment and employment within that country.

The pandemic further exposed an important structural change related to the impact of financialisation on the global economy which is dominated by large corporations, institutional investors and wealthy individuals whose financial motives focus on increasing their short-term returns rather than risk long-term investment and employment creation in productive, real economy sectors. An IMF Special Note Series on Covid-19 of 26 August 2020 titled "The disconnect between financial markets and the real economy" explores the phenomenon of growth in stock prices when there were sharp declines in real sector economic activity and economic growth as a result of the pandemic. The IMF note concludes that large increases in monetary policy actions (e.g., quantitative easing) led to increased liquidity that both drove up share prices of listed companies and reduced risk premiums and risk-free discount rates.

The IMF's insightful note has to be considered within the context of a longer-term perspective that takes into account the greater role of financial institutions and financialisation for a deeper understanding of the disconnect between financial markets and the real economy. The huge growth in funds managed by institutional investors such as pension funds, private equity and hedge funds, and the massive growth in derivatives markets, including credit default swaps and large-scale securitization of debt has contributed not only to growth of a shadow banking system but also to the disconnect between financial and real markets. The consequence of this growth in the shadow banking system has been increased systemic risks in global financial markets of the type experienced after the crash of the subprime debt market in the USA in 2007 and the global "Great Recession" that followed. Further, financialisation has entailed more finance to speculation in financial markets at the expense of productive investment and employment creation. Developing countries with aspirations of growing real sector investment and employment in their economy are faced with the predicament of financialisation of non-financial corporations, who under pressure from institutional investors to show higher short-term returns, have generally increased activities in financial markets to sustain high profits in the short-term rather than invest in the real sector which requires them to commit resources and finance over longer periods.

These trends associated with growing global inequality highlighted a growing chasm between the very rich and the vast masses of the poor. They also highlighted a separation between the performance and returns of financial assets and the level of economic activity and investment in the real sectors of the economy. These trends reinforce the understanding that growth and GDP numbers do not present an accurate and policy-applicable picture of an economy's performance and that they should not be depended upon as a gauge to measure the performance of the economy and the well-being of a population.

5.2. The need for social protection

Experience during the pandemic proves that the fruits of economic growth and recovery are generally unevenly distributed and that the poor can end up poorer even during times when economic growth is positive. These insights are of particular importance at a time when the South African government and governments across the globe are considering continuing relief and increasing social security transfers to their citizens. While the raising of taxes may seem undesirable, it is important to realise the undeniably large negative impact of inequality in society. Tax, which is paid by all in society, has an important redistributive role. A small percentage of the global population owns and controls most of the wealth and is able to capture the lion's share of global income. This small percentage of the population while often presented as entrepreneurs who create opportunities and wealth for the rest of society actually search out and extract rents through speculation in global financial markets and exploiting their dominance in real sector markets and over global value chains (GVCs). The growth in influence of financial markets and institutional investors over real sector corporations means that pursuit of higher short-term returns leads to wealth extraction and value destruction. A larger share of the profits of firms and the savings of workers (usually regularly paid into pension funds and other institutional investors) have been allocated towards activities related to financial speculation and greater control by financial institutions over the operations and profits within global value chains.

The recent increases in inflation across the globe have much to do with the way in which financial actors and motives for increased short-term returns have reshaped global value chains over the past two decades. Massive corporate restructuring since 2000 has led to increased internationalisation of global value chains as large corporations of developed countries aimed to increase their profits through offshoring and outsourcing much of their production to developing countries with lower costs due to lower wages and less strict enforcement of environmental regulations. These large corporations managed to control prices and extract a large share of the profits of final goods produced in GVCs because they generally maintained control of design, technology, marketing and distribution of the goods produced in GVCs.

The impact of Covid-19 illnesses and lockdowns was to disrupt production within the individual farms, mines, factories and shops that constitute GVCs spread across the world. The economic downturn and reduced demand caused these different firms to cut production, investment and employment. When certain economies started to recover, particularly developed countries such as the US and those of western Europe (whose government distributed trillions of dollars in relief and grants), these firms in GVCs have not able to ramp up production fast enough back to pre-Covid levels. Increased demand for inputs at a time when enough was not being produced, including electricity and oil, has driven up prices of final goods. The Wall Street Journal of 5 February 2022[9] reported that many Chief Executive Officers (CEOs) of major United State (US) corporations, on their corporations' quarterly sales calls, addressed the issue of inflation linked to supply chain disruptions. The article mentions that many of the CEOs have indicated in these sales calls that they have taken "pricing action" in 2021 and plan more in 2022. In other words, these large corporations may be signaling to the institutional investors that they are not only increasing prices to pass on the costs of supply chain disruptions to consumers, but are also using the opportunity to pursue higher prices to improve profits and improve returns to shareholders.

Even though, much of the cause of inflation is due to supply-side disruptions and higher input costs, including oil prices, central banks of developing countries have begun increasing interest rates to curb inflation. These interest rate increases may hamper and possibly slow the recovery from the pandemic. However, it also affects fiscal policy as governments may slow spending on recovery for fear of contributing to inflationary pressures in their economies.

5.3. UNCTAD and the ILO advocate against fiscal restraint

The United Nations Conference on Trade and Development in its flagship 2021 Trade and Investment Report makes an important link between government fiscal policy (including problems with fiscal austerity and

[9] What CEOs Are Saying: 'Business Has Come Back Roaring' by George Stahl in WSJ, 5 Feb. 2022

consolidation while depending on supply-side, microeconomic structural reforms) and the factors that have led to corporate restructuring, the problems in global value chains and the resulting inflation. With regard to fiscal policy they report:

> Calls to enact new cuts have already returned, generally with the stated intention of reducing debt burdens. Commentary about the threat of inflationary pressures also contributes to the bias against fiscal spending. Meanwhile, calls to contain prices by increasing labour market flexibility have resumed. Fiscal austerity and downward pressure of labour income shares are supposed to help countries tap global demand with more competitive exports, hence the reignited attention to trade and investment agreements. Yet as previous Trade and Development Reports have argued, three decades of experiments in this direction have amply demonstrated just how faulty this strategy has been. No significant attempt has been made to support development, to reorient the global financial and payments system towards productive investment, to establish a debt workout mechanism, and to make trade more conducive to sustainable development. (p. v)

The International Labour Organisation (ILO), in its flagship 2022 World Employment and Social Outlook Trends (p.15), makes the convincing case that "Throughout the recovery period, macroeconomic policies will need to go beyond a *countercyclical role*, merely seeking a return to pre-crisis outcomes, since this would not address decent work deficits or leave countries any less vulnerable to future crises". The ILO argues that *fiscal policies must protect jobs and the underlying reasons for structural unemployment and lack of decent employment opportunities*. They advocate that fiscal policies should address these structural challenges through targeting the creation of productive employment supported by industrial policies, skills development and active labour market policies. They are also of the view that fiscal policy should be used to "sustain investment in universal social protection".

Both UNCTAD and the ILO advocate against fiscal restraint during this period when countries attempt to recover from the pandemic crisis and rebuild their economies. They recognise the weaknesses in the global economy and the important role that increased financialisation and inequality has played in weakening resilience within countries, particularly developing countries.

The structural changes that have led to increasing disconnect between financial markets and the real economy and global corporate restructuring that has reshaped GVCs has had a profound impact on developing country economies. It has reinforced the need not for structural reform but for structural economic transformation to grow the real, productive sectors and their economic depth and diversity. The ILO and UNCTAD both show the important link between industrial policy and improved comprehensive social security for this structural transformation. In other words, for developing countries to shift out of their low economic growth paths they have to broaden and increase insufficient levels of aggregate demand associated with high poverty and inequality through implementing comprehensive social security and increasing decent work opportunities. The industrial policies of countries should be aligned with this broadening and increasing of aggregate demand to move these economies onto new, more equitable and resilient economic growth paths.

5.4. Who creates jobs?

The question of whether governments or private sector actors create jobs seems much like a red herring when considered within the current reality that has exposed the problems related to financialisation and the dysfunction of GVCs. The internationalisation and integration of production and financial markets means that big businesses that dominate domestic markets and the small percentage of wealthy individuals that own most of a country's wealth have the ability to pursue increased wealth for themselves without considering increasing investment, employment and supporting economic growth within any single country. The global financial crisis of 2008 and the period of lackluster global economic performance after the crisis showed that large corporations and wealthy individuals can gain wealth through speculation and value extraction that causes unemployment and inequality to worsen. If developing countries, such as South

Africa, are to recover and rebuild both government and the private sector have to create more jobs and employ more people in the pursuit of structural transformation. The state will have to build capacity to support a new economic development path based on improved service delivery, comprehensive social security and an associated industrial policy. The private sector will have to employ more workers to deepen and diversify the productive base of the economy through a partnership with government to implement an agreed upon industrial policy. Macroeconomic policy and financial activity will have to change to support government and the private sector in reshaping a new economic growth path.

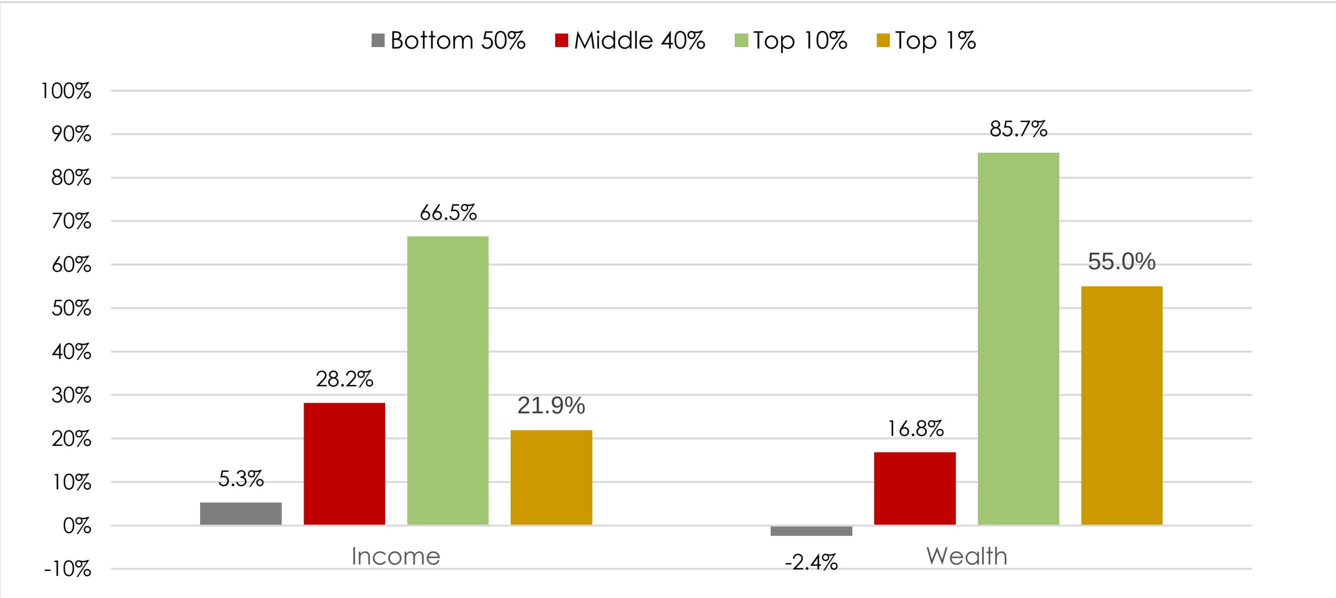
6. The South African economy

The extraordinarily high level of inequality in South Africa and its negative impact on society and economic development should not be taken lightly.

6.1. Inequality

Figure 2 shows the spread of income inequality and wealth in South Africa.

Figure 2 South Africa income inequality and wealth (in Purchasing Power Parity)



Source: World Inequality Lab, World Inequality Report 2022

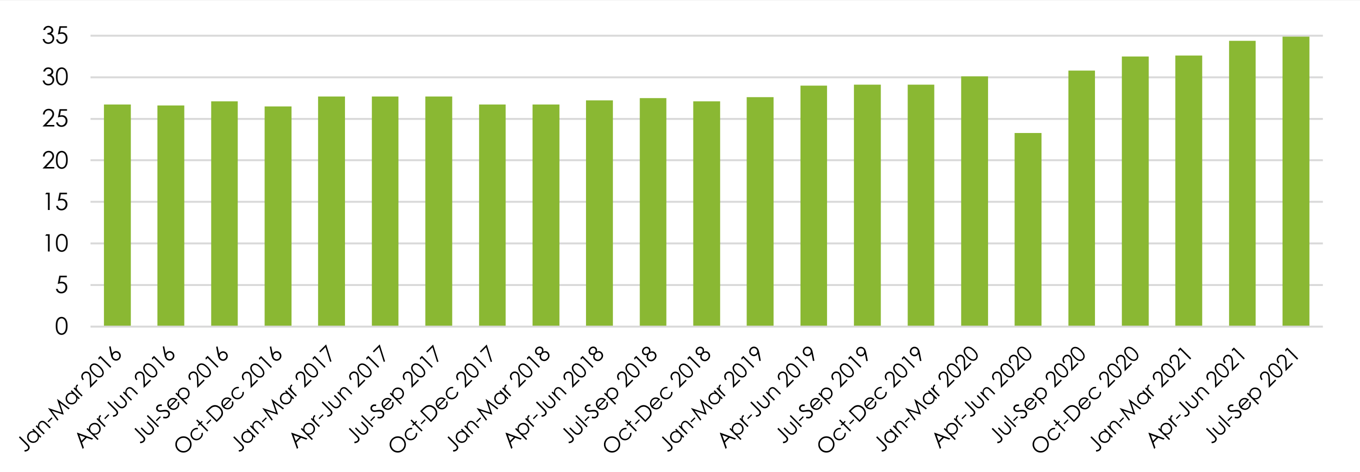
The bottom 50 per cent (approximately 30 million people) of South African population has negative wealth (i.e., more liabilities than assets), middle 40 per cent has only 16.8 per cent of the wealth while the top 1 per cent (approximately 600 000) own 55 per cent of the wealth. The consequence of this wealth inequality is that the bottom 50 per cent are able to get only about 5 per cent of the income, the bottom 90 per cent earn only approximately one-third of income generated, while the top 10 per cent capture two-thirds of the total income. Wealth and income inequality remains concentrated along race and gender lines.

Arguments that too few people pay too little taxes in South Africa should not only take into account this obscene level of inequality but should also consider the negative impact that such obscene inequality has on social, political and economic stability and the possibility to maintain democracy in South Africa. It is also important to acknowledge that people pay taxes.

6.2. Unemployment

Figure 3 shows the change in the official unemployment rate in South Africa between 2016 and 2021.

Figure 3 South Africa quarterly official unemployment rate, 2016 to 2021 (percentages)



Source: Statistics South Africa

South Africa has an incredibly high number of unemployed people. The level of unemployment has grown during the pandemic. This growth has to take into account the long-standing problem of structural unemployment within the country, which is intimately tied to the structural weaknesses of the economy. The unemployment rate among the Black African population group remains higher than the national average and other population groups. As of Q3 2021, by gender and race, black women have a high level of unemployment 41.5 per cen. The youth unemployment crisis remains a critical concern with approximately 3,4 million (33,5%) out of 10,2 million young people aged 15-24 years reported to not be in employment, education or training (NEET). Youth aged 15-24 years and 25-34 years recorded the highest unemployment rates of 66.5 per cent and 43.8 per cent respectively. Unemployment levels are particularly high in the Eastern Cape, Limpopo, and Northern Cape, where half of the working-age population is unemployed using the expanded unemployment definition.

Structural reforms that improve the ease and cost of doing business for existing businesses is not enough. A determined effort to change the economic growth path through improving services and providing comprehensive social security combined with supporting industrial policy to deepen and diversify the productive base of the economy is necessary. The current structure of the economy is one where inequality can grow and the wealthy can maintain and grow their wealth even when investment and employment levels remain low.

6.3. Households

Consumer demand is improving as lockdown restrictions ease, but many households have still not recovered financially. According to the Quarterly Trans Union Consumer Pulse study conducted in November 2021, 55 per cent of consumers' income were negatively impacted by COVID-19 (first quarter of 2021 62%). This number was the lowest in the year, down from 61 per cent in August 2021 and 62 per cent in March 2021. Despite the improvement, unemployment levels remain a major barrier to financial freedom. Job losses, reduced salaries and working hours were the main reasons household incomes decreased, with 34 per cent of participants saying someone in their household lost their job, while 32 per cent said someone in their household had their salary reduced and 28 per cent had their work hours cut in December, at a time when South Africa recorded its highest unemployment rate of 34.9 per cent in 2021. Lower-income consumers (households earning less than R50 000 per annum) were hardest hit, with nearly four in 10 (38%) indicating someone in their household lost their job in October 2021.

The financial resilience of households is important for macroeconomic and financial stability. Consumption typically accounts for about 60 per cent of GDP. The Covid-19 pandemic and the ensuing lockdowns amount to a very large negative shock, forcing households around the country to grapple with reduced hours, furloughs and outright unemployment. The depth of the recession, its duration and the pace of recovery hinge on how well households can weather this shock. Provision of services and grants has been the most effective means by which the post-apartheid government has been able to fight poverty and its effect and at this point has further been affirmed during the pandemic.

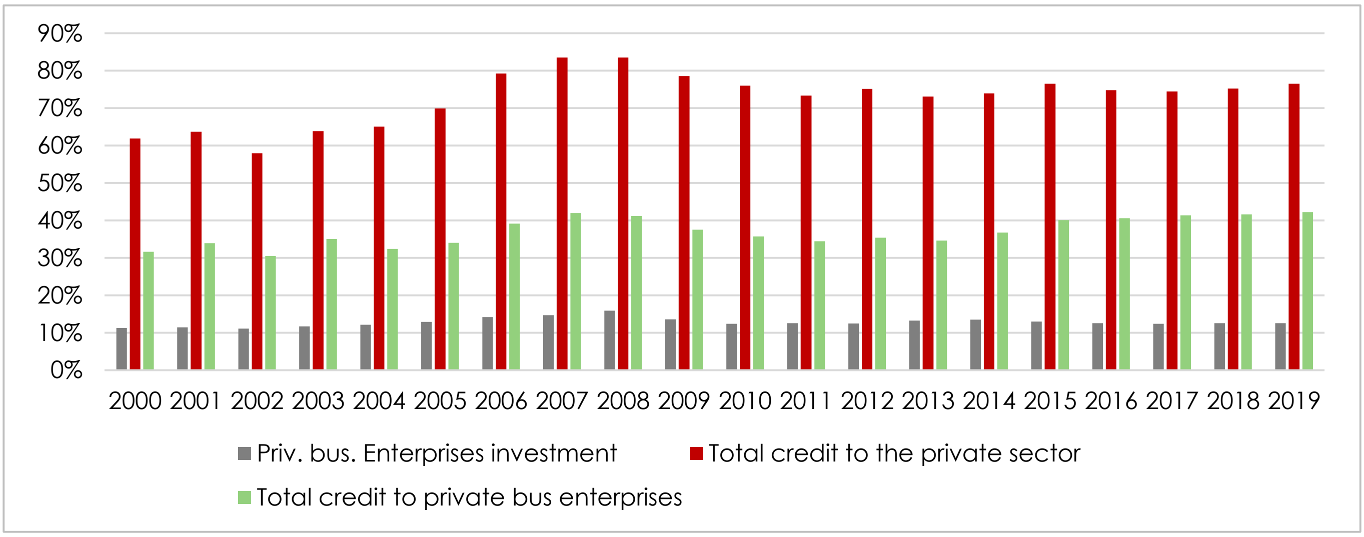
Due to the Covid-19 pandemic more than a quarter of all households received grants as their main source of income. According to StatsSA's General Household Survey 2020, 28.8 per cent of households had grants as their main source of income. The report revealed that grants are a vital safety net especially in the poorest and most rural provinces such as the Eastern Cape and Limpopo.

In the Eastern Cape, 63.6 per cent of households and 69.3 per cent in Limpopo had grants as their main source of income, which was higher than the number of households that reported salaries as their main source of income. Grants remained the second most important source of income for households in South Africa with an increasing number of households having become more dependent on grants. The percentage of individuals who accessed the R350 monthly Social Relief of Distress (SRD) grant increased to 34.9 per cent. The percentage of households that received at least one grant increased to 52.4 per cent. The survey also showed that with the exception of the Covid-19 social relief grants the number of persons accessing other grants would have stood at 30.7 per cent down from 34.9 per cent in 2019.

6.4. Investment and capital stock

Much has been said about structural economic problems facing the South African economy. An assessment of investment and capital stock changes in the economy over time will provide some insight into the severity of this problem. Figure 4 shows investment by private business enterprises in all sectors of the economy and contrasts it with the extension of credit to private businesses and the private sector as a whole (i.e., including households). The graph is from 2000 to 2019 and deliberately excluded the period of the pandemic. It is striking to see that investment levels by the private sector declined from 2008 after the global financial crisis back to the level it was around during the early 2000s but that credit extension did decline after the Global Financial Crisis (GFC), but remained well above the level it was at during the early 2000s. In other words, South African businesses are receiving increased levels of credit (i.e., not being crowded out by public sector increased borrowing), but that they have not increased their investment levels. This further means that, credit and crowding out in debt markets is not the problem in South Africa. For example, in 2019 the year before the pandemic financial institutions extended credit to private business enterprise that was 42 per cent the size of GDP but their investment in that year was only around 13 per cent of GDP.

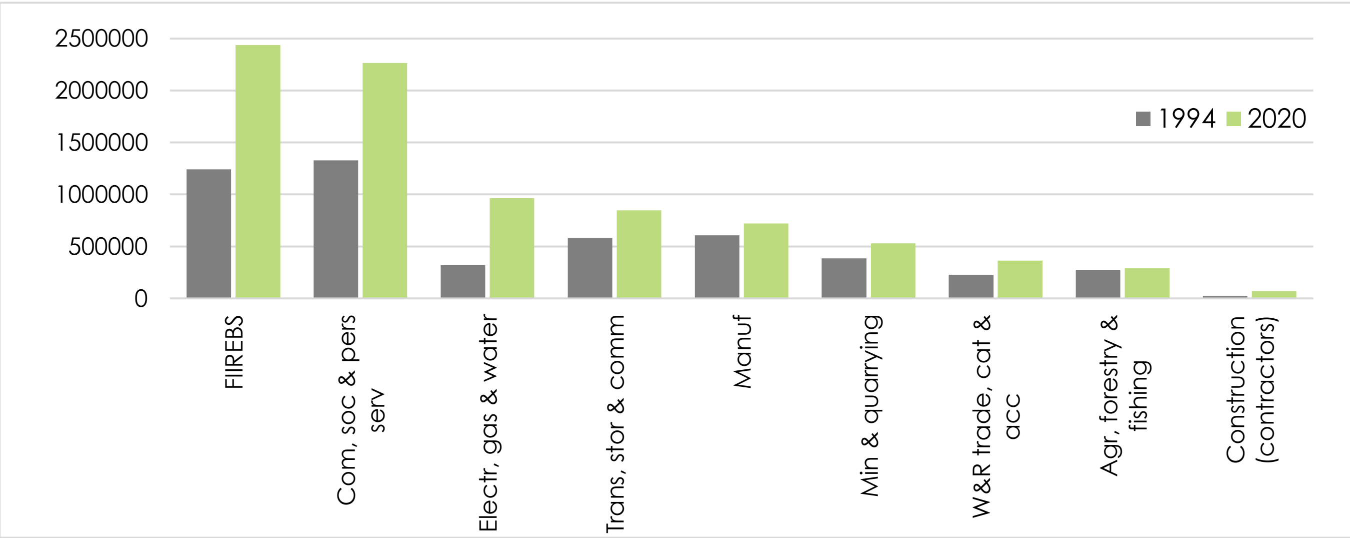
Figure 4 Credit extension to the private sector and investment by private business enterprises (as percentages of GDP)



Source: SARB

The poor investment levels have exacerbated the structural economic problems of the economy that influence the growth and development path of the economy as well as the type of employment and potential for decent work that the economy will offer in the future. Figure 5 compares the capital stock of different economic sectors in 1994 and 2020.

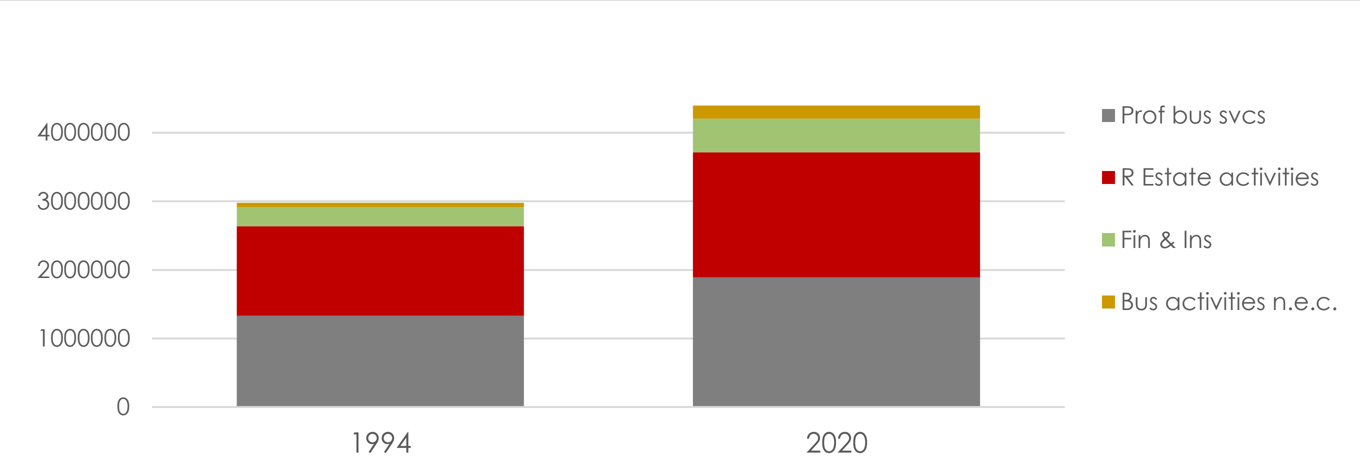
Figure 5 Comparing capital stock of different economic sectors for 1994 and 2020 (in Rmillions, 2015=100)



Source: SARB

The largest growth in capital stock from 1994 to 2020 was in the finance, intermediation, insurance, real estate and business services sector of the economy. The capital stock of this sector approximately doubled to close to R2.5 trillion (in real terms) from 1994 to 2020. By contrast manufacturing capital stock grew by around R0.6 trillion to R0.7 trillion over the same period. The capacity of the manufacturing sector to significantly contribute to economic growth and employment in the future is limited. This poor growth in capital stock is concerning because manufacturing is still recognised as an important engine for economic growth and dynamism due to the linkages between manufacturing and other economic sectors. Figure 6 compares capital stock for components of the finance, intermediation, insurance, real estate, and business services sector (FIIREBS) in 1994 and 2020

Figure 6 Comparing of capital stock - FIIREBS - 1994 and 2020



Source: Quantec

It is worth considering the breakdown of capital stock changes in the FIIREBS sector from 1994 to 2020. First, the largest growth in capital in this services sector was in real estate activities and the next largest was in professional business services. The growth in capital stock in finance and insurance was large, but the capital stock in the sector is relatively small compared to real estate activities and professional business services. It is also worth remembering that the growth in capital stock in professional business services does not represent a growth in capacity of South Africa to deliver high value added services for the domestic and international economy. Much of the growth in this sector is related to high inequality that requires more private security services and increased outsourcing of cleaning and other services that had previously been done in-house in firms in other sectors. The growth of this sector, therefore, also represents the possibility that decent work opportunities have declined for lower skilled workers within many sectors and potentially contributes to higher levels of inequality. Overall, the large growth in value added by financial services has not translated into large growth in capital stock and employment. The structure of the economy in terms of the levels of capital stock remains geared toward poor economic growth and continued high levels of inequality and unemployment.

7. Fiscal framework

The current economic climate is characterised by heightened volatility and uncertainty. Following a large contraction in 2020, the 2021 Budget projected a modest recovery for 2021, and for the medium term. Table 7 shows the growth outlook for South Africa over the medium term.

Table 7 Changing growth outlook for the SA economy

GDP growth outlook - calender year*	2021	2022	2023	2024
National Treasury - Budget 2021	3.3%	2.2%	1.6%	
National Treasury - MTBPS 2021	5.1%	1.8%	1.6%	1.7%
South African Reserve Bank - January 2021	3.6%	2.4%	2.5%	
South African Reserve Bank - November 2021	5.2%	1.7%	1.8%	2.0%
South African Reserve Bank - January 2022	4.8%	1.7%	1.8%	2.0%
World Bank - Global Economic Prospects - January :	3.3%	1.7%	-	
World Bank - Global Economic Prospects - June 202	3.5%	2.1%	1.5%	
World Bank - Global Economic Prospects - January :	4.6%	2.1%	1.5%	
IMF - World Economic Outlook - January 2021	2.8%	1.4%	-	-
IMF - World Economic Outlook - October 2021	5.0%	2.2%	-	
IMF - World Economic Outlook - January 2022	4.6%	1.9%	1.4%	-

*Growth projections correspond to publication date and not forecast date

Over the first nine months of 2021, the South African economy recorded growth of 3.3 per cent compared with the same period in 2020. Over the first half of the 2021/22 fiscal year, the economy recorded growth of 10.4 per cent, reflecting base-effects from following the contraction in 2020.

Since the tabling of the 2021 MTBPS there has been a marked increase in global volatility arising from further waves of the Covid-19 virus, higher inflation in advanced-economies, and the attendant moves towards policy normalisation from advanced economies, with implications for the South African economy. Given the heightened uncertainty surrounding macroeconomic and fiscal forecasts, there have been several revisions to the forecasts for the global economy and the South African economy. The South African economy is only expected to return to its pre-pandemic size in 2023.

Stronger-than-expected economic performance over the 2021/22 financial year has also resulted in strong revenue performance over the current fiscal year. This has reduced the net-borrowing requirement of government for the current fiscal year. Table 8 shows that revenue collection is likely to exceed estimates from the 2021 Budget.

Table 8 Revenue collection likely to exceed estimates from the 2021 Budget Review

R million	NT Budget Review 2021	NT MTBPS 2021	PBO Pre-BR (February 2022)[1]
Personal income tax	515,957	542,100	549,712
Corporate income tax	213,114	288,631	290,393
Value-added tax	370,177	373,630	382,230
Other tax revenue	163,247	171,840	156,075
Customs and excise duties	102,628	109,213	110,271
Gross tax revenue	**1,365,124**	**1,485,415**	**1,488,681**
Less: SACU payments	(45,966)	(46,000)	(46,000)
Main budget revenue	**1,351,672**	**1,483,201**	**1,482,368**
Main budget expenditure	**1,834,252**	**1,893,103**	**1,893,103**
Main budget balance	**(482,580)**	**(409,902)**	**(410,735)**

1. Projections are from PBO's in-year revenue and expenditure model. PBO uses historical monthly profiles of revenue data available in Section 32 reports to project full-year main budget outcomes. PBO's model is based on methodologies employed by other independent fiscal institutions.

It should, however, be noted that the stronger-than-expected economic and attendant revenue performance for the current fiscal year reflects a temporary and cyclical increase in growth, and not a sustained structural improvement in the South African economy. The improvement in revenue also reflects an overall increase in prices across the economy, with headline CPI inflation edging closer to the upper-bound of the SARB's target range. The current acceleration in economic and revenue growth is likely to slow as the global economy and commodity prices moderate. Medium term revenue and expenditure policy choices should be based on the medium term economic and not merely on a single year's performance.

7.1. Primary and main budget balance

Based on the improved economic performance and revenue growth over the current year, as well as a revised outlook, the PBO expects a smaller primary and main budget deficit compared with the projections from the 2021 Budget and the 2021 MTBPS. It should be noted that PBO's projections are not policy-adjusted and thus do not reflect any steps that may be taken by government to raise revenue and/or decrease/increase expenditure to reduce the budget deficit, or the budgetary and growth implications of further possible support for economic recovery and curb the spread of the coronavirus, or other structural increase to expenditure. Figures 7 and 8 shows the primary and main budget as a percentage of GDP.

Figure 7 Primary balance

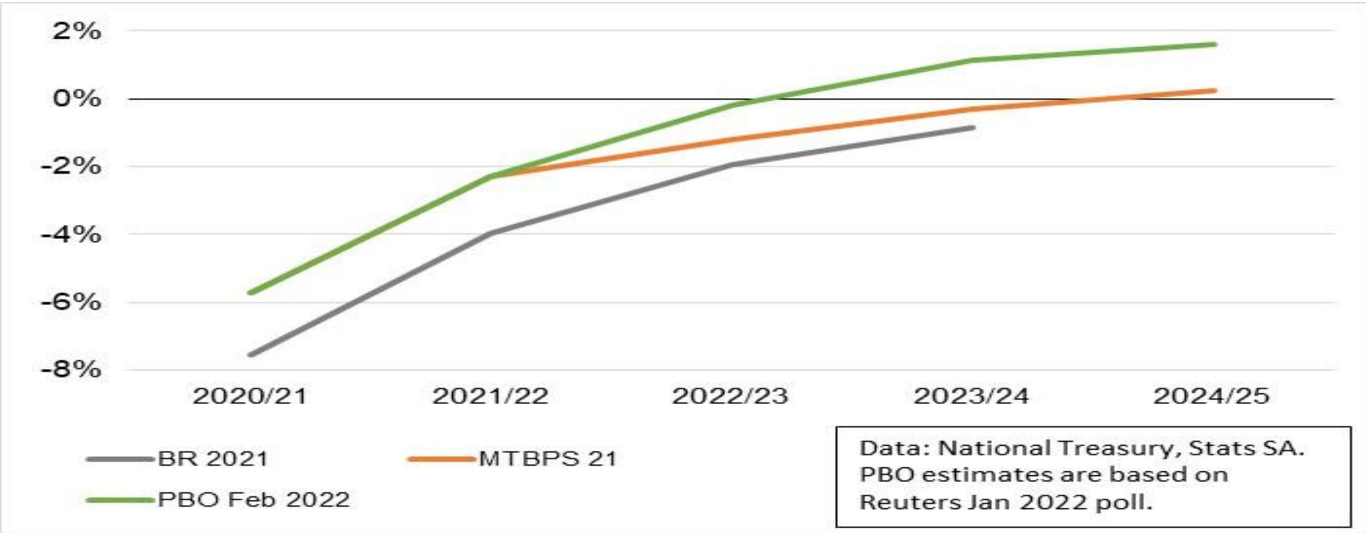
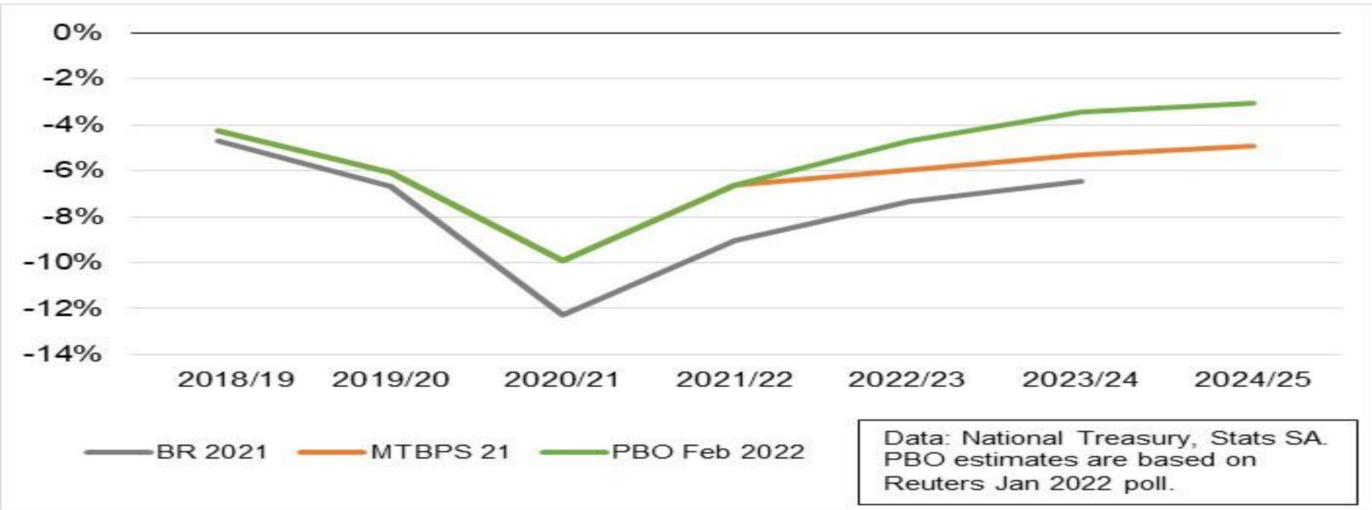


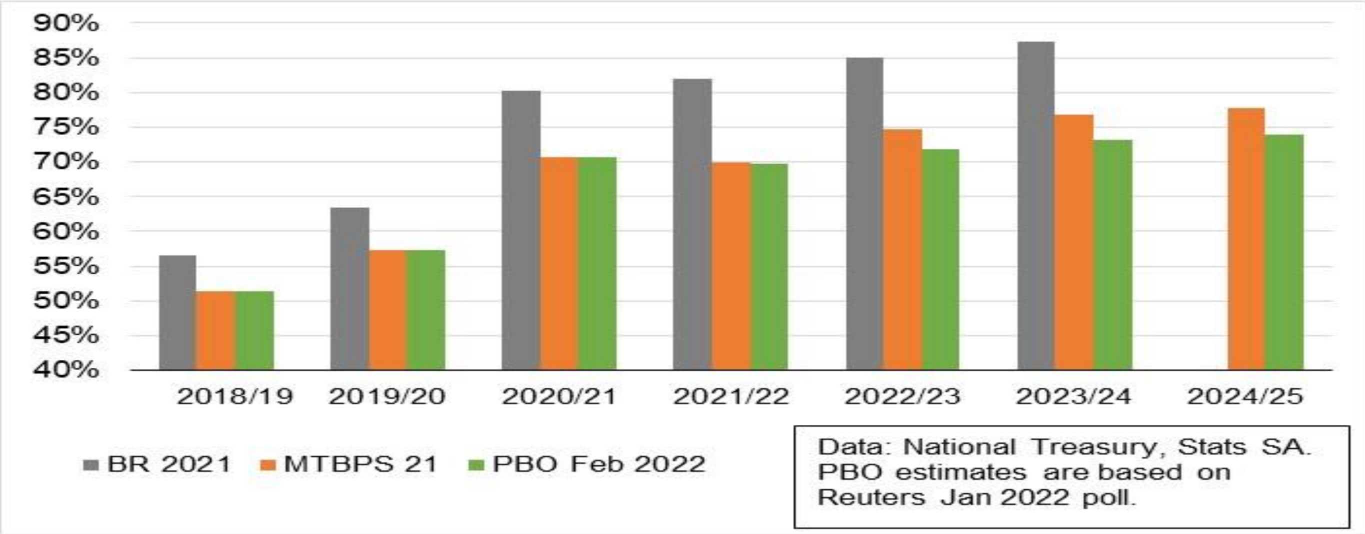
Figure 8 Main budget balance



7.2. Gross loan debt

South Africa's fiscal policy objective of stabilising debt as a share of GDP has been delayed, to a large extent due to the fiscal impact of the ongoing Covid-19 pandemic. The 2021 MTBPS projected a more gradual increase in South Africa's debt trajectory compared with the Budget Review, owing to stronger-than-expected economic and revenue performance. Based on an improved outlook for the budget deficit over the medium term, the PBO projects an improved non-policy adjusted outlook for the budget deficit over the medium term. The updated medium term debt trajectory to be presented in the 2022 Budget will be informed by potential provisions for additional expenditure commitments, the concomitant means of financing (i.e. debt and/or revenue), as well as the effects of higher inflation and borrowing costs. Figure 9 shows the actual and estimated growth in debt between 2018/19 and 2024/25.

Figure 9 Debt growth expected to slower over the medium-term



8. Revenue

8.1. Revenue collection rates: National

The revised estimated gross tax revenue collection for 2021/22 amounts to R1.49 trillion. This is R120.3 billion more than the 2021 Budget estimates. By the end of Q3 of 2021/22, R1.13 trillion (76.4%) had been collected; 2.3 per cent decrease in collections compared to the similar period in 2020/21, when the collection rate amounted to 78.7 per cent. Table 9 shows the tax revenue estimates and actual collection against budget as at end December 2021.

Table 9 Tax revenue estimates and actual collection against budget, April – December 2021

Tax Revenue Source	2021 BR Estimates		2021 Revised estimates		Actual Apr-Dec 21		Actual Apr-Dec 20	
	R billion	Y-on-Y % change	R billion	Y-on-Y % change	R billion	Y-on-Y % change	R billion	Y-on-Y % change
Personal Income Tax	515.0	11.7	542.0	16.2	391.2	13.0	340.5	-10.0
Value Added Tax	370.2	18.6	373.6	23.0	276.8	15.7	233.3	-5.7
Corporate Income Tax	213.1	19.4	288.7	44.7	251.8	42.5	144.7	-11.8
Fuel Levy	83.2	24.0	89.6	23.7	66.7	17.4	55.1	-7.2
Dividend withholding tax	16.8	15.7	29.9	30.9	23.4	29.5	165.0	-31.1
Custom Duties	54.0	13.1	55.7	26.9	39.9	20.1	31.9	-28.3
Specific Excise Duties	43.7	17.0	42.3	20.1	33.1	41.2	19.5	-63.2
Skills Development Levy	17.8	36.6	18.9	46.3	14.1	46.7	7.5	-78.8
Ad-valorem	3.5	8.1	4.4	27.5	3.5	39.2	2.2	-50.6
Other	47.8	63.1	40.2	14.7	34.4	28.4	24.6	-7.3
Gross Tax Revenue	1365.1	17.9	1485.3	25.1	1134.9	22.8	1024.3	-11.8

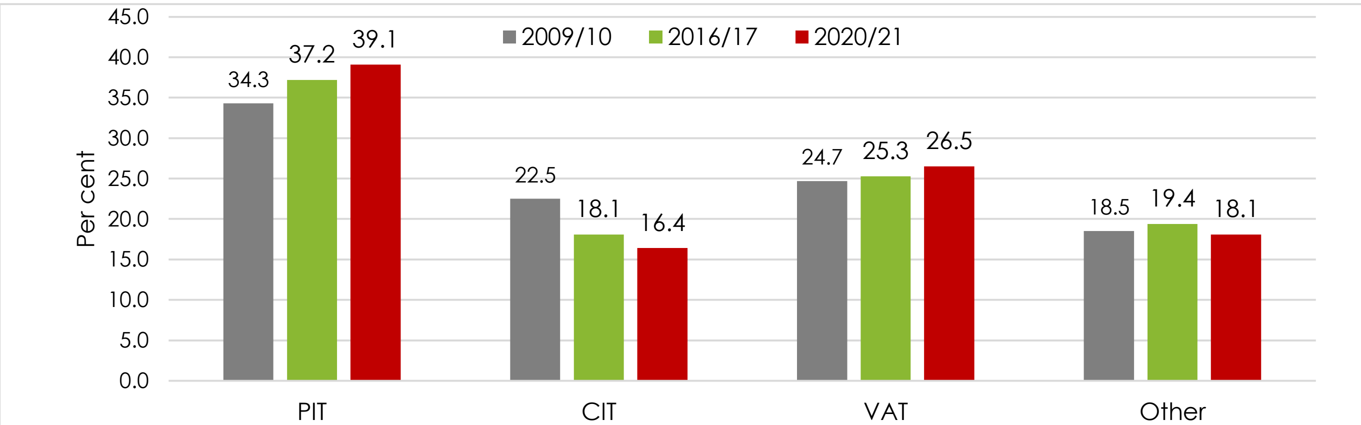
Source: NT, SARS and PBO

Table 9 shows a comparison of the year-on-year percentage change in 2021 Budget and 2021 MTBPS collection targets and in actual collection between the first nine months of 2020/21 and 2021/22 financial years. The comparison shows that the actual collection for all tax instruments experienced a decline in their collection rates relative to their targets on a year-on-year comparison with 2020/21 Q3 collections. The 2021 Budget and revised estimates were higher compared to 2020 estimates and 2021 actual collection were higher than that of 2020. Tax performance is seemingly better relative to lower targets as a result of the pandemic which impacted economic activities in the country. Despite the decline in collection rates, year-on-year, there was better than expected actual collection for all tax instruments by the end of Q3 of the 2021/22 financial year compared to the same period in 2020/21. Despite the upward revisions, tax revenue collection remains below the pre-pandemic projections.

8.2. Main tax instruments contributing to revenue

Figure 10 shows the changes of the proportions of revenue collected per the main tax instruments over time.

Figure 10 Proportion of tax contribution by tax instruments



Source: SARS

The contribution of personal income tax (PIT) to tax revenue has steadily increased from 34.3 per cent in 2009/10 to 39.2 per cent in 2020/21. Despite the impact of the Covid-19 pandemic on employment, the number of individuals registered for income tax increased to 23.9 million in 2020/21 from 22.9 million in 2019/20 which represents a year-on-year growth of 4.1 per cent. The base for PIT remains low with 6.4 million individuals estimated to be earning below the minimum income tax threshold of R70 000. In 2020, 50.2 per cent of tax payers remained in the R70 001 to R350 000 income group.

The contribution of corporate income tax (CIT) to total tax revenue declined significantly from 22.5 per cent in 2009/10 to 16.4 per cent in 2020/21. The question is how much of this decline could be attributable to policy decisions to lower CIT from 30 to 29 per cent in April 2005, and from 29 to 28 per cent in April 2008 and it will further decline to 27 per cent from April 2022. A key concern relative to the lowering of the CIT is the issue of Effective Tax Rates (ETR) (actual tax paid by corporate taxpayers). In South Africa, the ETR for CIT is far lower (less than 15%) than the statutory rate (28 %). e.g. in the mining sector it is below 10 per cent. According to the international tax effort to curb decline in CIT revenues, tax evasion and tax avoidance also remain critical concerns for CIT. Lastly, rapid digitalisation of economies continues to lead erosion of tax base given the lack of common international taxation rule that fairly allocate taxing rights within digital economy.

The contribution of value added tax (VAT) has increased from 24.7 per cent in 2009/10 to 26.5 per cent in 2020/21. Despite the policy decision to increase VAT from 14 per cent to 15 per cent in 2018, the COVID-19 pandemic have worsened the collection due to lower than expected household consumption expenditure. Value Added Tax revenue collection is likely to continue to grow slower than expected in the context of increasing unemployment, salary cuts, rising food price inflation, rising fuel prices and low consumer confidence, amongst other factors.

8.3. Other Tax developments

Expected tax policy changes or announcements in the 2022 Budget include:

- Government is currently reviewing the design, implementation and impact of South Africa's Research and Development Tax Incentives which expires in September 2022. Announcement will be made in the 2022 Budget
- Public comments are currently requested on:
    - The most appropriate tax regime for the oil and gas industry
    - Taxation on electronic nicotine and non-nicotine delivery systems (vaping)
- National Treasury is currently reviewing travel and home office allowances to investigate their efficacy, equity in application and simplicity of use

8.4. Revenue collection rates: Provincial

Provincial governments have their own revenue raising powers. However, more than 95 per cent of their receipts are allocated from the national budget in the form of a Provincial Equitable Share and Conditional Grants. By the end of Q3,[10] provinces had on aggregate collected about 75 per cent of their 2021/22 (R14.9 billion) estimated receipts. This is 5.3 per cent (or R751 million) more than the collection rate in the first nine months of the 2020/21 financial year.

[10]Q3: In this brief provincial analysis focus on financial information available for period ended on 31 December 2021

Table 9 Actual Provincial revenue collected, April – December 2021

R'000		Actual against budget - end December		
	Source	Adjusted Appropriaiton	Actual	%
FY 2020/21	NRF	627 797 839	484 728 531	77.2
	Own receipts	18 541736	14 135 366	76.2
	Total Receipts	646 339 575	498 863 897	77.2
FY 2021/22	NRF	660 744 689	490 373 153	74.2
	Own receipts	20 724 984	14 886 988	71.8
	Total Receipts	681469 673	505 260 141	74.1

Source: PBO, NT datasets 2020 & 2021

9. Expenditure: progress and outlook

9.1. Progress in 2021/22: National departments

Table 10 shows national expenditure per vote as at the end of December 2021. Total expenditure by vote amounts to 74.1 per cent or R762.6 billion of the total budget of R1 028.5 billion for 2021/22. The 74.1 per cent is 1.2 per cent higher than the 72.9 per cent achieved in 2020/21. The total expenditure in 2021/22 includes a transferred amount of R529.1 billion, of a R695.22 billion estimated allocations, to other institutions or spheres of government in the first nine months of the financial year.

Table 10: National expenditure per vote as at end December 2021

R thousand		2021/22 Revised Estimate Total	2021/22 Year to date % of total	2020/21 Year to date % of total
			<70 and >80	
1	The Presidency	604 579	58.3%	64.0%
2	Parliament	2 144 148	75.0%	79.1%
3	Cooperative Governance	101 259 931	70.0%	74.4%
4	Government Communication and Information System	757 430	74.3%	78.6%
5	Home Affairs	9 431 436	74.8%	71.4%
6	International Relations and Cooperation	6 517 872	59.0%	75.3%
8	National Treasury	45 546 707	57.8%	79.5%
9	Planning, Monitoring and Evaluation	459 213	58.4%	70.3%
10	Public Enterprises	36 274 819	99.0%	35.4%
11	Public Service and Administration	531 684	61.7%	72.9%
12	Public Service Commission	286 271	67.4%	73.2%
13	Public Works and Infrastructure	8 354 210	70.9%	74.1%
14	Statistics South Africa	4 931 640	44.4%	61.3%
15	Traditional Affairs	172 690	61.1%	72.9%
16	Basic Education	27 239 260	81.4%	80.4%
17	Higher Education and Training	97 889 005	92.9%	93.3%
19	Social Development	232 146 315	73.6%	77.0%
20	Women,Youth and persons with Disabilities	1 195 508	52.5%	85.0%
21	Civilian secretariat for the Police Services	151 043	65.9%	68.0%
24	Independent Police Investigative Directorate	353 778	65.1%	76.9%
25	Justice and Constitutional Development	19 508 708	67.3%	68.4%
26	Military Veterans	607 388	47.6%	55.3%
27	Office of the Chief Justice	1 241 780	67.9%	69.9%
29	Agriculture, Land Reform and Rural Development	18 023 260	60.6%	69.2%
30	Communications and Digital Technologies	3 884 456	65.8%	65.9%
31	Employment and Labour	3 816 493	63.2%	75.1%
32	Environment, Forestry and Fisheries	9 099 737	59.5%	72.1%
33	Human Settlements	31 679 787	66.7%	63.7%
36	Small Business Development	2 637 063	83.0%	91.9%
41	Water and Sanitation	17 735 057	55.2%	67.6%
Total appropriation by vote		**1 028 457 408**	**74.1%**	72.9%

Source: National Treasury

9.2. Progress in 2021/22: Provinces

Table 11 shows that provinces spent R501.62 billion of the R690.61 billion or 72.6 per cent of the Adjusted Budget in the first nine months of the 2021/22 financial year. This expenditure rate is slightly higher than the 72.1 per cent of a R661.64 billion budget in the previous financial year. The table also shows that provinces have spent 74.7 per cent of their compensation of employees budgets. Expenditure on goods and services was at 69.9 per cent at the end of December 2021. Education and Health comprise 39.8 and 34.8 per cent respectively of provincial budgets. Spending on education amounted to 74.3 per cent and health expenditure amounted to 73.4 per cent at the end of December 2021.

Table 11 Provincial expenditure per sector and economic classification as at end December 2021

Economic classification	2021/22					
	Main Budget	% of Total	Adjustments	Adjusted Budget[1]	Actual Receipts/ Payments	% Actual Receipts/ Payments
	R'000	%	R'000	R'000	R'000	%
Receipts						
Transfers from National Revenue Fund	**639 017 482**		**21 727 207**	**660 744 689**	**490 373 153**	**74.2%**
Equitable share of revenue	523 686 351	79.4%	21 148 560	544 834 911	400 117 297	73.4%
Conditional grants	115 331 131	17.5%	578 647	115 909 778	90 255 856	77.9%
Provincial own receipts	**20 761 701**	**3.1%**	**(36 717)**	**20 724 984**	**14 886 988**	**71.8%**
Total receipts	**659 779 183**	**100.0%**	**21 690 490**	**681 469 673**	**505 260 141**	**74.1%**
Payments by provincial departments	-		-	-	-	
Education	261 724 139	39.8%	17 374 877	279 099 016	207 365 967	74.3%
Health	228 887 628	34.8%	11 262 987	240 150 615	176 313 266	73.4%
Social Development	23 340 502	3.6%	1 393 589	24 734 091	17 826 523	72.1%
Total payments	**657 435 711**	**100.0%**	**33 170 738**	**690 606 448**	**501 620 121**	**72.6%**
Payments by economic classification	**-**		**-**	**-**	**-**	
Current payments	**538 829 677**	**82.0%**	**24 155 471**	**562 985 148**	**413 583 040**	**73.5%**
Compensation of employees	398 924 069	60.7%	18 365 594	417 289 663	311 768 881	74.7%
Goods and services	139 900 626	21.3%	5 780 698	145 681 324	101 791 422	69.9%
Transfers and subsidies	**82 091 350**	**12.5%**	**8 833 363**	**90 924 713**	**66 931 137**	**73.6%**
Provinces and municipalities	7 852 944	1.2%	855 197	8 708 141	6 450 714	74.1%
Departmental agencies and accounts	11 719 822	1.8%	875 381	12 595 203	9 402 306	74.6%
Public corporations and private enterprises	9 398 179	1.4%	660 420	10 058 599	6 838 877	68.0%
Non profit institutions	31 384 965	4.8%	5 407 657	36 792 622	28 742 987	78.1%
Households	21 585 235	3.3%	1 023 036	22 608 271	15 406 095	68.1%
Payments for capital assets	**36 508 825**	**5.6%**	**168 159**	**36 676 984**	**21 076 687**	**57.5%**
Buildings and other fixed structures	28 733 201	4.4%	(2 091 480)	26 641 721	16 052 407	60.3%
Machinery and equipment	7 426 815	1.1%	1 789 278	9 216 093	4 716 650	51.2%
Land and sub-soil assets	114 770	0.0%	418 280	533 050	73 030	13.7%
Payments for financial assets	**5 859**	**0.0%**	**13 744**	**19 603**	**29 256**	**149.2%**
Total payments	**657 435 711**	**100.0%**	**33 170 737**	**690 606 448**	**501 620 121**	**72.6%**

Source: National Treasury

9.3. Progress on specific conditional grants in 2021/22

Due to the importance of conditional grants in terms of the efficiency and effectiveness of government spending, this section specifically focusses on the progress made with the implementation of schedule 4 and 5 grants. The expenditure report on conditional grants is part of the section 32 of the PFMA Quarterly Publication for 2021/22, published by the National Treasury. The performance information is extracted from performance reports submitted to the National Treasury by the respective National Departments. Table 12 shows the progress with the spending of the schedule 5 grants in the first six months of the 2021/22 financial year.

Table 12 Spending per department and conditional grant to provinces, 30 September 2021

National departments administering conditional grants	2021/22			
	Budget		Payments to Date	
Schedule 5, Part A Grants R'000	Division of Revenue Act, No. 9 of 2021	Transferred from National to Province	Actual Payments	% Actual Payments
Agriculture, Land Reform and Rural Development (Vote 29)	**2 238 023**	**1 043 658**	**664 826**	**29.7%**
(a) Comprehensive Agricultural Support Programme Grant	**1 557 560**	708 827	490 405	31.5%
(b) Ilima/Letsema Projects Grant	**597 126**	310 687	153 673	25.7%
(c) Land Care Programme Grant: Poverty Relief and Infrastructure Development	**83 337**	24 144	20 748	24.9%
Sport, Arts and Culture (Vote 37)	**1 495 836**	**812 738**	**623 285**	**41.7%**
Community Library Services Grant	1 495 836	812 738	623 285	41.7%
Basic Education (Vote 16)	**9 012 077**	**5 177 176**	**4 559 641**	**50.6%**
(a) HIV and AIDS (Life Skills Education) Grant	241 914	96 764	103 974	43.0%
(b) Learners with Profound Intellectual Disabilities Grant	242 760	139 063	96 102	39.6%
(c) Maths, Science and Technology Grant	412 134	206 068	136 675	33.2%
(d) National School Nutrition Programme Grant	8 115 269	4 735 281	4 222 890	52.0%
Health (Vote 18)	**38 353 775**	**19 146 030**	**16 835 321**	**43.9%**
(a) HIV, TB, Malaria and Community Outreach Grant	27 585 452	13 813 030	12 054 439	43.7%
(b) Health Facility Revitalisation Grant	6 445 188	3 164 751	2 533 091	39.3%
(c) Human Resources and Training Grant	4 054 458	2 030 967	2 150 667	53.0%
(d) National Health Insurance Grant	268 677	137 282	97 124	36.1%
Human Settlements (Vote 33)	**17 292 679**	**8 895 875**	**6 368 083**	**36.8%**
(a) Human Settlements Development Grant	13 402 961	6 916 317	5 565 709	41.5%
(b) Informal Settlements Upgrading Partnership Grant	3 889 718	1 979 558	802 374	20.6%
Public Works and Infrastructure (Vote 13)	**836 930**	**483 472**	**444 432**	**53.1%**
(a) Expanded Public Works Programme Integrated Grant for Provinces	422 486	227 804	231 166	54.7%
(b) Social Sector Expanded Public Works Programme Incentive Grant for Provinces	414 444	255 668	213 266	51.5%
Social Development (Vote 19)	**1 056 661**	**526 464**	**516 908**	**48.9%**
Early Childhood Development Grant	1 056 661	526 464	516 908	48.9%
Sport, Arts and Culture (Vote 37)	**591 049**	**297 775**	**155 926**	**26.4%**
Mass Participation and Sport Development Grant	591 049	297 775	155 926	26.4%
Sub-Total	**70 877 030**	**36 383 188**	**30 168 422**	**42.6%**

Source: National Treasury

Agriculture Land Reform and Rural Development (DALRRD):

The budget for the Ilima/Letsema conditional grant (schedule 5) amounts to R597 million for the 2021/22 financial year. The total spending as at the end September 2021 amounted to R154 million (25.7%). The Ilima/Letsema conditional grant aims to reduce poverty through increased food production initiatives. The programme seeks to achieve the following outcomes:

- Increased agricultural production of field crops such as grains, livestock, horticulture and aquaculture
- Increased quantities of agricultural commodities produced by smallholder and household farmers
- Reduced poverty and improved food security
- Increased job opportunities
- Rehabilitated and expanded irrigation schemes

Table 13 shows the Performance of the Ilima/Letsema conditional grant against targets set (white rows) and percentage spent as at 30 September 2021

Table 13 Performance of the Ilima/Letsema conditional grant, 30 September 2021

Performance indicator	EC	FS	GT	KZN	LIM	MPU	NC	NW	WC	Total
Expenditure	12%	28%	0%	12%	60%	54%	10%	4%	69%	28%
Number of projects targeted	913	23	280	20	145	28	8	16	1 900	3 333
Number of projects completed	42	0	0	0	0	0	0	0	810	852
Number of beneficiaries targeted	12 815	67	311	8 721	11 813	1 116	242	5	1 534	36 624
Number of beneficiaries supported	165	42	0	650	5 070	1 116	0	0	625	7 668
Number of household and community gardens	20 000	0	0	0	0	3 852	0	0	0	23 852
Actual household and community gardens	2 424	0	0	0	0	813	0	0	810	4 047
Number of farmers supported	-	-	-	-	-	-	-	-	-	3996
Actual number of farmers supported	350	0	0	650	4 362	212	0	33	600	6 207
Number of farmers accessing markets	-	-	-	-	-	-	-	-	-	-
Actual number of farmers accessing markets	325	0	0	362	1 520	423	0	0	600	3 230
Number of hectares planted	29 016	2 476	2 600	11 250	5 998	15 400	408	15 290	4 000	86 438
Actual number of hectares planted	0	0	0	0	0	1 111	0	0	2	1 113
Number of jobs created	-	-	-	-	-	-	-	-	-	-
Actual number of jobs created	0	0	0	762	10 513	0	0	0	1 266	12 541

Source: Department of Agriculture, Land Reform and Rural Development (DALRRD)

Comprehensive Agriculture Support Programme (CASP): The budget for the CASP (schedule 5) amounts to R1.56 billion for the 2021/22 financial year. The total spending as at end September 2021 amounted to R490 million (31.5%). The key objective of CASP is to provide post-settlement support to targeted beneficiaries of land reform and redistribution and other producers who have acquired land through private means and are engaged in value-adding enterprises domestically, or involved in exports. CASP is also looking at targeting and improving categories of individuals under the following groups:

- The hungry and the vulnerable
- Household food security and subsistence
- Farm and business level activity
- Agricultural macro systems within the consumer, economic environment

Table 14 shows the performance of the CASP conditional grant against targets set and expenditure as at 30 September 2021.

Table 14 Performance of the CASP conditional grant, 30 September 2021

Provinces	Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
% Provincial Actual payments September 2021	28%	20%	6%	62%	19%	18%	27%	8%	63%
Number of projects	80	25	122	58	26	30	17	54	25
Number of projects completed	22	0	0	0	2	4	0	0	0
Number of beneficiaries	2 342	810	2 369	1 310	334	123	663	1 706	1 054
Number of beneficiaries supporte	749	259	758	419	107	39	212	546	337
Number of farmers targeted									
Number of farmers supported	230	992	26	626	119	88	0	0	35
Number of farmers accessing ma	230	0	26	544	101	57	0	0	35
Number of jobs targeted	576	336	185	1150	645	289	201	607	535
Actual number of jobs created	188	29	37	575	92	18	0	0	678
Number of pre-audits, workshops follow-ups and final audits	8	3	48	5	20	5	18	-	-
Number of monitoring visits plann	80	25	122	58	26	17	17	54	25
Number of monitoring visits condu	0	4	0	0	16	15	0	20	0

Source: Department of Agriculture, Land Reform and Rural Development (DALRRD)

In addition to the conditional grants the Presidential Employment Stimulus and the Solidarity Fund, over 100 000 farmers have already received input vouchers to expand their production. According to the Department of Agriculture, Land Reform and Rural Development the scheme has proven to be effective and impactful. *This additional initiative to support farmers might be a duplication of the purpose of the agriculture conditional grants.*

Basic Education: The adjusted budget for the education infrastructure grant (schedule 4) amounts to R12.8 billion for the 2021/22 financial year. The total infrastructure spending as at end September 2021 was R4.5 billion (35.19% of the adjusted budget). Performance on the conditional grant as per the quarterly performance report compiled by the Department of Basic Education shows that the:

Performance Indicator	Annual Target	Actual as at end September 2021	Percentage
Number of public ordinary schools supplied with water	573	286	49.9%
Number of public ordinary schools provided with electricity	63	28	44.4%
Number of public ordinary schools supplied with sanitation facilities	799	277	34.7%
Number of additional classrooms built in, or provided for, existing public ordinary schools	2398	804	33.5%
Number of additional specialist rooms built in public ordinary schools (includes replacement schools)	226	102	45.1%
Number of new schools completed and ready for occupation (includes replacement schools)	50	19	38.0%
Number of new schools under construction (includes replacement schools)	101	139	137.6%
Number of new or additional Grade R classrooms built (includes new, existing or replacement schools)	248	95	38.3%
Number of schools provided with additional boarding facilities	4	0	0.0%

Source: Department of Basic Education

Health: (A 270-page narrative report has been submitted to the National Treasury that contains all the outputs per province per conditional grant)

The Health Facility Revitalisation Grant has spent 39.3 per cent of the allocation in the first six months of the financial year.

With regard to the overall grant performance, under spending was noted in all provinces except for Gauteng, KwaZulu-Natal and the Northern Cape Provinces. Some of the underlying factors that lead to underspending are the following:

- Delays in the tender adjudication process which impacts on the awarding of contracts on time.
- Poor performance by the contractor which results in contracts being terminated and projects having to undergo re-awarding of new contracts to finish the outstanding work.
- Other delays that affect the overall financial performance emanates from delays in the procurement of medical equipment (Health Technology) which are also seen as cost drivers.

National Health Insurance (NHI) Grant: The budget for the NHI grant (schedule 5) amounts to R269 million for the 2021/22 financial year. The total spending as at end September 2021 amounted to R97 million (36.1%). The grant purposes are, inter alia to expand the healthcare service benefits through the strategic purchasing of services from healthcare providers and to enhance capacity and capability to deliver infrastructure for NHI.

- Challenges reported by districts include the short term nature of the health practitioner's contracts, which create uncertainty and unwillingness of health practitioners to contract.
- Shortage of posts for medical interns (515), medical practitioners doing community service (512), pharmacists (140) and EHPs (24).

- The need for faster turnaround times on procurement remains. The lack of proper and dedicated SCM for infrastructure increases the need to utilise implementing agents that increases the costs to government substantially.
- Various emerging contractors appointed specifically on maintenance projects are not performing and a decision should be made on whether their contracts have to be terminated or how they should be supported. There is also a lack of performance from some of the PSP's and principal agents associated with clinics that needs to be addressed. Various contracts have been terminated or are in the process of being terminated.

Human Settlements

Human Settlements Development Grant (HSDG): The budget for the HSDG (schedule 5) amounts to R13.4 billion for the 2021/22 financial year. The total spending as at end September 2021 amounted to R5.6 billion (41.5%).

The R13.4 billion annual allocations is intended for a combined annual target of 100 538 housing opportunities, which consists of 42 997 serviced sites and 57 541 houses/units.

For the period ending on 30 September 2021, Provinces reported an overall spending of R5.5 billion which delivered 39 617 housing opportunities (19 543 serviced sites and 20 074 houses/units), which is a 39 per cent achievement against the annual target.

Informal Settlement Upgrading Partnership Grant (ISUPG): The budget for the ISUPG (schedule 5) amounts to R3.9 billion for the 2021/22 financial year. The total spending as at end September 2021 amounted to R802 million (20.6%).

The ISUPG is a new grant that originated from the UISP as a component under the Human Settlements Development Grant. The slow spending can be attributed to the fact that the ISUPG funds were only transferred in July 2021.

All the provinces reported slow or no performance on services delivered to household in informal settlement.

Transport

The Provincial Road Maintenance Grant (PRMG) is allocated R11.9 billion for the 2021/22 financial year of which R4.3 billion or 36.1 per cent has been spent as at 31 September 2022. Table 15 shows the performance on the targets as at quarter 2 of 2021/22 on the targets. The table also includes the actual outcomes of the previous two financial years and actual expenditure per year.

Table 15 Performance of the Provincial Road Maintenance conditional grant, 30 September 2021

Performance indicators	Actual 2019/20	Actual 2020/21	Targets 2021/22	Q2	Percentage of annual Q2
Number of kilometere upgraded		100	376	23	6.1%
Number of m^2 rehabilitated	3 267 714		5 980 937	1 347 455	22.5%
Number of m^2 resealed	6 330 463	7 021 417	4 808 039	789 084	16.4%
Number of m^2 blacktop patching	1 947 598	1 158 365	1 154 579	261 481	22.6%
Number of kilometres of gravel roads re-gravelled	3 743	4 035	3 594	1 238	34.4%
Number of kilometres of gravel roads bladed	378 458	357 232	400 761	88 879	22.2%
Number of kilometres of gravel roads upgraded	190				
Social indicators					
Number of work opportunities	142 908	206 056	175 425	101 261	57.7%
Number of full time equivalents created	56 659		58 523	21 148	36.1%
Number of youths employed (18 — 35)	45 452	42 667	75 967	77 902	102.5%
Number of women employed	94 701	156 159	89 598	19 054	21.3%
Number of people living with disabilities employed	504	360	2 778	387	13.9%
Number of SMMEs contracted					
Expenditure budget and actual R'billion	**R1.40**	**R9.94**	**R11.9**	**R4.3**	**36.1%**

Source: Department of Transport, quarter two, grant performance evaluation report

10. Expenditure outlook: Division of revenue

Table 16 shows the estimated main budget expenditure per sphere of government over the 2022 MTEF. National government is estimated to receive 48.7 per cent of the main budget in 2022/23 to mainly provide the following services:

- Central Government Administration
- Justice & Protection Services
- Financial & Administration Services
- Economic Services & Infrastructure Development
- Social Services

Provinces are responsible for basic education and health services, roads, housing, social development, and agriculture with the estimated 42 per cent of the main budget allocated in 2022/23. Almost 20 per cent of the provincial share is allocated in the form of conditional grants, while compensation of employees remains the largest spending category in the remaining 80 per cent of the provincial share.

Municipalities provide basic services such as water, sanitation, electricity reticulation, roads and community services, mainly with own receipts supplemented with 9 per cent of the main budget for specific purposes.

Provincial and municipal governments face multiple pressures over the medium term as government reduces spending growth, and poor economic performance affects other revenue and funding sources available to municipalities. Over the 2022 MTEF period, transfers to provinces and municipalities are expected to grow below inflation except for the local indirect grants, which are estimated to grow by 24.3 per cent.

Table 16 Estimated main budget expenditure per sphere of government, over the 2022 MTEF

R billion	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	Annual average growth
		Outcome		Revised		Medium-term estimates		
Division of available funds								
National departments	**634.3**	**749.8**	**790.5**	**817.4**	**764.7**	**743.0**	**774.4**	**-1.8%**
of which:								
Provincial indirect grants	*3.9*	*2.9*	*3.1*	*4.0*	*4.6*	*4.6*	*4.0*	*0.5%*
Local indirect grants	*6.3*	*5.6*	*4.1*	*4.9*	*8.4*	*9.0*	*9.4*	*24.3%*
Provinces	**572.0**	**613.5**	**628.8**	**661.2**	**658.4**	**647.2**	**676.1**	**0.7%**
Equitable share	470.3	505.6	520.7	544.8	538.8	525.3	548.9	0.2%
Conditional grants	101.7	107.9	108.1	116.4	119.6	121.9	127.2	3.0%
Local government	**118.5**	**123.0**	**137.1**	**137.6**	**146.3**	**148.9**	**155.4**	**4.1%**
Equitable share	60.8	65.6	83.1	78.0	83.1	83.6	87.3	3.8%
Conditional grants	45.3	44.2	40.0	45.0	47.9	49.9	51.9	4.9%
Main budget expenditure	**1 506.6**	**1 691.0**	**1 789.0**	**1 893.1**	**1 897.9**	**1 936.7**	**2 039.1**	**2.5%**
Percentage shares								
National departments	47.9%	50.4%	50.8%	50.6%	48.7%	48.3%	48.2%	
Provinces	43.2%	41.3%	40.4%	40.9%	42.0%	42.0%	42.1%	
Local government	8.9%	8.3%	8.8%	8.5%	9.3%	9.7%	9.7%	

Source: National Treasury

Over the next three years, government proposes to allocate 48.4 per cent of available non-interest expenditure to national departments, 42 per cent to provinces and 9.6 per cent to local government.

10.1. Transfers to provinces and municipalities

These transfers are in the form of an Equitable Share (amounting to between 31 and 33 per cent of the main budget allocations over the MTEF) as well as allocations, in the form of conditional grants for national priorities (amounting to almost 10 per cent of the main budget allocations over the MTEF) to be implemented in the provincial and local spheres of government.

The provincial equitable share is the main source of revenue through which provinces are able to meet their expenditure responsibilities (mainly for compensation of employees). To ensure that allocations are fair, the equitable share is allocated through a formula using objective data to reflect the demand for services across all nine provinces. These services are mainly for the provision of Health, Education, Social Development (excluding transfers in the form of social grants), Economic Development and specific functions such as the Presidential employment programme, delivered by provinces. The local government equitable share is an unconditional transfer that supplements the revenue that municipalities can raise themselves (including revenue raised through property rates and service charges). The equitable share provides funding for municipalities to deliver free basic services to poor households and subsidises the cost of administration and other core services for those municipalities with the least potential to cover these costs from their own revenues.

Conditional grants to provinces and municipalities fund government policy priorities supporting the implementation of the National Development Plan/2019-2024 MTSF.

11. Monitoring Systems and processes implemented by government

Monitoring is a continuous systematic collection of data on specified indicators that provides management and stakeholders with information of the extent of progress and achievement of objectives; as well as progress in the use of allocated funds.

The main purpose of monitoring is:

- To inform the development and design of government policies and plans
- To improve the performance of institutions, programmes, projects and operations
- To improve accountability and transparency: This involves providing evidence of the impact, effectiveness and efficiency of government's work. The target group is the public and Parliament, which benefits from sound M&E practices that enhance their oversight role.
- To support decision-making on planning and budgeting
- To generate knowledge.

Table17 shows the roles and responsibilities of stakeholders that report progress on the achievement of objectives and the use of allocated funds, to Parliament[11].

Table17 Roles and responsibilities:

DPME	Monitoring of implementation of Annual Performance Plans (QPR System)
National Treasury	Determine formats of budget documentation Monitoring of implementation of Annual Budget (IYM System)
National Departments (transferring officer as per DORA and PFMA)	According to the DORA Section 9. (1)(b) National departments: – monitor information on financial and non-financial performance of programmes partially or fully funded by an allocation in Part A of Schedule 4, in accordance with subsection (2) and the applicable framework; – (c) monitor information on financial and non-financial performance – (d) comply with the applicable framework; – (e) submit a quarterly financial and non-financial performance report within 45 days after the end of each quarter to the National Treasury in terms of the applicable framework; and – (f) evaluate the performance of programmes funded or partially funded by the allocation and submit such evaluations to the National Treasury within four months after the end of the 2021/22 financial year applicable to a provincial department or a municipality, as the case may be. (2) Any monitoring programme or system that is used to monitor information on financial and non-financial performance of a programme partially or fully funded by a Schedule 4 allocation must – (b) not impose any excessive administrative responsibility on receiving officers beyond the provision of standard management and budget information; – (c) be compatible and integrated with and not duplicate other relevant national, provincial and local systems; etc. PFMA section 38(i) and (j)
Auditor-General of South Africa	Annual Reports, including Annual Financial Statements

To assist Members of the Finance and Appropriations Committees the Parliamentary Budget Office depends on the publications of the DPME, National Treasury, National and Provincial departments and municipalities.

A recent evaluation on the progress with the implementation of conditional grants identified that not all transferring departments submit their quarterly financial and non-financial performance reports according to a standard framework to the National Treasury.

The Department of Health, for example, provided a comprehensive 270-page combined narrative report with statistical data in tables (not in excel; therefore, not easy to use for efficiency or comparison analysis), per province per conditional grant per hospital and per outputs. Outputs range from patient utilisation data

[11] A Concept Note About an Integrated and Comprehensive Monitoring System for the Government of South Africa, Department of Planning Monitoring and Evaluation (DPME)

to the number of condoms distributed. For each output reasons are provided for under or over performance, which consists of between 4 and 7 pages per output. An evaluation of the content of this report shows that:

- Each grant was presented in a different format
- Tables are not presented in a usable manner
- Reporting on funding for compensation of employees and goods and services as provided by the grant
- Reporting on number of vacancies filled and students trained in line with the expenditure
- Ambiguous data, for example patient utilisation of between 76 and 168 per cent with expenditure reflected as 0 per cent
- Ambiguous calculations
- Ambiguous reference to challenges in "2019/20" not in the current reporting period
- Challenges with backlog in data capturing

The ambiguities in the reports creates problems for proper analysis and reporting to oversight bodies. Although it is possible to determine patient utilisation costs and compare these costs per province for example, the above observations are challenges for proper analysis.

The usability of these reports are questioned and requires a review. When assessing these reports one also realises that some of these grants fund functions that could be mainstreamed within the budget programme structures of departments.

Appendix A- Summary of 2022 SONA pronouncements

2022 SONA pronouncements by the President

Solidarity Fund: The goal of the Fund was to unite the country in the fight against the pandemic. The Fund raised R3.4 billion and has played a pivotal role in supporting the national health response and alleviating the humanitarian crisis.

Vaccine Rollout: During the past year, the focus has been on accelerating vaccine rollout. So far, 30 million doses of COVID-19 vaccines have been administered. Consequently, nearly 42 per cent of all adults and 60 per cent of everyone over 50 is fully vaccinated.

Small Businesses: A new, redesigned loan guarantee scheme is being introduced to enable small businesses to recover from the pandemic and civic unrest. It will involve development finance institutions and non-bank SME providers in offering finance, expanding the types of financing available and adjusting eligibility criteria to encourage greater uptake. Government is reviewing the Business Act, alongside a broader review of legislation that affects SMMEs – to reduce the regulatory burden on informal businesses.

Business Environment: Government is working to improve the business environment for companies of all sizes through a dedicated capacity in the Presidency to reduce red tape.

Infrastructure Projects: Through innovative funding and improved technical capabilities, government has prioritised infrastructure projects to support economic growth and better livelihoods, especially in energy, roads and water management. The Infrastructure Fund is at the centre of this effort, with a R100 billion allocation from the fiscus over 10 years. The Infrastructure Fund is now working with state entities to prepare a pipeline of projects with an investment value of approximately R96 billion in student accommodation, social housing, telecommunications, water and sanitation and transport.

Innovative social infrastructure: Government is introducing an innovative social infrastructure delivery mechanism to address issues that afflict the delivery of school infrastructure. Over the past year, government has built on its successful Hydrogen SA strategy to make major strides in positioning South Africa as a global leader in this new market. The damage caused by the theft of scrap metal and cables on infrastructure like electricity, trains and other vital services is enormous. Government will take decisive steps this year both through improved law enforcement and by considering further measures to address the sale or export of such scrap metal.

Master plans in the steel industry, furniture and global business services: Through these plans, business, government and labour are working together to increase production and create more jobs in the sector. In the clothing industry, several retailers have announced ambitious localisation sourcing plans.

African Continental Free Trade Area agreement: Following the resolutions of the African Union Summit, trading can now begin under the African Continental Free Trade Area agreement. The Free Trade agreement is about Africa taking charge of its destiny and growing its economies faster. Government will increase its efforts to develop Africa's ability to manufacture vaccines. In addition, the country has full local production capability for ventilators, hand sanitisers, medical-grade face masks and gloves and therapeutic drugs and anaesthetics. South African products have been exported to other African countries, securing them vital supplies and expanding jobs for young South Africans.

Global business services sector: The global business services sector is on track to create 500 000 new jobs over the next few years. Government is therefore streamlining the regulatory processes so that the hemp and cannabis sector can thrive like it is in other countries such as Lesotho. To attract investors into mining minerals needed in the new global economy, government will soon be finalising the mining exploration strategy

Upstream the gas industry: The gas industry holds huge potential for job creation and broader economic development. Government will ensure that this is done in strict accordance with the environmental and other laws of the country, and that where there are differences, they are resolved in the interest of the country and its people.

Agricultural sector: The agriculture sector has significant potential for job creation. In addition to specific crops, masterplans in the sugar and poultry industries are contributing significantly to increased investment, improved production and transformation.

Presidential Climate Commission: At the international climate conference in Glasgow last November, South Africa reached an agreement for a historic R131 billion deal with the European Union, France, Germany, United Kingdom and the United States. This first-of-its-kind partnership will involve repurposing and repowering some of the coal plants that are reaching the end of their lives, and creating new livelihoods for workers and communities most impacted by this change

The Presidential Employment Stimulus programmes: The first two phases of the Presidential Employment Stimulus programmes, which was launched in October 2020 have supported over 850,000 opportunities. More than 80 per cent of participants were young people, and over 60 per cent were women. This includes over half a million young people appointed as education assistants, making it the largest youth employment programme ever undertaken.

Employment Tax Incentive: To encourage hiring by smaller businesses, government will be increasing the value and expanding the criteria for participation in the Employment Tax Incentive. The changes to the incentive will make it easier for small businesses in particular to hire young people.

SAYouth.mobi platform: The SAYouth.mobi platform for young work seekers to access opportunities and support now has more than 2.3 million young South Africans registered. Of these over 600 000 have been placed into employment opportunities.

Social Relief Distress Grant: Government will extend the R350 Social Relief Distress Grant for one further year, to the end of March 2023.

Land Reform The establishment of the Agriculture and Land Reform Development Agency will be finalised this year. The Department of Public Works and Infrastructure will finalise the transfer of 14 000 hectares of state land to the Housing Development Agency. There is enough arable land to support millions of thriving small-scale farmers in poultry, livestock, fruit and vegetables. Through the Presidential Employment Stimulus and the Solidarity Fund, over 100 000 farmers have already received input vouchers to expand their production. Government is expanding the provision of input vouchers and calling on other sectors to join this effort, so that we can collectively reach up to 250 000 small-scale farmers this year.

Corruption: The fight against corruption will take on a new intensity thanks to the outcomes of the State Capture Commission, the strengthening of law enforcement agencies and the implementation of new anti-corruption practices in the public service. Government will, as the State Capture Commission's first report recommends, strengthen the system to protect whistle-blowers, who are a vital safeguard in the fight against corruption and who take huge personal risk in reporting wrong-doing. The Presidency has set up mechanisms to monitor implementation of the recommendations of the Special Investigation Unit (SIU)on Covid-related corruption and will ensure that government departments and entities act against those who have violated regulations and broken the law.

State-owned enterprises (SOEs) play a vital role in the economy: It is essential to reverse the decline of SOEs and to position them to contribute positively to the economy. Government has therefore embarked on several immediate measures to restore these companies to health, and at the same time will undertake far-reaching reforms to make the SOEs more efficient, competitive, accountable and sustainable. The

Presidential SOE Council, which the President appointed in 2020, has recommended that government adopt a centralised shareholder model for its key commercial state owned companies. This would separate the state's ownership functions from its policy-making and regulatory functions, minimise the scope for political interference, introduce greater professionalism and manage state assets in a way that protects shareholder value. As part of this, preparatory work has begun for the establishment of a state owned Holding Company to house strategic SOEs and to exercise coordinated shareholder oversight. To ensure that state-owned enterprises are effectively fulfilling their responsibilities, *the Presidential SOE Council is preparing recommendations on state-owned entities to be retained, consolidated or disposed of.*

Police: Government will provide resources to recruit and train an additional 12 000 new police personnel to ensure that the SAPS urgently gets the capacity it needs. Another area of immediate attention will be the re-establishment of community policing forums to improve relations and coordination between local police and residents of the areas they serve.

Gender-based violence This year, government is intensifying the fight against gender-based violence and femicide through implementation of the National Strategic Plan on GBVF and other measures to promote the empowerment of women.

National Health Insurance Bill: Public hearings on the National Health Insurance (NHI) Bill are continuing in Parliament, much progress is being made in preparing for the introduction of a NHI. More than 59 million people are registered in the Health Patient Registration System.

Government must work for the people: Government's foremost priority is to build a capable, ethical and developmental state. government will soon be finalising a framework for the professionalisation of the public service. This will include tighter measures for recruitment of public servants, continuous professional development through the National School of Government and partnerships between state bodies, professional associations and universities. Lifestyle audits are already being implemented across the public service. Government will continue with the implementation of the District Development Model (DDM). This Model brings all three spheres of government together with other social partners in every district to grow inclusive local economies and improve the lives of citizens.