

Parliamentary

Parliament Inclusive Economic Growth-
Oversight Summit, 25th November 2020
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Budget
Office



Outline

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Introduction

Government Budget and service delivery

A budgeting system is arguably the most important component of public service delivery:

- It is a fundamental part of the process by which a government turns its developmental vision, policies and plans into implementable programmes and projects, including the delivery of public goods and services
- Policies or plans cannot be concretised into deliverable government programmes and projects without the availability of capacity to deliver (human, institutional and capital)
- Economic success depends on the ability of government to:
 - Employ limited resources with maximum effect
 - Effective management and procurement

Planning and budgeting process



The process of budgeting requires:

- Strategic direction provided by SONA, MTBPS and other policies: prioritisation of budget allocations
- Alignment of policies and plans with budget programmes
- Alignment of capacity and resources across spheres of government
- Monitoring and evaluation: the ability to deliver projects and programmes within consecutive medium term expenditure frameworks
- Evaluation or review of programmes should inform reprioritisation activities and budgets

Overview of legislature's oversight role

- To ensure that government's vision, policies and plans and the associated budget processes are aligned with government's constitutional obligations and benefit society
- To prevent illegal and unconstitutional conduct on the part of the government
- To hold the government accountable on how money is spent
- To assess whether government's budget transforms society and promotes equity and reduces poverty and unemployment
- To protect the rights and liberties of citizens
- To detect and prevent abuse
- To make government operations more transparent and increase public trust in the government
- To include public participation and opinion in its oversight role

Technical planning and budgeting process



National Treasury issues Budget Guidelines
Departments submit draft budgets and Plans
Medium Term Budget Policy Statement tabled
Negotiations and final decisions by the executive

Budgets and Plans tabled in the Legislature
Consideration by the parliamentary committees
Parliament accept, amend or rejects the budget

Departments start to implement and reporting
Oversight bodies monitor spending and performance quarterly
Request for adjustments if necessary

Supreme audit (AGSA) institution assesses departmental accounts and performance
Audit reports published and received by Parliament and considered by the Public Accounts Committee (PAC)

Before the beginning of the relevant fiscal year

Fiscal year starts and ends

Following end of fiscal year

Legislative phase

- The annual tabling of the national and provincial budgets, including the fiscal framework and tax and revenue proposal
- Introduction of the Division of Revenue Bill and the Appropriation Bill in the National Assembly
- **Parliament:**
 - Assesses the documents
 - Obtains inputs from the FFC and Parliamentary Budget Office
 - Holds public hearings
 - Invites state agencies, e.g., the HSRC, to provide inputs
- **How could oversight improve this process?**
 - Macroeconomic forecast
 - Fiscal framework
 - Policy priorities
 - Consider what should be debated
 - Make the rules
 - Ensure that national priorities are reflected in the budget
 - Ascertain whether budget programmes are still relevant to accommodate the outcomes and actions required by the MTSF

Role of the Parliamentary Budget Office

Money Bills and Related Matters Act 2009 and PBO

- Parliament's role in the budget process is guided by the Money Bills and Related Matters Act 2009, as amended in 2019
- It gives Parliament powers to amend the budget and other money bills before it; Finance and Appropriations Committees in both Houses
- The Act established a PBO a *juristic person*;
- The Director is the Accounting Officer of the PBO, and accountable to Parliament; Executive Authority
- The Director, in consultation with the Advisory Board (2 House Chairs and 4 Chairs of Finance and Appropriations Committees) determine the structure and conditions of service of the PBO;
- The transfer of funds to PBO from Parliament will be in accordance to the Financial Management Act of Parliament;
- The PBO may obtain information from any organ of state or person that derives funds from the National Revenue Fund;

The PBO considerations and analysis

- Fiscal Policy: Fiscal consolidation and efficiency measures
 - The effectiveness of efficiency measures
 - Risks
 - Debt
 - Capital and current spending trends (government functions also)
 - Tax and other revenue trends
- Strategic direction: NDP, MTSF and SONA and other policy measures
 - Policy expenditure priorities
 - Shift in expenditure per function
 - Policy implementation
- Economic performance: The budget depends on the economy to generate the resources to finance expenditure
 - Forecast audits of the growth rate
 - Tax revenue in-year forecast
- Topical from risks: Credit rating, wage bill, infrastructure spending and performance, SOEs and contingent liabilities

PBO 2020 Medium Term Budget Policy Statement (MTBPS) Input

Some budget processes context

- South African has over the years used fiscal policy to improve service delivery in our societies including in increase access to electricity, improve education attendance across the country, provide social support to poor households
- However, higher unemployment and poverty continues to put pressure in the progress made, with women headed households in rural areas experiencing disparities in access to services
- South African economy was already growing slower even before Covid-19 hit us, and the situation has worsen with unemployment and poverty reaching highest levels
- Economic Reconstruction and Recovery Plan (ERRP) proposes measures to address economic and societal challenges, with both social and economic infrastructure spending being one of the expected key drivers also given potential multipliers

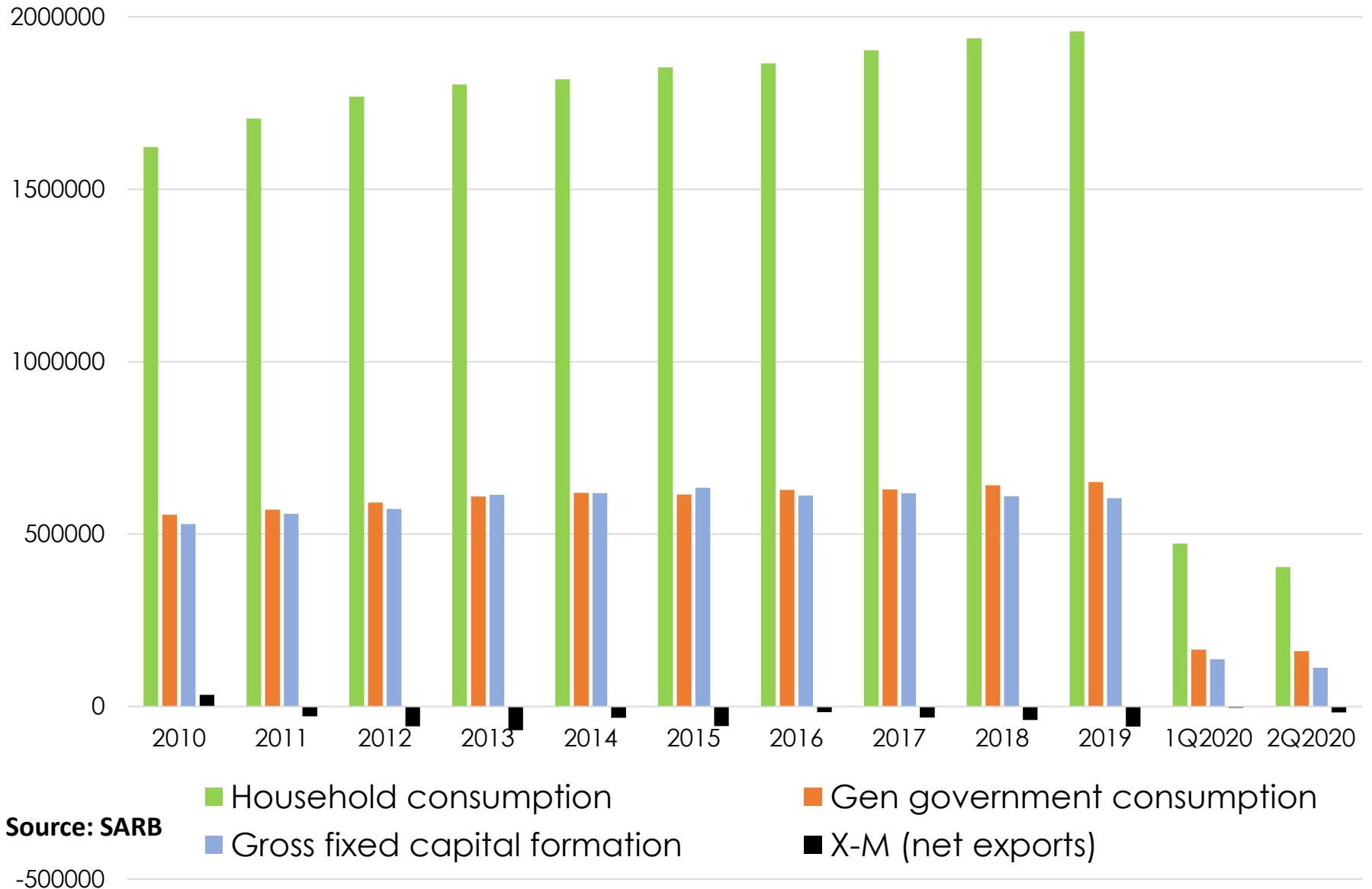
The impact of fiscal consolidation

- Global Covid-19 infections continue to grow, with many countries experiencing new waves of infection and implementing lockdowns
- New waves creates huge uncertainty about implications for the global economy and when an economic recovery will begin
- There is a global consensus that public sector action in the form of fiscal and monetary stimulus remains vital to avert further economic collapse
- Government fiscal objective is focused on rapid debt reduction
- The pandemic is not over and the crisis could well deepen
- Will spending cuts in critical developmental areas reverse socio-economic gains?
- Will these cuts also affect the country's ability to respond to current and future health, environmental and other crises?

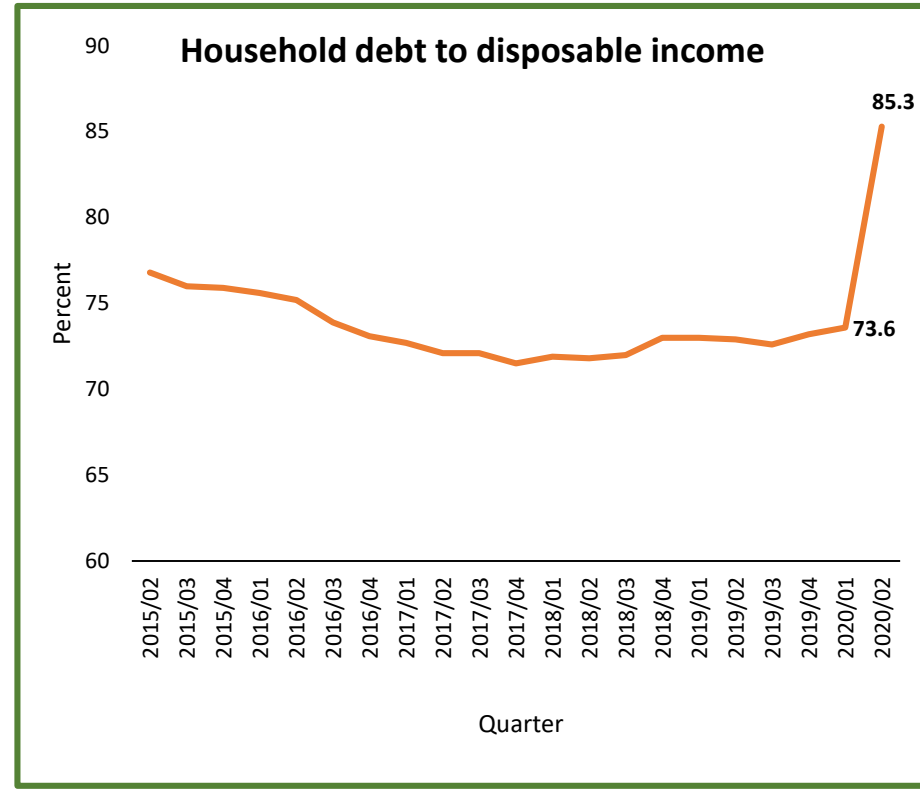
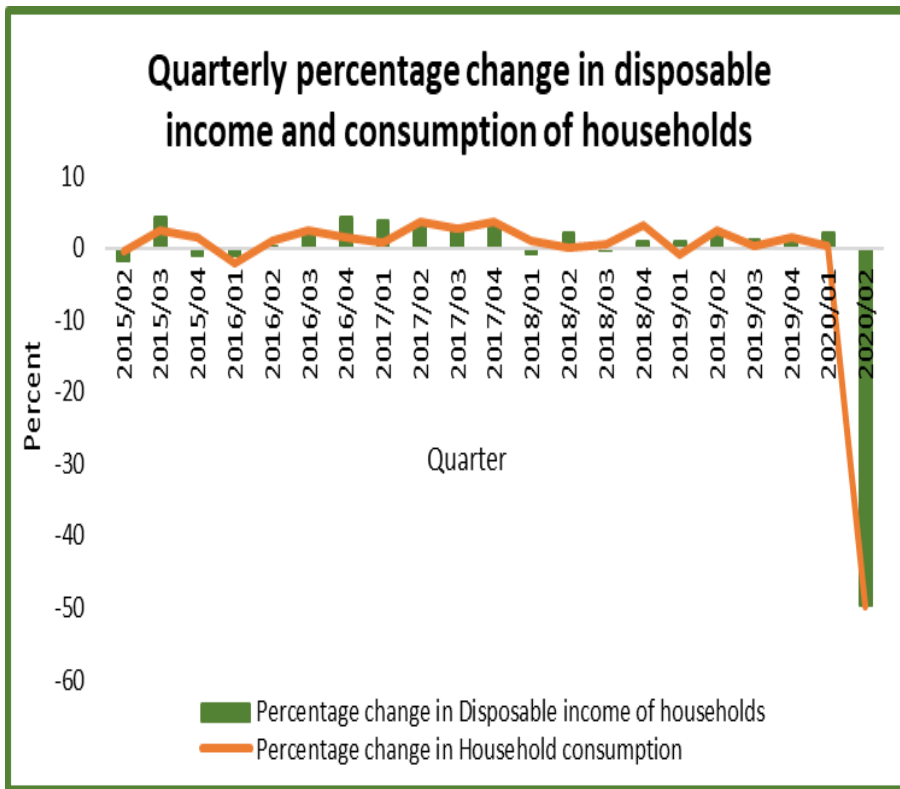
The impact of fiscal consolidation

- During times of crises:
 - uncertainties are high and aggregate demand is weak, and
 - the private sector is generally unable to drive recovery and prefers to keep its assets liquid rather than sink it in fixed investments
- Expenditure cuts mean government is reducing the state's role in the economy at a time when it is critical for the state to participate
- The current state of the SA health system teaches us that plans to leverage private sector investments in critical areas of service infrastructure provision where social rather than profit motives should drive economic activity, could increase hardship and inequality
- Expenditure cuts will hurt inclusive growth, constraining recovery and that poor women and female headed households are particularly hurt
- Lack of further relief for the poor as unemployment explodes during the pandemic deepens poverty and inequality and will leave a large proportion of the SA population impoverished and children

Components of GDP (Real 2010, Rmillions)



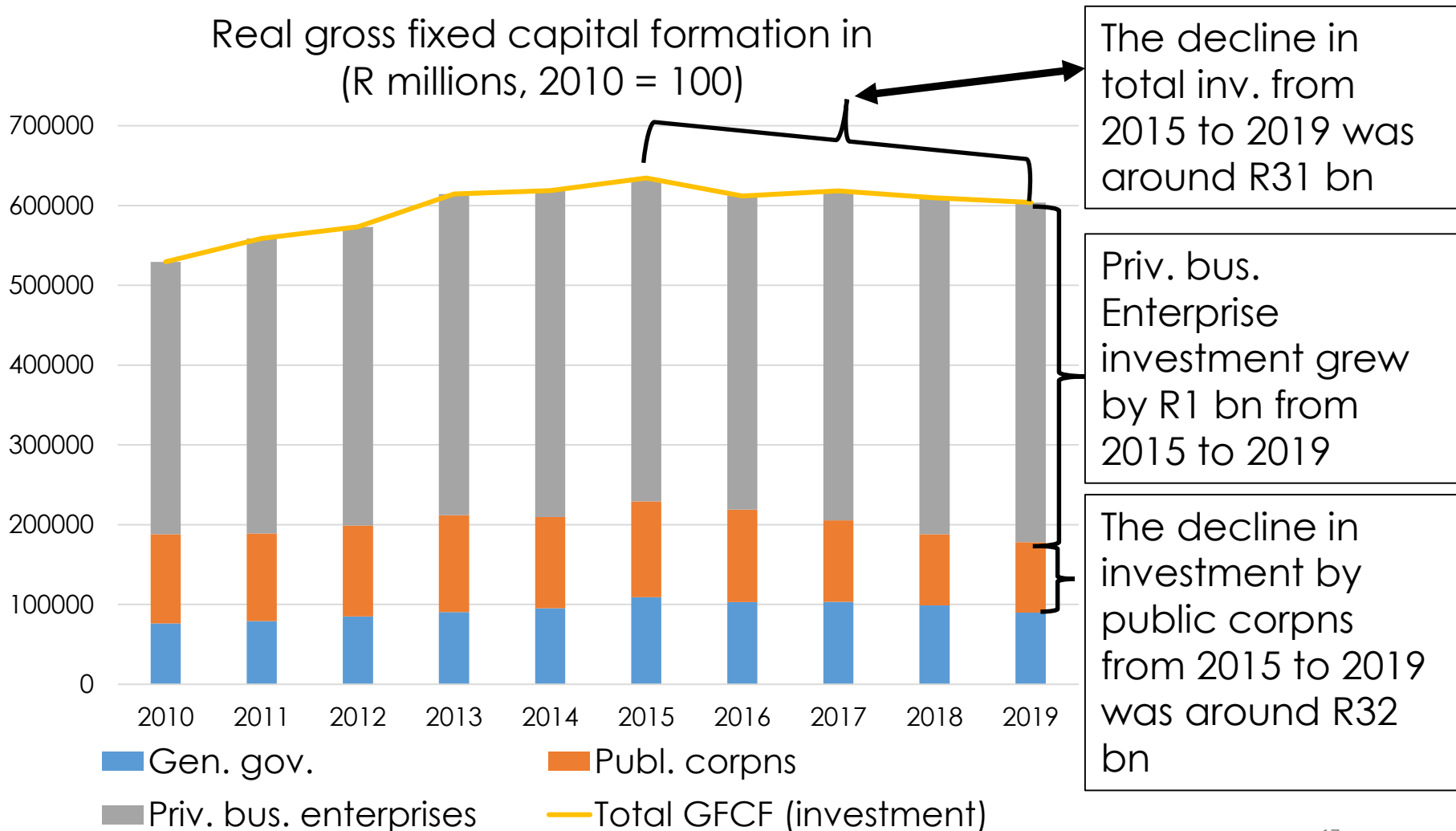
Household income and debt



Source: StatsSA

- Aggregate demand will be under severe pressure as households consumption (which is about 60% of GDP) declines due to loss of income and increased household debt to disposable income levels

The reason for the decline in real total investment from 2016 to 2019 was the decline in public corp. investment



Policy framework and plans

Policy direction to inform budget proposals

2019-2024 MTSF Priorities

- A capable, ethical and developmental state
- Economic transformation and job creation
- Education, skills and health
- Consolidating the social wage through reliable and quality basic services
- Spatial integration, human settlements and local government
- Social cohesion and safe communities
- A better Africa and World

ERRP priority interventions

- Aggressive infrastructure investment
- Strengthened informal sector
- Localization through industrialization
- Energy security
- Support for tourism
- **Gender equality**
- Green economy interventions
- Public employment programmes
- Strengthening food security
- Macro-economic interventions

Policy implementation over the medium term

Supplementary Budget Priorities

- **Primary Health**
 - Government prioritised public health to save lives
 - Scaling up capacity in the public health system
 - Contracting of private hospitals to supplement public-sector capacity
- **Social development**
 - Scaling up and maintaining social assistance interventions for distressed and vulnerable households
 - Reprioritising funding to prepare social facilities for safe reopening and service delivery
 - Funding of psychosocial services for people affected by the pandemic
- **Peace and security**
 - Increased deployment of the police service and national defence force during the lockdown
 - Other departments required to reprioritise funding and roll out their own responses

MTBPS Spending Priorities

- **Health**
 - Protection of service delivery in areas such as primary healthcare, immunisation, and HIV prevention and treatment
 - Significant restructuring of provincial health services, with a focus on efficiency
- **Social development**
 - Extension of the special COVID-19 social relief of distress grant until 31 January '21
 - R1 billion is allocated for food relief to vulnerable households
 - Responsibility for early childhood development transferred to the basic education
- **Peace and security**
 - Priorities are to fight crime and ensure territorial integrity
 - Reprioritisation of funds to capacitate the Information Regulator
 - State capture commission: Additional R63 million
- **Learning and culture**
 - Ensure that planned infrastructure projects are delivered in time and within budget
 - Basic education committed to improving educational outcomes
- **Community development**
 - Review of programmes related to the provision of mass housing, public transport standards and the levels of free basic services
 - Introduction of the informal settlements upgrading partnership grant in 2021 for provinces and metropolitan municipalities
- **Economic development**
 - Prioritise finalising of outstanding restitution claims
 - Supporting resettled farmers
 - Government and the tourism sector will collaborate to maintain tourism assets
- **General public services**
 - DPSA: reprioritise funds for personnel expenditure reviews in national, provincial and local government, public entities and SOCs over the next two years
 - DPE: reprioritise funds to support the Presidential State-Owned Enterprises Council, an advisory body to assist with strengthening state-owned companies

Improving efficiency and composition of spending

South Africa's public spending levels are not matched by high levels of quality or efficiency in the services delivered

- Government acknowledge that proper implementation of the programme performance budgeting system is necessary
- Preliminary findings on spending reviews, which forms part of the budget system, indicate that:
 - Many policies are designed and adopted without considering their total costs and affordability
 - Multiple institutions share overlapping responsibilities or mandates, leading to duplication of work
 - In several high-spending procurement areas, including information and communications technology, and infrastructure, it appears that government is overpaying for goods and services
 - The spending reviews will be used to inform baseline allocations in the 2022 MTEF period
- Other analysis shows:
 - Shortcomings in the quality of data to determine efficiency
 - Policies, such as NHI and the district model depends on outstanding interventions
- Current year revision based on Covid-19 fiscal impact, support to SOEs and Local government
- Revisions to the MTEF based on stabilizing debt and reducing the budget balance

Basis for revisions to the medium-term expenditure framework

- Based on stabilising debt-to-GDP ratio:
 - Reducing non-interest spending, mainly compensation of employees
- To ensure sustainability, high-level policy discussions are still needed on:
 - The number and size of departments, ministries and public entities in national and provincial governments
 - Management of the functions assigned to the three spheres of government
 - Containing the public-service wage bill
 - The approaches to providing financial support to students in post-school education
 - The subsidy mix for urban transport systems
 - The structure of the human settlements delivery programme
 - Measures to strengthen the social protection system for the most vulnerable

World Economic Forum 2020 Global Gender Gap Index

Global Gender Gap Index 2020- Key findings

- Globally, the average distance completed to gender parity is at 68.6%, (Index framework; Economic participation and opportunity, Educational attainment, Health and survival, Political empowerment)
- Largest gender disparity in Political empowerment at 24.7%
- Second-largest gap is on Economic participation and opportunity at 57.8%
- Educational attainment and Health and survival gaps is more advanced, 96.1% and 95.7% respectively
- Globally, 36% of senior private sector's managers and public sector's officials are women
- On average, only 55% of adult women are in the labour market, versus 78% of men, while over 40% of the wage gap remains
- Over 50% of the income gap are still to be bridged

Global Gender Gap Index 2020- Key findings (cont.)

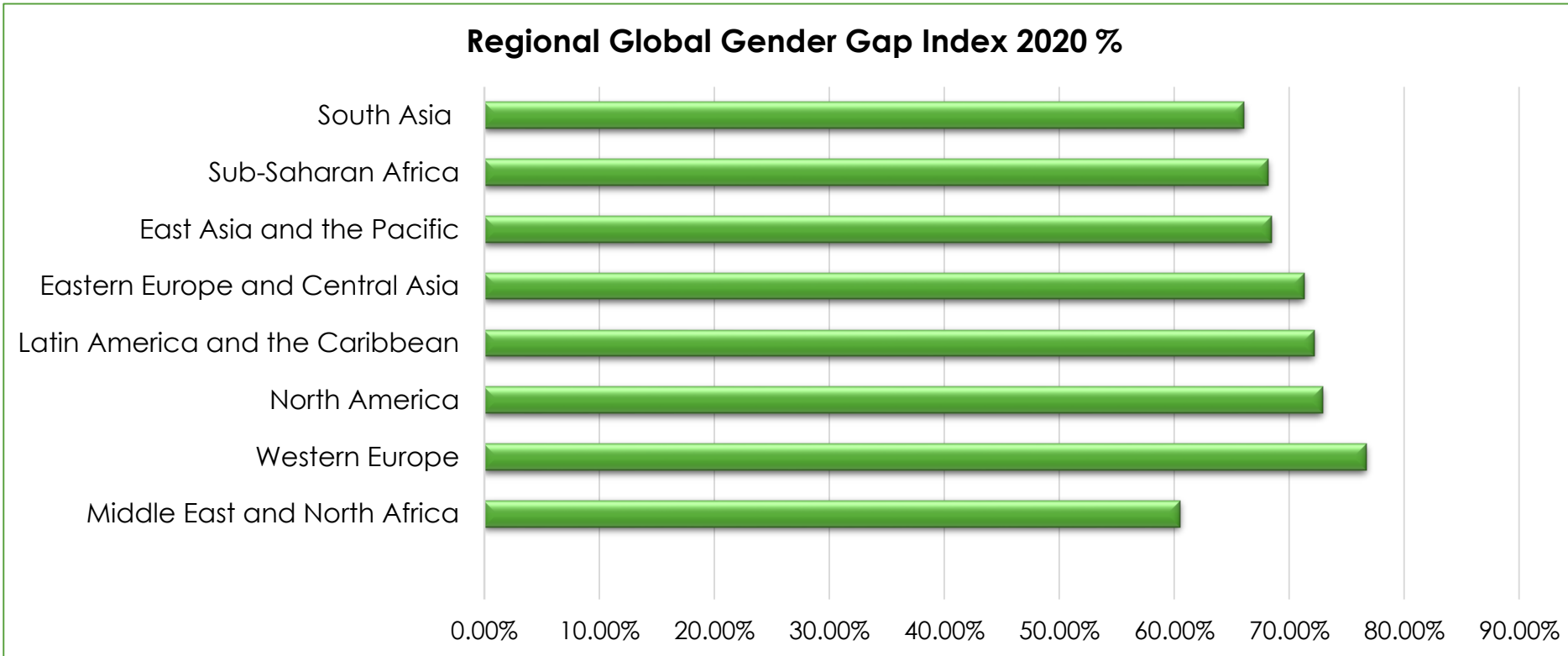
- Globally, women are significantly disadvantaged in accessing credit, land or financial products, which prevents opportunities for them to start a company or make a living by managing assets
- Gender parity in education has been achieved, a few developing countries have yet to close over 20% of the gaps
- About 10 % of girls aged 15–24 in the world are illiterate, with a high concentration in developing countries
- Developing countries in general education attainment is low for both girls and boys
- This calls for greater investment to develop human capital in general in developing countries
- Women's skills are not always in line with those required to succeed in the professions of the future, e.g. in ICT

Global Gender Gap Index 2020-Key findings (cont.)

- Women are under-represented in 6 of the 8 micro-clusters with the highest employment growth rate;
 - people and culture
 - content production
 - marketing
 - sales
 - specialized project managers
 - data and AI
 - engineering and cloud computing
- Using current trends, the overall global gender gap will close in 99.5 years, on average. Lack of progress in closing gap:
 - Economic participation and opportunity
 - Political empowerment
 - Educational attainment
- W20, Research shows that the gender gap contributes to lower economic output and that addressing obstacles to women's participation in trade will facilitate economic growth and build market resilience
- W20, Covid-19 led to more digitalisation of economic activities, and therefore leading to further gender gap due to disparities in access to ICT

Global Gender Gap Index 2020- Key findings (cont.)

- Average gender gap per eight geographical regions;



- At the current pace, gender gaps to be closed in 95 years in Sub-Saharan Africa
 - Rwanda rank 1st (9th globally) in Africa, as a gender-equal country
- Policy-makers and legislators to further adopt policies and practices to accelerate this process closing the gap,

Legislative oversight process to focus on
outcomes

Legislative oversight process to focus on outcomes

- Legislative oversight at all spheres to build into gender based oriented approaches
 - Institutionalising Gender Responsive Budgeting in Parliament
- Legislative oversight in all spheres to be elevated and focus on changes or improvements in the society rather focusing of financial probity;
 - How is budget used to create gender parity in society
 - How is the budget used to support sectors that benefits vulnerable societies
- Legislature oversight to ensure better alignment of the NDP and budget proposals, and coordination within three spheres; and where necessary reduce layers of policy priorities;
- Budget allocation proposals to also be informed by common costing estimates of basic services across spheres;

PBO in strengthening fiscal oversight

- Better collaborate with other research organisation (inside and outside) in analysis of budget process and policy priorities, including gender equality
- PBO budget analysis to take into effects of government budgets on achievement of Medium Terms Strategic Framework and National Development Plan priorities
- Provide legislators with capacity building to support their oversight role and during stakeholder engagements
- Collaborate and cooperate with provincial legislatures research and technical support structures

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Thank you

PBO Outputs	Description of the Output
Pre-Budget and Pre-MTBPS briefs	Provide analysis to Parliament about the status of the economy and public finance and government performance before the presentation of the National Budget (February) and Medium Term Budget Policy Statement (October);
Budget and MTBPS analysis	Subsequent to the presentation by the Minister of Finance and before Parliament adopt or amend or reject the Budget and MTBPS proposals, the PBO provide analysis on economic and fiscal issues to be taken into account;
Vote or Department Budget Analysis	Upon request and subject to capacity availability, PBO prepares Vote or Department Budget analysis on behalf of the Committee(s).
Policy Analysis on National Development Plan-(NDP)	Several analysis on the implementation of the National Development Plan, vision 2030 (NDP) in terms of content, context and progress made with the implementation.
Quarterly Economic and Fiscal Briefs	Quarterly Economic Brief, the PBO provide parliament with an analysis of the economic outlook as the economic performance affects public finances outlook. Fiscal Brief appraise MPs on the status of the government's performance in relation to the budget allocated, and these updates are given within six months (pre-MTBPS) of the financial year and just after the end of a financial year.
In-year revenue forecast and Forecast Audits	In-year revenue forecast, within the first six months of the financial year, PBO provide an estimate of whether government revenue targets for that year will be realised. The PBO estimates are based on historic trends and including first five months of the year's outcomes being forecasted. Forecast Audits, annually provide an analysis of the government growth estimates. This analysis gives indications of the likelihood of realising forecasted growth given historic performance of the forecasts.
Briefs on Taxation and Revenue Matters	On request from finance committees, PBO provide an analysis of taxation proposals made during the budget reviews.
Research and Analysis Requests from Committees	During the financial year Committees may request an analysis on a particular issue with public finance implication. E.g., Votes budget analysis, SOEs financial analysis, Electricity generation technology choices: Costs and considerations, Public Sector Wage Bill, Free Fee HE Costing Analysis, Business incentives for development