TECHNICAL ASSISTANCE REPORT

SOUTH AFRICA

Fiscal Transparency Evaluation

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Contents

Abbreviations and Acronyms

AGSA	Auditor General of South Africa	MFMA	Municipal Financial Management Act
BR	Budget Review	MCS	Modified Cash Standard
COFOG	Classification of Functions of Government	MPRR	Mineral and Petroleum Resources Royalties Act of 2008.
CSO	Civil Society Organizations	MTBPS	Medium-Term Budget Policy Statement
DDG	Deputy Director General	MTEF	Medium-Term Expenditure Framework
DG	Director General	MTSF	Medium Term Strategic Framework
DORA	Division of Revenue Act	NDMC	National Disaster Management Centre
DPE	Department of Public Enterprises	NT	National Treasury
DPME	Department of Planning, Monitoring and Evaluation	OCPO	Office of the Chief Procurement Officer
DMRE	Department of Mineral Resources and Energy	OCDS	Open Contracting Data Standards
EME	Emerging Market Economies	PBO	Parliamentary Budget Office
ENE	Estimates of National Expenditure	PIC	Public Investment Corporation
FAD	Fiscal Affairs Department of the IMF	PPPs	Public-Private Partnerships
FFC	Financial and Fiscal Commission	PSBS	Public Sector Balance Sheet
FRC	Fiscal Risk Committee	PFMA	Public Financial Management Act
FRS	Fiscal Risk Statement	Q-CRAFT	Quantitative Climate Risk Assessment Fiscal Tool of the IMF
FTE	Fiscal Transparency Evaluation	RAF	Road Accident Fund
FTC	Fiscal Transparency code	RFQ	Request For Quotations
GDP	Gross domestic product	SARB	South African Reserve Bank
GEPF	Government Employees Pension Fund	SARS	South Africa Revenue Services
GFS	Government Finance Statistics	SDDS	Special Data Dissemination Standards
GFSM 2014	Government Finance Statistics 2014	SIFIs	Systemically Important Financial Institutions
GIFT	Global Initiative for Fiscal Transparency	SNG	Sub-National Government
GTAC	Government Technical Advisory Centre	SOCs	State-Owned Companies
GRAP	Generally Recognized Accounting practices	SOEs	State-Owned Enterprises
IFMS	Integrated Financial Management System	SCOA	Standard Charts of Accounts
IMF	International Monetary Fund	StatsSA	Statistics South Africa
INTOSAI	International Organization of Supreme Audit Institutions	SIC	Standard Industrial Classification
MAPS	Method of Assessing Procurement Systems Initiative	UIF	Unemployment Insurance Fund

Preface

At the request of the National Treasury of South Africa, a team from the IMF's Fiscal Affairs Department (FAD) undertook a Fiscal Transparency Evaluation (FTE) during July 11 to 25, 2023. The mission team was led by Ms. Carolina Renteria and comprised Ms. Sagé de Clerck, Ms. Natalie Manuilova, Mr. Vincent Tang (all FAD), Ms. Trish Chiinze (IMF − AFS), and Ms. Foyzunnesa Khatun (STA). The mission team met Mr. Momoniat Ismail, Director General National Treasury, and National Treasury officials to discuss the key findings of the evaluation and proposed actions.

During the mission, the team had extensive meetings with senior staff of National Treasury; Mr. Edgar Sishi – Deputy Director General (DDG) Budget Office, Mr. Duncan Pieterse − DDG, Assets and Liabilities Management, Ms. Mampho Modise − DDG Public Finance, Ms. Malijeng Ngqaleni – DDG Inter-Governmental Relations, Ms. Boipuso Modise – DDG Economic Policy, Mr. Warren Harris − Director Tax Revenue Forecasting and Ms. Lindy Bodewig – Chief Director Technical Support Services, Office of the Accountant General.

Meetings were also held with representatives of Department of Forestry, Fisheries and Environment − Ms. Veronica Steyn, Chief Director Budget and Financial Management; Department of Cooperative Governance − Ms. Funani Matlatsi, Chief Financial Officer; Department of Mineral Resources and Energy − Mr. Willem Meintjies, Integrated Geoscience Development. Chief Director Information & Communication Technology, Budget Facility for Infrastructure − Ms. Dorcas Kayo; Director Infrastructure, GTAC − Mr. Boitumelo Mashilo; Head Infrastructure Advisory Services, PIC − Mr. Brian Masuka; Executive Director and Chief Financial Officer, GEPF − Mr. Abraham Sithole; Principal Executive Officer, UIF − Ms. Thembeka Pudi (Fezeka); Chief Financial Officer, Eskom − Mr. Martin Buys; Acting Chief Financial Officer, Transnet − Ms. Nonkululeko Dlamini, Group Chief Financial Officer.

The mission team also held meetings with Member of the Select Committee on Finance − Hon Sifiso Buthelezi; Member of Parliament, Select Committee on Appropriations − Hon Joe Mascagni; Chairperson of Finance, South Africa Reserve Bank GFS Division, Ms. Susana Paulse; Senior Manager: Economic Statistics Department, South Africa Reserve Bank Prudential Authority, Mr. Faizel Jeena; Statistics South Africa GFS Division, Ms. Elizabeth Makhafola; Director, Finance and Fiscal Commission, Mr. Chen W. Tseng; Head Research & Acting CEO, AGSA, Ms. Bongi Ngoma; Head of Audit, OCPO, Mr. Tumelo Ntlaba.

Meetings were also with Civil Society Organizations including Equal Education, Public Service Accountability, Budget Justice for Relation, Budget Justice Coalition, Wits Public Economic Project, Public Service Accountability Monitor and Public Economy Project. The mission team met with development partners, including the European Commission, UN, World Bank, German Agency for International Cooperation (GIZ), French Development Agency (AFD), African Development Bank (AFDB), Global Affairs Canada (IGC), US State Department, UK Foreign Commonwealth and Development Office (FCDO).

The mission team would like to thank the South African government officials for their cooperation and their participation in constructive discussions during the mission, and especially Mr. Edgar Sishi, DDG Budget Office, and Ms. Busi Motlhabedi, Chief Director, Budget Office Government Finance Statistics for coordinating mission activities and information requests, and for being available for regular consultation.

Executive Summary

South Africa has many elements of sound fiscal transparency practices. Based on an assessment of fiscal transparency practices against the IMF's Fiscal Transparency Code, South Africa meets the standard of advanced practice on 12 of the 36 principles, 9 principles are assessed as good, the basic standard on a further 9 principles while 6 are not met (Table 0.1). Fiscal transparency practices are strongest in fiscal reporting (Pillar I), followed by fiscal forecasting and budgeting (Pillar II), and weakest in fiscal risk analysis (Pillar III). South Africa has long scored well in the Open Budget Index (OBI) and is now being ranked second out of 120 countries surveyed. In the 2021 OBI survey, budget transparency and oversight are areas of strength while public participation would benefit from improvements. Despite this, South Africa has suffered the consequences of serious governance issues over the past decade, including state capture and corruption, as highlighted by the Commission of Inquiry into Allegation of State Capture in 2022.

South Africa has made efforts to continue improving reporting practices over time. Fiscal reports should provide a comprehensive, relevant, timely and reliable overview of the government's financial position and performance over time, information on different levels of the public sector is available in various fiscal reports in line with international standards (GFMS 2014). There is broad coverage of financial assets and liabilities, reporting is usually timely, with most complete statistics fiscal report covering almost the totality of expenditure at different levels of Government. Consolidated general government fiscal statistics are published quarterly by the South African Reserve Bank (SARB) with exception of consolidated general government debt statistics that is only published for the central government. The published data includes data for sub-national entities and public corporations. In year reporting by the National Treasury on revenues, expenditures and borrowing of the budgetary central government is published monthly. Financial statements are audited in accordance with international standards, by the independent Office of the Auditor General of South Africa (AGSA). These are published by the reporting entities usually within 9 months of the end of the financial year, while the AGSA publishes a general report on the outcomes of these audits. All four classifications of the fiscal statistics (administrative, economic, functional, and program) are consistent with international standards. Statistical integrity is high due to the independence of SARB and StatsSA.

There is, however, room for improvement in fiscal reporting. Main issues in reporting include fiscal statistics not extending to the consolidated public sector; institutional coverage varying between the main fiscal reports and differences not explained to the public; gaps in the coverage of assets and liabilities, including estimation of natural resources, other non-financial assets, and value of land. South Africa's Balance Sheet—including assumptions for the values of non-reported assets—public sector net worth is estimated to be 100 percent of GDP and public sector net financial worth negative 50 percent of GDP at the end of 2021/22. Tax Expenditures amount to 4.5 percent of GDP, and there is need for further analysis and discussions as part of budget deliberations. No reconciliations between the consolidated budget, statistical reports, or financial accounts are currently published. The high number of irregularities and qualifications of audit reports should be addressed.

There is a solid medium term budgeting framework to control expenditures. Budget documentation includes the gross revenue, expenditure and financing by budgetary central government, most extrabudgetary entities, social security funds, and provincial governments—the most notable omission is the tertiary education institutions that are not covered. Forecasts of key economic indicators and their components are presented twice a year, with underlying assumptions**.** The Medium-Term Budget Policy Statement (MTBPS) sets out the macro-fiscal framework underpinning the budget, and includes forecasts for the budget year, three outer years and outcomes for the three previous years; material changes to the budget require legislature approval. The performance budgeting system is well regarded internationally, as noted in the OBI, and provides information regarding objectives and results achieved by policies. The government publishes accessible information on the budget in various formats and provides opportunities for citizens to participate in the budget process.

There are areas to improve in fiscal forecasting and budgeting. This include addressing overly optimistic GDP forecasts, including numerical or time bound fiscal objectives that support fiscal and debt stabilization, tackling major gaps in public investment, and increasing the timeliness of the budget documents for approval before the start of the fiscal year. Stronger scrutiny of the government's fiscal plans by existing independent institutions would strengthen fiscal credibility. The Fiscal Transparency Code takes a birds eyes view of public investment, in the case of South Africa the total multi-year costs are not disclosed in budget documents, cost benefit analysis is undertaken for major projects but not systematically published and there are deficiencies in the procurement system.[1] The budget is introduced to the legislature within two months before the end of the fiscal year but is passed several months after the start of the following fiscal year. The independent Parliamentary Budget Office (PBO) and Financial and Fiscal Commission (FFC) undertake some limited assessment of government forecasts.

South Africa practices some disclosure, analysis, and management of risks to public finances. Budget documents present macro fiscal scenario analysis and main categories of specific fiscal risks are disclosed. A fiscal risks statement (FRS) is presented with the MTBPS and Budget Review every year. Contingency and unallocated reserves are quantified and disclosed regularly, and access criteria are defined. Budget documents disclose the risks surrounding the borrowings of national government. Information on government guarantees is published, disclosing the beneficiaries and gross exposure. Budget documents include information on aggregate PPP exposure. There are regular assessments of the financial sector stability and explicit support to the financial sector are published. Fiscal revenue of major classes of natural resources are published. Risks related to natural disasters are identified in a broad range of different government documents. Provinces and local governments individually report on their fiscal position and performance on a monthly, quarterly, and annual basis and there is a limit on borrowing. The authorities publish information on transfers between the government and State-Owned Companies (SOC) in multiple sources, while aggregated analysis of fiscal flows between SOCs and the government is not available.

While there are fiscal risks management practices in place, quantification, analysis and disclosure varies among risk categories. Macro risk sensitivity analysis is only undertaken on the debt portfolio. Presentation of specific risks in the FRS is not complete and lacks a discussion on the likelihood of materialization. Long term fiscal sustainability analysis is not well covered in budget documents. Utilization of the contingency and unallocated reserves is not detailed. An overall strategy on managing

[1] The IMF's Public Investment Management Assessment (PIMA) is a more comprehensive diagnostic tool that provides a wholistic assessment of public investment institution along planning, allocation and implementations phases.

the balance sheet of government is not published. There is no legislated ceiling established for guarantees. Reports on the PPPs are presented at an aggregate level that is presently deemed appropriate for the small size of the PPP portfolio. Information on value and volumes of available natural resource reserves are not disclosed. Fiscal risks from natural disasters are not quantified. SOC ownership policy is not yet adopted and there is no report on the overall financial performance of the public corporation sector.

Table 0.1. South Africa: Summary Assessment Against the Fiscal Transparency Code

I. Fiscal Reporting	II. Fiscal Forecasting & Budgeting	III. Fiscal Risk Analysis & Management
1.1.1. Coverage of Institutions	2.1.1. Budget Unity	3.1.1. Macroeconomic Risks
1.1.2. Coverage of Stocks	2.1.2. Macroeconomic Forecasts	3.1.2. Specific Fiscal Risks
1.1.3. Coverage of Flows	2.1.3. Medium-term Budget Framework	3.1.3. Long-term Fiscal Sustainability
1.1.4 Coverage of Tax Expenditures	2.1.4. Investment Projects	3.2.1. Budgetary Contingencies
1.2.1. Frequency of In-Year Reporting	2.2.1. Fiscal Legislation	3.2.2. Asset and Liability Management
1.2.2. Timeliness of Annual Accounts	2.2.2. Timeliness of Budget Documentation	3.2.3. Guarantees
1.3.1. Classification	2.3.1. Fiscal Policy Objectives	3.2.4. Public Private Partnerships
1.3.2. Internal Consistency	2.3.2. Performance Information	3.2.5. Financial Sector Exposure
1.3.3. Historical Revisions	2.3.3. Public Participation	3.2.6. Natural Resources
1.4.1. Statistical Integrity	2.4.1. Independent Evaluation	3.2.7. Environmental Risks
1.4.2. External Audit	2.4.2. Supplementary Budget	3.3.1. Sub-national Governments
1.4.3. Comparability of Fiscal Data	2.4.3 Forecast Reconciliation	3.3.2. Public Corporations

LEVEL OF PRACTICE	RATING			
	Not Met	Basic	Good	Advanced

Table 0.2. South Africa: Fiscal Transparency Code Recommendations

	Recommendation	Principle	Entities and Timing
Pillar 1: Improve the comprehensiveness, quality, comparability, and integrity of fiscal reports			
1.1	Expand and align fiscal reporting on the public sector using international guidelines	1.1.1, 2.1.1	SARB, StatsSA and NT Medium-term
1.2	Enhance fiscal reporting to cover all significant stocks and flows	1.1.2, 1,1,3	SARB, StatsSA and NT Medium-term
1.3	Further strengthen the disclosure of actual and estimated tax expenditures to facilitate policy discussions and decisions	1.1.4	NT, Short-term
1.4	Improve the adherence to the timelines for the compilation, audit, and publication of audited financial statements	1.2.2, 1.4.2	NT, AGSA, reporting entities Medium-term
1.5	Further strengthen the historical revision policies and practices by routinely providing bridge tables to explain the difference between the old and new time series and its impact on the data	1.3.3	SARB and StatsSA, Short-term
1.6	Improve the comparability of fiscal data by stock take of differences, eliminating unnecessary differences, and explaining unavoidable differences	1.4.3	SARB, StatsSA, and NT Medium-term
Pillar II: Improve the budget and fiscal forecasting as follows:			
2.1	Improve the budget unity by including information on the gross financial position of higher education entities in the budget	2.1.1	NT, Medium-term
2.2	Improve the transparency of the public investment management system and address deficiencies in procurement	2.1.4	NT, OCPO Short/Medium-term
2.3	Bring forward the budget process to ensure that the Budget is approved before the start of the fiscal year	2.2.1 2.2.2	NT, Long-term
2.4	Enact fiscal rules that are precise, time bound and stable over time	2.3.1, 2.4.1, 3.2.3	NT, Medium term
2.5	Strengthen the effectiveness of formal opportunities for the public to participate in the budget process.	2.3.3	NT, Medium-term
2.6	Enhance evaluation of official forecasts with independent comparisons and PBO and FFC to develop capability to assess fiscal forecasts and objectives	2.4.1	NT, PBO, FFC, Medium-term
Pillar III: Improve analysis and disclosure of risks to the public finances as follows:			
3.1	Strengthen analysis of macroeconomic risk, specific risks, and long term risks in the Fiscal Risk Statement	3.1.1 3.1.2 3.1.3	NT Short-term
3.2	Increase transparency of contingency and unallocated reserves' use	3.1.4	NT, Medium-term
3.3	Strengthen Asset and Liability Management by publishing a medium-term debt management strategy	3.2.1	NT, Medium-term
3.4	Introduce limitation to guarantee exposure	3.2.3	NT, Short-term
3.5	Strengthen and detail the disclosure of risks arising from PPPs	3.2.4	NT, GTAC, Medium-term
3.6	Introduce regular and transparent reporting on the natural resources' reserves, by volume and value, based on international standards	3.2.6	NT, DMRE, Medium-term
3.7	Integrate natural disaster risk into budget contingency planning, and disclose the fiscal impacts of natural disasters	3.2.7	NT, NDMC, DCoG Medium-term
3.8	Strengthen the risk management of SNG arrears and accruals	3.3.1	NT, Long-term
3.9	Strengthen the level of disclosure on SOCs, and develop a state ownership policy for SOCs based on their policy objectives	3.3.2	NT, DPE Short-term

Table 0.3. South Africa: Public Sector Financial Overview, 2021/22 (Percent of GDP)

	General Government									Public Corporations				
	Budgetary Central Government	National Extra-budgetary units	Social Security Funds	Consolid-ation	Consolidated Central Government	State Governments	Local Governments	Consolid-ation	Consolidated General Government	Non-financial Public Corpor-ations	Financial Public Corpor-ations	of which, Central Bank	Conslidation Public Sector	**Public Sector**
Transactions														
Revenue	**26.0**	**4.8**	**1.4**	**-2.8**	**29.3**	**11.2**	**7.8**	**-13.0**	**35.2**	**6.8**	**2.5**	**0.1**	**NA**	**44.6**
Expenditure	**31.1**	**4.5**	**1.5**	**-2.8**	**34.3**	**11.2**	**7.0**	**-13.0**	**39.4**	**8.8**	**0.6**	**0.2**	**NA**	**49.1**
Expense	30.9	4.2	1.5	-2.8	33.7	10.5	6.1	-13.0	37.3	7.9	0.6	0.2	NA	46.0
Investment in non-fin. assets	0.2	0.4	0.0	0.0	0.6	0.7	0.9	0.0	2.1	0.9	0.0	0.0	NA	3.1
Gross operating balance	**-4.9**	**0.6**	**-0.1**	**0.0**	**-4.4**	**0.7**	**1.6**	**0.0**	**-2.1**	**-1.2**	**1.9**	**-0.1**	**NA**	**-1.4**
Net lending/borrowing	**-5.2**	**0.3**	**-0.1**	**0.0**	**-5.0**	**0.0**	**0.7**	**0.0**	**-4.2**	**-2.1**	**1.9**	**-0.1**	**NA**	**-4.4**
Stocks														
Assets	**27.9**	**0.0**	**10.8**	**0.0**	**38.6**	**0.5**	**19.1**	**NA**	**175.0**	**24.4**	**67.4**	**17.4**	**-51.3**	**232.9**
Nonfinancial	**NA**	**NA**	**NA**	**0.0**	**NA**	**NA**	**12.5**	**NA**	**129.3**	**20.3**	**0.8**	**0.0**	**0.0**	**150.4**
Fixed assets	NA	NA	NA	0.0	NA	NA	NA	NA	37.4	20.3	0.8	0.0	0.0	58.5
Minerals and energy resources	NA	NA	NA	0.0	NA	NA	NA	NA	91.9	0.0	0.0	0.0	0.0	91.9
Financial	**27.9**	**0.0**	**10.7**	**0.0**	**38.6**	**0.5**	**6.7**	**NA**	**45.7**	**4.2**	**66.5**	**17.4**	**-51.3**	**82.5**
Currency and deposits	4.4	0.0	0.5	0.0	5.0	0.5	0.0	NA	5.4	1.4	5.8	10.3	-7.0	16.0
Debt securities and loans	0.0	0.0	2.1	0.0	2.1	0.0	1.0	NA	3.1	0.3	27.8	5.2	-20.8	15.5
Equity	14.9	0.0	0.9	0.0	15.8	0.0	0.0	NA	15.8	0.3	27.2	0.4	-15.0	28.8
Other	8.5	0.0	7.2	0.0	15.7	0.0	5.6	NA	21.3	2.2	5.7	1.5	-8.5	22.3
Liabilities	**69.1**	**0.0**	**0.4**	**0.0**	**69.5**	**0.0**	**4.8**	**NA**	**74.3**	**24.4**	**67.4**	**17.4**	**-51.3**	**132.2**
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NA	0.0	0.0	12.7	10.3	-7.0	16.0
Debt securities and loans	69.1	0.0	0.0	0.0	69.1	0.0	0.9	NA	70.0	9.9	7.5	5.2	-20.8	71.7
Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NA	0.0	8.0	7.0	0.4	-15.0	0.4
Civil servant pen. entitlements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NA	0.0	0.0	29.9	0.0	0.0	29.9
Other	0.0	0.0	0.4	0.0	0.4	0.0	3.8	NA	4.3	6.6	10.2	1.5	-8.5	14.1
Net worth	**-41.2**	**0.0**	**10.4**	**0.0**	**-30.9**	**0.5**	**14.3**	**0.0**	**100.8**	**0.0**	**0.0**	**0.0**	**0.0**	**100.8**
Net financial worth	**-41.2**	**0.0**	**10.3**	**0.0**	**-30.9**	**0.5**	**1.9**	**0.0**	**-28.6**	**-20.3**	**-0.8**	**0.0**	**0.0**	**-49.6**
Gross debt	**69.1**	**0.0**	**0.4**	**0.0**	**69.5**	**0.0**	**4.8**	**0.0**	**74.3**	**16.2**	**60.4**	**17.0**	**-36.3**	**131.6**

Source: SARB, Quarterly Bulletin, and other fiscal reports and financial statements, IMF staff estimates.
Note: Balance sheet estimates for General Government and Public Sector (including consolidation) have been derived by IMF staff by using sub-sector information primarily from the QB and financial statements. Public sector financial corporations include SARB, the Land Bank, Postbank, Official Pension Funds and Corporation for Public Deposits.

I. FISCAL REPORTING

1. **Fiscal reports should provide a comprehensive, timely, reliable, comparable, and accessible summary of the government's financial performance, financial position, and cash flows.** This chapter assesses the quality of South Africa's fiscal reporting practices against the standards set by the IMF's Fiscal Transparency Code for the following dimensions:

- Coverage of public sector institutions, stocks, and flows;
- Frequency and timeliness of reporting;
- Quality, accessibility, and comparability of fiscal reports; and
- Reliability and integrity of reported fiscal data.

2. **Over time, South Africa has made efforts to improve the coverage, quality, and timeliness of fiscal reports.** Information on the operations of different levels of the public sector is available in various fiscal reports such as budget execution documents, consolidated financial statements, and government finance statistics. Improvements have also been made in the coverage of stocks where there is now broader coverage of financial assets and liabilities, although full consolidation of the general government or public sector assets and liabilities are not yet available. Additionally, concerted efforts have been made to improve the timeliness of reporting, where key information on national government finances are published monthly within 30 days of the end of the month; and quarterly information is available on provincial and local government finances within a quarter after the reference period. The strong performance of South Africa in fiscal reporting is also reflected in the high ranking of South Africa on the Open Budget Survey's transparency score.[2]

3. **Fiscal reports are broadly in line with international standards.** Budget execution documents and consolidated financial statements of national and provincial governments are produced using either accrual based Generally Recognized Account Practice (GRAP) or the Modified Cash Standard (MCS).[3] Fiscal statistics published by the South African Reserve Bank (SARB) and Statistics South Africa (StatsSA) are broadly in line with the Government Finance Statistics 2014 (GFSM 2014). Table 1.1. presents the main fiscal reports published by South Africa that were reviewed as part of the fiscal transparency evaluation. More details on these reports are presented in Appendix I.

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[2] See https://internationalbudget.org/open-budget-survey/.

[3] GRAP is used by extra-budgetary institutions and the MCS is used by government departments.

Table 1.1. South Africa: List of Fiscal Reports

REPORT	Agency	COVERAGE			ACCOUNTING		PUBLICATION	
		Instit.	Flows	Stocks	Basis	Class.	Freq.	Lag
IN-YEAR REPORTS								
Monthly Release of Selected Data	SARB	BCG	TR, TE, Financing	Deposits	C	SNA, MFS	Mo.	30d
Quarterly Bulletin	SARB	PS	R, E, Fin	Debt, FA, L	C,A	SNA, GFSM	Quart.	3m
Provisional Financing Figures	NT	BCG	Fin	---	C	National	Mo.	2d
Statement of the National and Provincial Governments' Revenue, Expenditure and National Borrowing	NT	BCG, RG	R, E, Fin	---	C, MCS	National	Mo.	30d
Provincial in-year figures	NT	RG	R, E, Fin	---	C, MCS	National	Quart.	2m
Quarterly Spending data	NT	BCG	R, E, Assets	---	C, MCS	National	Quart.	3m
Municipal in-year management, monitoring and reporting (Section 71)	NT	LG	R, E, Fin	---	A	National	Quart.	3m
Quarterly financial statistics of selected municipalities	STATSSA	LG	R, E, Fin	A, L	C, A	National	Quart.	3m
YEAR-END REPORTS								
Financial Statistics of Consolidated General Government	STATSSA	GG	R, E, Fin	---	C	GFSM, COFOG	Annual (FY)	20m
Financial Statistics of National Government	STATSA	BCG	R, E, Fin	---	C	GFSM, COFOG	Annual (FY)	15m
Financial Statistics of Extra-Budgetary Accounts and Funds	STATSSA	EBU	R, E, Fin	---	C	GFSM, COFOG	Annual (FY)	20m
Financial Statistics of Provincial Government	STATSSA	RG	R, E, Fin	---	C	GFSM, COFOG	Annual (FY)	18m
Financial Census of Municipalities	STATSSA	LG	R, E, Fin	A, L	C	National	Annual (FY)	16m
Annual Budget Reviews	NT	BCG	R, E, Fin	L	C, MCS	National, GFSM, COFOG	Annual	12m
Estimates of National Expenditure	NT	BCG	E	---	C, MCS			
Consolidated Financial Statements	NT	CG, PC	R, E, Fin	Debt, A, L	C, MCS	GRAP,	Annual (FY)	9m
Debt Management Reports	NT	BCG	Fin	Debt	C	National	Annual (FY)	9m
The State of Local Government Finances	NT	LG	R, E, Fin	Debt	A	National	Annual (FY)	15m

Source: IMF Staff based on official data.
Notes: SARB = South African Reserve Bank; NT = National Treasury; StatsSA = Statistics South Africa; PS = Public Sector; GG = General Government; BCG = Budgetary Central Government; SSF = Social Security Fund; RG = State Government; LG = Local Government; R = Revenue; E = Expense; Fin = Financing; SNA = System of National Accounts; GFSM = Government Finance Statistics Manual 2014; MFS = Monetary and Financial Statistics; COFOG = Classifications of Functions of Government; GRAP = Generally Recognized Accounting Standards; MCS = Modified Cash Standard

1.1.1. Coverage of Institutions (Good)

4. **Consolidated general government fiscal statistics are published by the SARB but fiscal reports do not extend to the consolidated public sector.** Each quarter, the SARB publishes statistics

on revenue, expenditure, and financing for the consolidated general government in the Quarterly Bulletin, in accordance with guidelines of the GFSM 2014. The Quarterly Bulletin[4] also contains information on non-financial and financial public corporations; however, these are not consolidated with general government to produce consolidated public sector data. Furthermore, the coverage of institutions varies between SARB statistics and the data produced by NT for the budget documentation, the reports also have some gaps in coverage. In financial year 2021/22 South Africa's public sector comprised 867 units (Table 1.2).

Table 1.2. South Africa: Public Sector Institutions and their Finances, FY 2021/22

	Number of entities	Revenue	Expenditure	Balance	Intra-PS expenditure	Net expenditure	Net expenditure
		percent of GDP					percent of total
Public Sector	867	44.6	49.1	-4.4	0.0	49.1	100.0
General government	815	51.1	55.3	-4.2	15.9	39.4	80.4
Central government	304	32.1	37.1	-5.0	15.9	21.3	43.3
Budgetary central government	42	26.0	31.1	-5.2	15.9	15.3	31.1
Extrabudgetary central government	258	4.8	4.5	0.3	-	4.5	9.2
Social security funds	4	1.4	1.5	-0.1	-	1.5	3.0
State governments	201	11.2	11.2	0.0	-	11.2	22.7
Local governments	310	7.8	7.0	0.7	-	7.0	14.3
Nonfinancial public corporations	38	6.8	8.8	-2.1	-	8.8	18.0
Central Bank	1	0.0	0.0	0.0	-	0.0	0.0
Other financial public corporations	13	2.5	0.6	1.9	-	0.6	1.1

Source: SARB institutional table and IMF Staff calculations.
See Appendix II for more information on the composition of the sub-sectors of the public sectors.

5. **South Africa's public sector expenditure was 49 percent of GDP (R2,833 billion) in financial year 2021/22.** Table 1.2 summarizes the distribution of public resources across the different subsectors of the public sector in 2021/22 and shows that:

- **General Government** accounts for 42.3 percent of GDP (R2,441 billion) on a consolidated basis, of which 54 percent flows through central government, 28 percent through provincial governments and 18 percent through local governments.
- **Public corporations'** expenditure accounts for 9.4 percent of GDP, of which 94 percent is spent by public nonfinancial corporations.

6. **The Quarterly Bulletin is the most comprehensive statistical report and is produced in accordance with international standards.** The institutional coverage of fiscal statistics in the Quarterly Bulletin is based on guidance in the GFSM 2014, and sector classifications are determined by the public sector classification committee with membership from SARB, NT, and StatsSA. The classification committee meets three times per year and maintains an internal public sector institutional list which is updated when classification decisions are made. Institutional lists are published by the SARB every 5−6 years, the most recent list was published in 2022. As institutional coverage can vary over as a result of the establishment of new units, cessation of existing units or movements within the public sector,

[4] The Quarterly Bulletin reports on the whole economy, including domestic economic developments, external economic accounts, monetary and capital markets, public finance and the integrated economic accounts.

publishing the public sector institutional list at more frequent intervals would increase the transparency of coverage of government finance statistics.

7. The Quarterly Bulletin data includes all municipal entities in the local government sector, however, some of these could be considered public corporations under GFSM 2014. The Municipal Finance Management Act 2003 allows municipalities to establish separate entities to perform functions on behalf of the municipality, for example City of Joburg Property, City Power, or Johannesburg Water. These entities are currently consolidated within the local government statistics published in the Quarterly Bulletin. The 2022 Municipal Entities Report[5] notes that there are 53 of these municipal entities, of which most are concentrated in Gauteng Province, KwaZulu Natal, and Eastern Cape. The report also notes that 13 of the largest municipal entities spent R42.8billion expenditure (or 0.8 percent of GPD and 10 percent of published total local government spending) in 2019/20. The sector classification of these entities should be reviewed to see if they could be classified as public corporations, particularly as local government revenue and expenditure are likely to be overstated in the Quarterly Bulletin; provincial entities are unlikely to have a material impact. It should be noted that StatsSA exclude these municipal entities in their local government statistics.

8. Data for financial public corporations are published in the Quarterly Bulletin but coverage is not complete. The Quarterly Bulletin reports and provides analysis on key economic indicators and sectors, including the public sector, monetary, financial, and capital markets. As a result, the financial public corporations sector excludes the SARB, Corporation for Public Deposits, Land Bank, Postbank, and official pension funds, as these are reported under statistics for the monetary and capital market sector tables in the QB. For more comprehensive coverage of this sector and hence the public sector, the Quarterly Bulletin should include these entities in the public financial corporations' data.

9. Institutional coverage varies between the main fiscal reports and differences are not explained. The institutional classification and coverage of budget reports, annual financial statements, and NT statistics is determined by the Public Financial Management Act (PFMA), which is based on the nature of operations e.g., profit motive, reliance on grants. Furthermore, the interpretation of control in the PFMA is based on full ownership rather than the statistical determination of public sector control, resulting in differences in institutional coverage between fiscal reports. The main areas of difference can be summarized as:

- Extra-budgetary units: SARB and StatsSA include universities and technical colleges in their coverage of extra-budgetary units, whereas the NT does not include them in their fiscal reports.
- Provincial governments: The NT publishes information on provincial finances and are also included in the consolidated government definition reported by NT's budget reviews. They are also included in SARB and StatsSA reporting of general government.
- Local governments: The NT reports on local governments separately but they are not consolidated in NTs consolidated government definition. As noted in paragraph 8, there are differences of reporting of local governments between SARB and Statistics SA. Furthermore, different data sources are used, where NT use in-year municipal data (Section 71) and SARB and StatsSA rely on a quarterly survey

[5] See: Municipal Entities Report 2022 - All Documents (treasury.gov.za)

conducted by StatsSA. Authorities noted that they have started a project to compare the datasets with the intention for the main data source to become Section 71 reports.

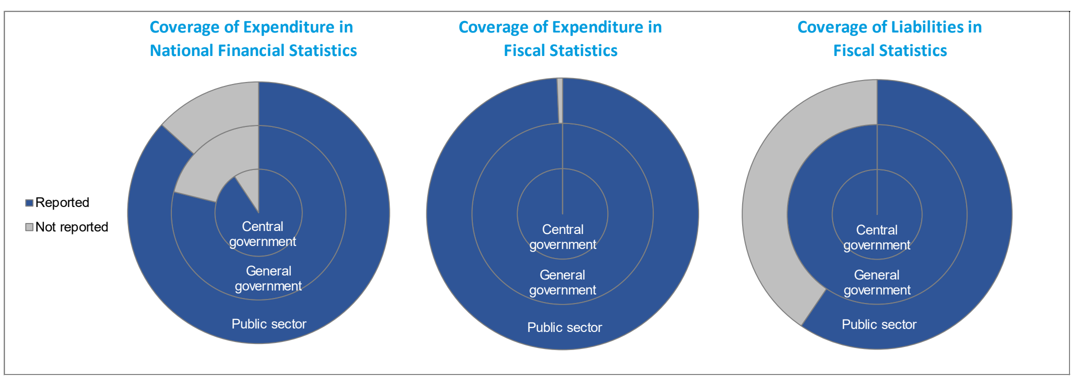
- Public corporations: The NT includes the financial data of major State-Owned Companies (SOCs) in its budget reviews and consolidated financial statements, , of which most are public non-financial corporations. A few more SOCs are reported in SARB's Quarterly Bulletin, but their impact is not material. However, the NT reports do not include most public financial corporations, such as the Public Investment Corporation (PIC), Land and Agricultural Bank, and Postbank.

10. It is important to ensure consistent institutional coverage between different reports for general government. The differences described above result in different fiscal aggregates reported by the three institutions for general government. Authorities can align institutional coverage by classifying institutions based on guidance in the GFSM 2014. Using the same data sources, in particular for local governments, will further help bring consistency and accuracy to general government fiscal aggregates. It should be noted that while there are improvements to be made, the existence of initiatives such as the PSCC and projects to align data are steps in the right direction.

11. Incomplete and different coverage of institutions affects fiscal aggregates of the public sector. Figure 1.1 shows how variation in institutional coverage of South Africa's fiscal reports can impact fiscal aggregates such as total expenditure and total liabilities. As noted earlier, the Quarterly Bulletin excludes a number of public financial corporations in its public sector statistics. Typically, these institutions have substantial balance sheets and therefore their exclusion has a greater impact on assets and liabilities compared to expenditure.

12. No one fiscal report provides a comprehensive picture of the consolidated public sector. Although fiscal reports provide information on all sub-sectors of the public sector, these are not used to present the public sector as a whole and is further hampered by differences in institutional coverage. Authorities should consider aligning the institutional coverage of fiscal reports and provide explanations where this is not possible. Examples of this practice include Estonia and the United Kingdom, where the coverage of institutions is consistent between consolidated financial statements and public sector fiscal statistics and based on statistical definitions, with explanations of deviations explained.

Figure 1.1. Public Sector Expenditure and Liability Coverage in Fiscal Reports 2021/22 (Percent of total at each level)



Source: IMF staff estimates

1.1.2. Coverage of Stocks (Good)

13. Balance sheets of the general government sub-sectors and some public corporations are published, however, these are not consolidated. The Quarterly Bulletin publishes balance sheet data covering assets and liabilities of the subsectors of general government but are not consolidated to produce general government or public sector debt. The Consolidated Financial Statement publishes total assets and liabilities. In both reports, non-financial assets are not covered to their fullest extent.

14. Experimental estimates of public sector gross debt were published by SARB in June 2023. The Quarterly Bulletin includes experimental estimates[6] of consolidated public sector debt, which builds on the SARB's work on the Integrated Economic Accounts. In addition to public sector debt, the assets of non-financial and financial corporations are published, but these are currently not used to compile consolidated public sector balance sheets.

15. Further efforts and improvement are required to address some gaps for a comprehensive picture of the public sector:

- **Natural resources and other non-financial assets.** South Africa is rich in mineral resources, producing a significant portion of the world's minerals. South Africa does not have or publish any official estimates of these resources, and therefore cannot be reported in the balance sheet. IMF staff estimate this to be over R5 trillion (92 percent of GDP) at the end of 2021/22.[7] South Africa's balance sheet also does not report on the value of land. Fixed assets, such as buildings and machinery are reported in the Quarterly Bulletin, however, other produced assets such as inventories and valuables are not reported.
- **Equity in public corporations.** Fiscal reports do not include equity assets held in public corporations. This is estimated to be almost R1 trillion, or 16 percent of GDP: the difference in total assets and liabilities held by public corporations.
- **Employment-related pension liabilities.** The Government Employee Pension Fund, a defined benefit fund, is the largest pension fund in South Africa. Its annual reports show that it is overfunded, with actuarial pension liabilities estimated to be R1.85 trillion and assets of R2.3 trillion. While these liabilities are published in the QB, SARB do not include them in public sector statistics.

16. Including the above assets and liabilities provides an estimated comprehensive public sector balance sheet for South Africa. Asset and liabilities are estimated to be 233 percent of GDP and 132 percent of GDP in 2021/22, respectively (Table 1.2). Public sector net worth is estimated to be 100 percent of GDP and public sector net financial worth is negative 50 percent of GDP. The main components include:

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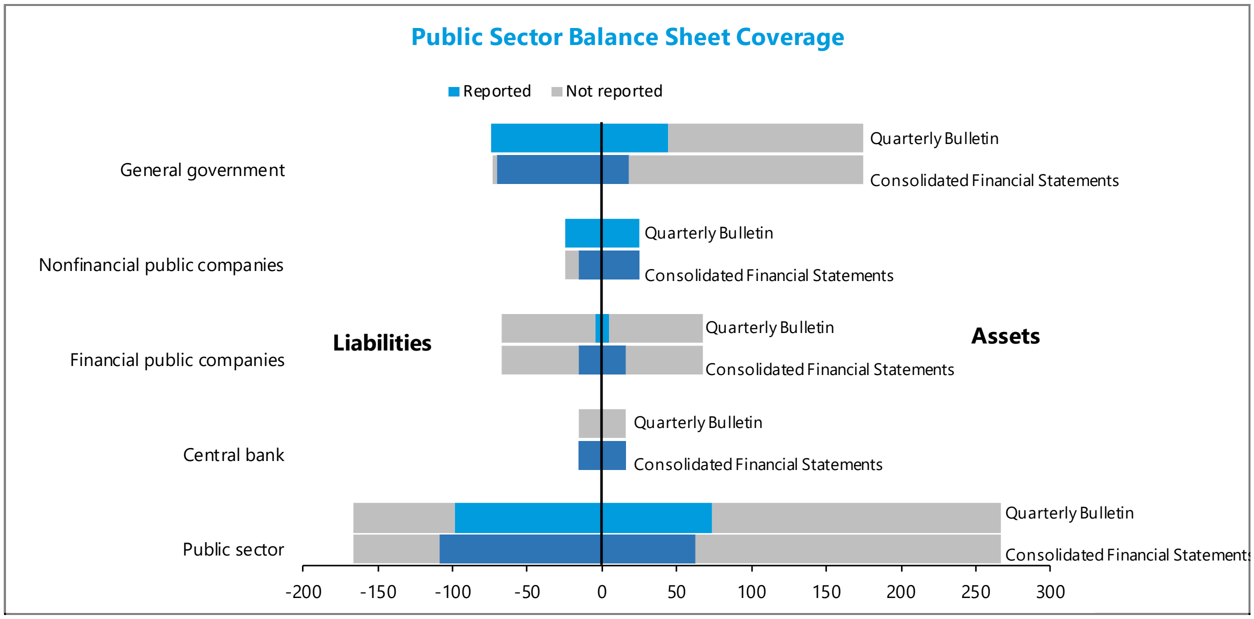
[6] Experimental estimates are not official statistics as they are still under development.

[7] IMF PSBS methodology for estimating stock of mineral and energy resources correspond to the present value of the expected pre-tax cash flows resulting from their commercial exploitation. Sources and methods for these estimates differ by type of commodity and are detailed in the metadata accompanying South Africa's PSBS estimates. For 2021/22, the stock of mineral and energy resources as a percentage of GDP has been maintained from 2020 as all source data are not available for the existing methodology.

- **Non-financial assets** of 150 percent of GDP, of which mineral and energy resources are estimated to be 92 percent of GDP.
- **Financial assets** of 83 percent of GDP, which on a consolidated basis primarily comprises those of financial public corporations.
- **Liabilities** of 132 percent of GDP, which are primarily made of central government debt (69 percent of GDP) and pension liabilities (30 percent of GDP).

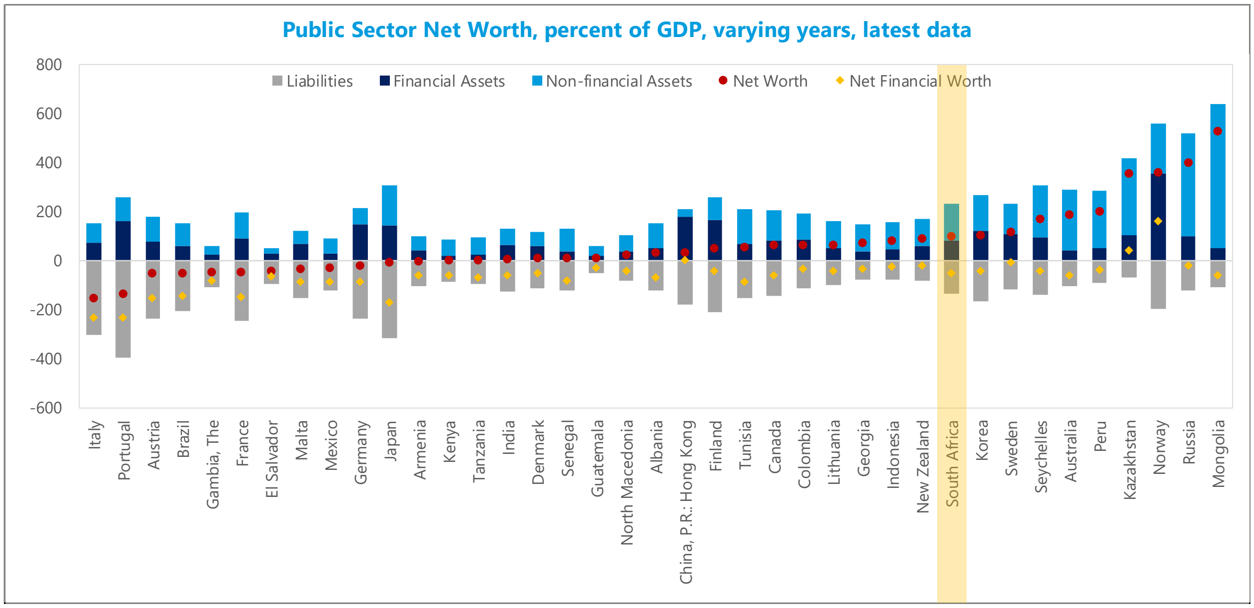
Figure 1.2. Coverage of Public Sector Balance Sheet in Fiscal Reports (Percent of GDP)



Source: SARB, Quarterly Bulletin, and other fiscal reports and financial statements, IMF staff estimates.

17. **South Africa's public sector net worth compares favorably to other countries.** The favorable position can be attributed to its non-financial assets, in particular, mineral and energy resources.

Figure 1.3. Public Sector Net Worth of Selected Countries, Varying Years (Percent of GDP)



Source: IMF PSBS, FTE and IMF staff calculations

1.1.3. Coverage of Flows (Basic)

18. **South Africa's fiscal accounts for national and provincial governments use the modified-cash basis of accounting while local governments and public entities use the accrual basis of accounting.** National and Provincial government departments compile their accounts in accordance with the Modified Cash Standard, as set out by the Office of the Accountant-General in the NT. Under this standard, elements are recognized when they arise from cash inflows or outflows with supplementary accrual information provided in the notes to the financial statements. Local governments, as well as entities of National and Provincial governments compile their accounts on an accrual basis. This difference of accounting bases hampers aggregation and consolidation of the different levels of the public sector.[8]

19. **The NT started the process to move to accrual accounting several years ago, however, the process is currently delayed.** Local governments, extra-budgetary entities and public corporations already report on an accrual basis while national and provincial governments are in the process. NT currently intends to implement accrual accounting with the planned national rollout of the Integrated Financial Management System. However, the delay to the system rollout has delayed the move to accrual accounting in national and provincial governments. The NT have not indicated a date by which they expect to move to accrual accounts.

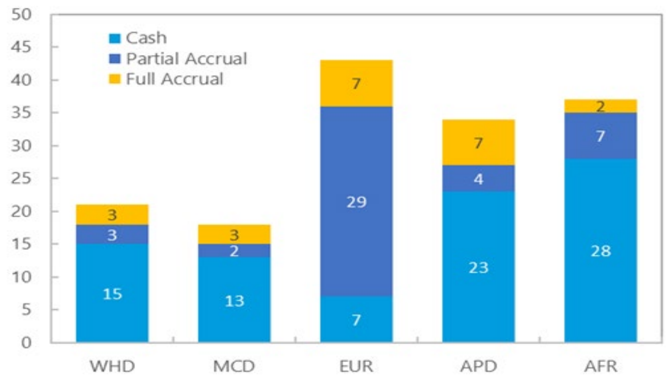
20. **Adopting accrual accounting would allow consolidation of the general government and public sector fiscal reports.** Modified cash accounting or cash basis of recording is restricted to monetary transactions, while an accrual basis enables that all economic events and resource flows are recorded, including internal transactions, in-kind transactions, and other economic flows. An accrual basis

[8] General Government fiscal statistics published by the South African Reserve Bank in the Quarterly Bulletin are on a cash basis as data for local governments and entities of national and provincial governments are adjusted to reflect cash flows.

of recording also allows full integration of flows with stock positions in the balance sheet. Many countries are moving towards accrual accounting, however, only few have succeeded to implement a full accrual accounting (Figure 1.4).

21. One significant item not currently captured properly in South Africa's GFS data concerns the provision of free basic services, primarily water, sanitation, electricity and refuse removal, to low-income households. The GFS mission delivered by the IMF Statistics Department identified the that approximately R71bn worth of free basic services are not captured in GFS. Authorities should work with the statistics department to record these accurately.

Figure 1.4. Accounting Basis per Region (Number of countries)



Source: IMF Government Finance Statistics Yearbook database, 2016-2022 submissions

Note: Partial accrual includes countries that report transactions and other economic flows on an accrual basis but do not prepare a full balance sheet. Full accrual includes countries that record transactions and other economic flows on an accrual basis and publish a full balance sheet.

1.1.4. Coverage of Tax Expenditures (Good)

22. The annual Budget Review (BR) includes in an annexure a Tax Expenditure Statement, the estimated revenue loss from tax expenditures by sector and policy area. The estimates are based on tax administrative data by tax type, and since 2022, the Statement also includes an analysis of selected corporate tax expenditures on a sectoral basis. The latest data available is for the fiscal year 2020/21 (two-years lag), in which the Statement includes 35 tax expenditures. Of these, personal income tax expenditure is by far the largest component, growing 14 percent between 2017/18 and 2020/21 (Table 1.3).

23. In fiscal year 2020/21 tax expenditures amounted to R252 billion, equivalent to 4.5 percent of GDP and 20 percent of gross tax revenue. The largest tax expenditures accounted for 60 percent of the total and related to deductions for pension contributions, value-added relief for basic items, medical tax credits on contributions to medical schemes, and vehicle manufacturer incentives. The level is relatively average compared to other Emerging Market Economies (EMEs) (see Figure 1.5).

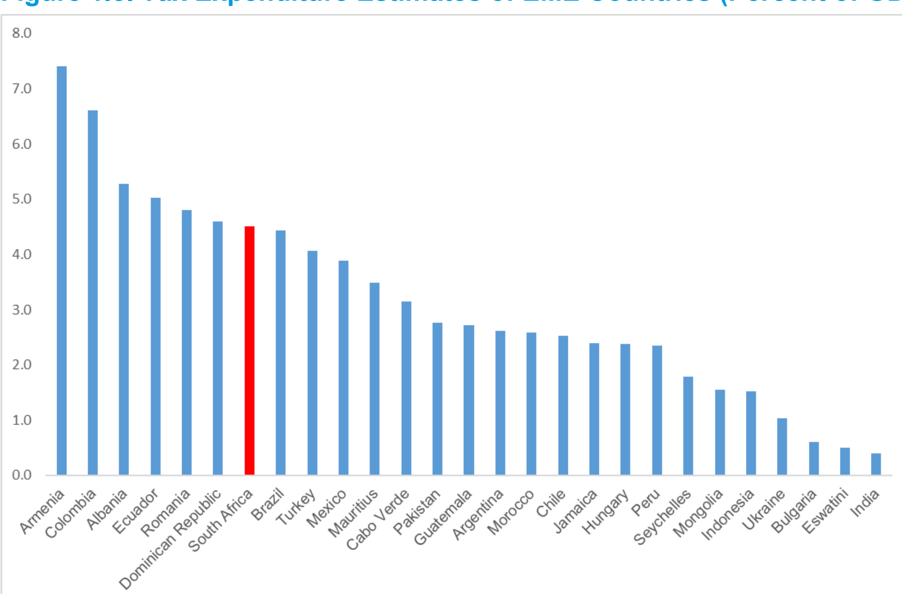
Table 1.3. South Africa: Tax Expenditure (R Billion)

Tax type	2017/18	2018/19	2019/20	2020/21
Personal Income Tax	124.4	135.9	141.3	142.3
Corporate Income Tax	18.4	27.5	21.7	15.4
Value-added tax	58.4	66.9	73.4	58.8
Customs duties and excise	33.6	38.6	44.4	35.5
Total tax expenditure	**234.9**	**268.9**	**280.8**	**251.9**
In percent of GDP	4.6%	5.0%	4.9%	4.5%
In percent of gross tax revenue	19.3%	20.9%	20.7%	20.2%

Source: MoF, Budget Review, Annexure B.

24. **Tax expenditures are currently not subject to any budgetary objectives (or cap), and the report presents primarily an ex-post analysis of tax expenditures.** Due to the lack of forward-looking tax expenditure estimates, disclosures do not inform policy choices when the legislature considers the budget proposals. The discussion of the revenue side of the budget, including the impact of tax expenditures on tax collections is almost nil. Advanced practices suggest that budget documentation should allow legislature to assess proposals on support provided indirectly to individuals and corporations through the tax system against the effectiveness of support measures directly provided through the expenditure side of the budget. To allow such an analysis, tax expenditure data should be up to date and cover a period of historic years and forward-looking estimates; the fiscal implications of tax expenditure should be considered together with expenditure proposals, and measures to limit its growth (or cap) should be introduced.

Figure 1.5. Tax Expenditure Estimates of EME Countries (Percent of GDP)



Source: Global Tax Expenditure Database and MoF, Budget Review, Annexure B.

1.2. Frequency and Timeliness of Fiscal Reporting

1.2.1. Frequency of In-Year Reporting (Advanced)

25. **In-year fiscal reports are frequent and timely. The Statement of National Governments' Revenue, Expenditure and National Borrowing is the budget execution report for South Africa and is published monthly.** Within 30 days of the end of the month, the NT publishes information on payments into and out of the National Revenue Fund. This includes detailed information on tax receipts and information on non-tax receipts such as departmental revenue, interest, dividends, rent, etc. Expenditure is presented by national vote and shows how much of the budget has been executed, direct charges against the National Revenue Fund are also included. Financing information includes cash, domestic and foreign bonds, treasury-bills as well as a schedule of redemptions. Similarly, the South African Reserve Bank publishes monthly aggregates of revenue, expenditure and financing of the national government. Quarterly fiscal reports published by NT expand the institutional coverage of the in-year fiscal reports to also cover sub-national governments (provincial and local government) and provide further details in the Quarterly Spending Statistics for National Government. In addition, the SARB's Quarterly Bulletin publishes Government Finance Statistics (GFS) on the different sub-sectors of the public sector, which includes quarterly revenue, expenditure and financing.

26. **Although South Africa follows advanced practice, the coverage of monthly reporting can be improved.** Through Section 32 and the Municipal Financial Management Act (MFMA) of 2003, the NT collects data from Provincial and Local governments on a monthly or quarterly basis, though data are published quarterly only. As such, reporting more frequently on Provincial and Local government finances could aid policy making and management of public finances. As an example, the United Kingdom publishes its monthly public sector finances[9] statistics within 3 weeks of the end of the month, this covers the whole of the public sector and its subsectors.

1.2.2. Timeliness of Annual Financial Statements (Good)

27. **Audited financial statements are published by the Office of the Auditor General of South Africa (AGSA) usually within 9 months of the end of the financial year** (see Table 1.4)**.** The timely compilation, audit, and publication of the audited financial statements of individual entities as well as the consolidated statements is mandated by the PFMA and the MFMA (see Appendix IV). Section 8 of the PFMA requires that the NT prepares consolidated financial statements in accordance with generally recognized accounting practices covering the national departments, public entities under the ownership control of the national executive, constitutional institutions, the SARB, AGSA, and Parliament, and that those statements be submitted to AGSA for audit within three months after the end of the financial year.

[9] See: United Kingdom: Fiscal Transparency Evaluation

Table 1.4. South Africa: Finalization of Audited Financial Statements of Consolidated Government

Financial Year	Date of Finalization	Links to Audit Reports
2017/18	December 7, 2018	https://www.agsa.co.za/Reporting/PFMAReports/PFMA2017-2018.aspx
2018/19	October 31, 2019	https://www.agsa.co.za/Reporting/PFMAReports/PFMA2018-2019.aspx
2019/20	February 17 2021	https://www.agsa.co.za/Reporting/PFMAReports/PFMA2019-2020.aspx
2020/21	December 3, 2021	https://www.agsa.co.za/Reporting/PFMAReports/PFMA2020-2021.aspx
2021/22	January 26, 2023*	https://www.agsa.co.za/Reporting/PFMAReports/PFMA2021-22.aspx

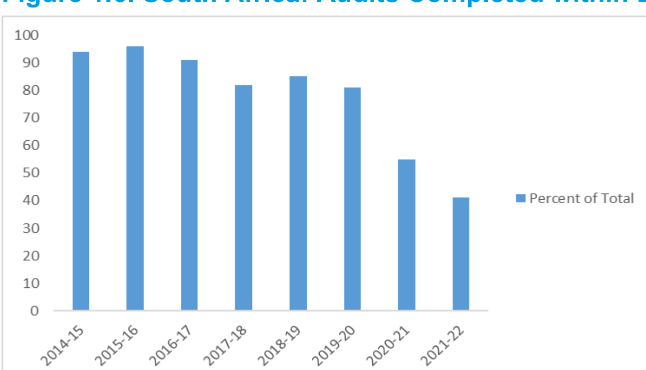
Source: MoF

Note: * Unusual delay due to the finalization of the annual financial statements of the NT.

28. **While the legal arrangements firmly establish a timeline for the compilation, audit, and publication of audited financial statements, in practice these are not always adhered to by all entities.** The Integrated Annual Report of AGSA for 2021/22 indicates significant delays in the adherence to this legal framework. For the latest year on record, only 41 percent of audits performed during fiscal year 2021/22 were conducted in the legislated timelines. National and provincial audits performed better than local governments with 47 percent completed in time by national and provincial entities while only 26 percent of local government audits were completed on time (Figure 1.6). The Covid-19 pandemic impacted negatively on the timeliness of audit reports. Delays were mainly caused by the hard lockdown, extensions granted to auditees in the previous audit cycle and late start of audits for the new year. The delays were further impacted by the riots in Kwa-Zulu-Natal and Gauteng. These operational challenges also had a personal impact on the staff of the AGSA and auditees.

29. **The timeliness of audited financial statements could be further improved to ensure that they are effectively used to inform policymakers and the public.** It should be noted that the audit process allows that the financial information is used to inform policy discussions since the audit process includes engagement with the auditee, its oversight entity and ministries during the audit process. The audit results are therefore used as an instrument to report to the executive on the stewardship of public funds. Timely reporting on any irregularities in the use of public funds could ensure that swift action in the following budget cycle is taken to remedy any irregularities. Consideration can also be given to publishing provisional and audited financial statements to ensure that new policy measures consider the provisional outcome of the previous budget cycle in all cases.

Figure 1.6. South Africa: Audits Completed within Legislated Timelines (Percent of total)



Source: AGSA, Consolidated General Report on National and Provincial Audit Outcomes, 2021/22.

1.3. Quality of Fiscal Reports

1.3.1. Classification (Advanced)

30. **Fiscal reports in South Africa include administrative, economic, functional and program classifications consistent with international standards.** Fiscal data are largely aligned with GFSM 2014 and contain administrative, economic, functional, and program classifications. Within the Budget Review documents, the NT presents the budget using a national classification and includes expenditure statistics using COFOG in an annex. The estimates of Estimates of National Expenditure (ENE) provide the most comprehensive expenditure plans and presents expenditure by vote, national function and program and is published annually alongside the BR. The NT maintains two standard charts of accounts: one for National and Provincial governments and another for local governments, which classify expenditure according to vote, national function, and program. However, the charts of accounts are sufficiently detailed to allow the SARB and StatsSA to bridge to GFSM 2014 and COFOG when compiling fiscal statistics.

31. **The main differences between the national functional classification and COFOG are described in the BR; including a numerical reconciliation would improve transparency.** The national classification reflects the administrative/functional structure around which budget conversations take place, is broadly in line with COFOG, however contains differences. The BR provides a high-level summary of the main differences (see Appendix III) and including this information supports users' understanding of the differences. However, including a numerical reconciliation between the two functional classifications would result in a better understanding and provide more transparency.

32. **Fiscal statistics produced by SARB and Statistics South Africa present information on economic and functional classifications in line with GFSM 2014 and the COFOG.** SARB's Quarterly Bulletin presents fiscal statistics using a GFSM 2014 presentation and Statistics South Africa's Annual Financial Statistics of General Government uses both a GFSM 2014 and COFOG presentation. Maintaining economic and functional classifications in line with international standards allows consistent recording and comparison of fiscal data where administrative or program classification may differ from country to county.

33. **Government interactions with SOCs should be recorded in line with international standards.** South Africa's 2023 budget reports are not in line with international guidance when reflecting the impact of bailouts as they show it as equity investments. South Africa's SOCs, which are concentrated in essential and strategic sectors, have faced financial difficulty over the last decade requiring several interventions from the national government, often through capital injections, bailouts or calls on guarantees. In some cases, an intervention made by government may provide additional returns in the future, in other cases there may not be a likelihood of a return. Bailouts typically do not result in a return for government in the same manner as other investments and would usually be considered a capital transfer which is a deficit impacting transaction. Therefore, it is important to ensure that the economic reality of the interventions is reflected accurately in fiscal reporting by following international guidance.[10]

[10] Figure 3.22 details examples of bailouts of SOCs by government and their recording in fiscal reports of the country

1.3.2. Internal Consistency (Advanced)

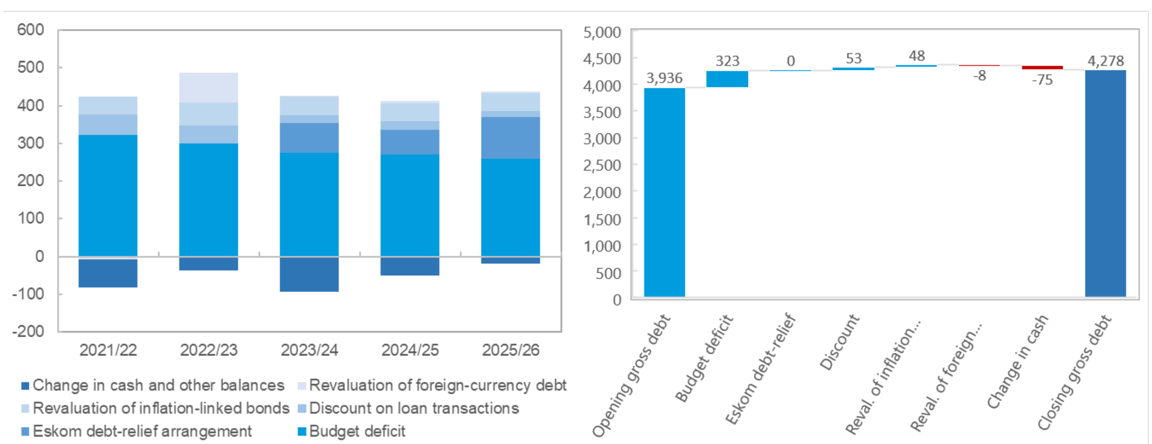
34. Fiscal reports include all three reconciliations required by the FTC for budgetary central government. The Quarterly Bulletin and budget documents contain reconciliations between the fiscal balance and financing, detailing the movements in cash and incurrence of liabilities. It also shows the ownership distribution of government debt, identifying public and private sector holders. The BR (Table 7.8) provides a reconciliation between financing and the change in debt stock. Approximately 20 percent of countries where FTEs have been conducted follow advanced practice with regards to internal consistency.

35. Reconciliations are not published at the general government level, they are not presented for provincial or local governments. Provincial governments spending is equivalent to the budget transfers they receive, however, local governments have own sources of revenue. A such, it is important to present these reconciliations described by the FTC, in particular a reconciliation between the fiscal balance and financing as this can highlight any data issues. Currently, SARB do not show a statistical discrepancy for their general government data and as per the recommendations of the IMF Statistics Department GFS mission, are encouraged to publish this.

36. The budget deficit is the largest contributor to the change in debt. Figure 1.7 presents NT's reconciliation of annual increases in debt, indicating revaluations and changes in cash balances. In 2021/22, non-deficit impacts on debt were relatively small in comparison to the stock of debt. Over the period from 2023/24 to 2025/26, the NT estimates a decrease in the deficit's contribution, and Eskom debt-relief will contribute 20 percent to 25 percent of the change in debt.

Figure 1.7. South Africa: Annual Increase in Debt 2021/22 to 2025−26 (R billion)

Annual increases: 2021/22 to 2025/26 **Annual Increases 2021/22**



Source: MoF, Budget Review 2023, Table 7.8.
Note: 2022/23 estimated outcome; 2023/24 to 2025/26 medium-term estimates.

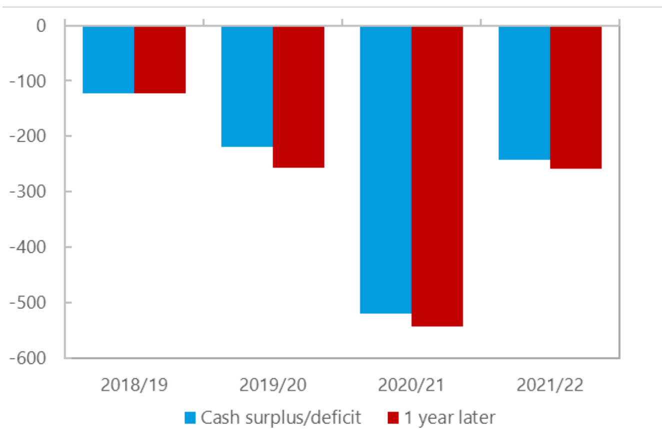
1.3.3. Historical Revisions (Good)

37. Main revisions to GFS data and its source data are reported and explained by SARB and StatsSA with the release of the revised GFS data, but bridge tables between the old and the new data are not provided. Both institutions have an internal revision policy to disseminate major data revisions, and those revisions be explained either as notes to the release[11] or as specific analytical articles accompanying the revised data.[12] In addition, supplemental papers are produced to disseminate comparable revised statistics for a specific period. A supplement to the March 2013 Quarterly Bulletin published the GFS Data for 1994−2012. The publication covers the period since the start of democracy in 1994 and the comprehensive data is supplemented with a narrative on developments in government finances over the period.[13] A similar extensive publication was launched when the conversion from using the GFSM 2001 methodology to the 2014 methodology was introduced. Quarterly GFS data of SARB are routinely indicated as preliminary for the most recent two years. These data are updated when the final audited financial statements for the government entities become available.

38. **The magnitude and frequency of revisions could be used to gauge data accuracy and reliability.** Since GFS data are primarily derived from administrative data, the magnitude and frequency of revisions are reportedly considered to be insignificant. Most of the revisions in SA GFS are made due to the consideration between timeliness and accuracy of the data—provisional quarterly data may be less accurate but play an important role in providing timely information on the stance of government finances. StatsSA is currently conducting an analytical study about the size and impact of revisions made to data, to inform improvements in data compilation practices. Additional revisions usually stem from implementing improved methodological guidelines. Routinely providing bridge tables to show the magnitude and impact of revisions could further improve the current revision practices.

39. **Revisions to the general government deficit over the last 4 years averaged 7.2 percent.** This relatively high average revision to the deficit is largely impacted by COVID-19, where the deficit for 2019/20 was revised by 17.8 percent 1 year later. Figure 1.8 shows the revisions to the deficit over the last 4 years.

Figure 1.8. South Africa: Revisions to General Government Deficit 2018−19 to 2021/22 (R billion)



Source: SARB Quarterly Bulletins, successive June publications.

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[11] For an example see the note on the revision of the treatment of PIC domestica marketable debt in https://www.resbank.co.za/content/dam/sarb/publications/quarterly-bulletins/notes-to-tables/2021/04Notes%20to%20tables.pdf.

[12] For an example of notes and articles on the data see https://www.resbank.co.za/en/home/publications/quarterly-bulletin1/articles-and-notes.

[13] See https://www.resbank.co.za/en/home/publications/publication-detail-pages/quarterly-bulletins/supplements/2013/5664

1.4. Integrity of Fiscal Reports

1.4.1. Statistical Integrity (Advanced)

40. **Fiscal statistics are compiled by the professionally independent SARB in line with GFSM 2014.** The independence of the SARB is laid out in Section 224(3) of the 1996 Constitution of the Republic of South Africa. The SARB Act governs the activities of SARB and provides that it shall collect data needed for its operations. The SARB has published statistics in its Quarterly Bulletin since 1946 as a service to the public. Fiscal statistics produced by SARB are compiled in line with GFSM 2014. These statistics rely on administrative records and data collected by Statistics South Africa, an independent statistical agency. Their independence is laid out in the Statistics Act (No. 6 of 1999).

41. **South Africa's fiscal statistics adhere to the Special Data Dissemination Standards (SDDS).** South Africa has subscribed to the SDDS since 1996 and met all requirements in 2000 and the National Summary Data Page is maintained on the SARB's website. The 2022 IMF Annual Observance Report for SDDS[14] noted that South Africa met the requirements for coverage and exceeded periodicity and timeliness for General Government Operations and Central Government debt.

1.4.2. External Audit (Basic)[15]

42. **The independent Auditor-General of South Africa (AGSA) publishes an annual audit report on financial statements, but it regularly identifies material irregularities and, in many cases, cannot express a true and fair view of the statements.** AGSA derives its mandate and independency from the Constitution of the Republic of South Africa, 1996.[16] According to the World Bank's Supreme Audit Institutions Independence Index of 2021, the independence of AGSA ranks Very High (10 out of 10 indicators), only matched by Seychelles.[17] The Constitution describes their functions (Section 188) and requires AGSA to be impartial, and to exercise their powers and perform their functions without fear, favor, or prejudice. AGSA is an active member of the International Organization of Supreme Audit Institutions (INTOSAI), participates in several of its working groups, and hosts the secretariat of the African Organization of English-speaking Supreme Audit Institutions (Afrosai-e), the regional chapter of INTOSAI. AGSA also adheres to all relevant international audit standards and principles.

43. **In addition, AGSA is governed by the Public Audit Act (PAA), Act 25 of 2004.** Subsection 10 (2)(b) of the act requires AGSA to be accountable to the National Assembly by tabling their annual report, financial statements, and the audit report on those financial statements annually in the National Assembly and Chapter 2 and 3 of the PAA regulates the powers necessary to perform their functions. By law they audit and report on how the government spends the South African taxpayers' money. Every year they audit national and provincial government departments, certain public entities, municipalities, and

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[14] See IMF - SDDS Subscribing Countries Annual Observance Reports (DSBB)

[15] This principle is not measuring the external audit function, but rather the quality of fiscal data of general government as depicted from audit findings of an independent auditor.

[16] Section 181 of the Constitution establishes AGSA as a state institution supporting constitutional democracy and entrenches AGSA's independence subject only to the Constitution and law.

[17] See https://documents1.worldbank.org/curated/en/885041626769025475/pdf/Supreme-Audit-Institutions-Independence-Index-2021-Global-Synthesis-Report.pdf.

municipal entities. They issue audit reports that provide them with the outcomes of the audits and emphasize material irregularities where they find them. Audits cover financial, compliance and performance audits. In addition, some special audit reports are produced—an example being the audit reports on various aspects of Covid-related spending.

44. **AGSA's audit reports include information on material irregularities (MIs) that are often found in these audit reports.** In line with Section 1(1) of the PAA, a material irregularity (MI) occurs when: (i) a person does not comply with or contravenes legislation, engages in fraud or theft, or violates their entrusted duty; (ii) this action can or does result in a significant financial loss, the misuse or loss of a significant public resource or substantial harm to a public sector institution or the general public; and (iii) the action is identified during an audit performed under the PAA. In the 2021/22 integrated report, AGSA indicated MIs per sphere of government and the estimated financial loss resulting from those. For National government 60 MIs were identified with a total estimated loss of R86 billion. For provincial government 82 MIs were identified with a combined value of R2.1 billion, while at local government level 185 MIs to the estimated value of R3.9 billion were identified While unqualified (clean) audit reports improved slightly over time, they only represent 24 percent of the opinions of all audit reports (30 percent at national and provincial level and 14 percent at local government level). A significant portion of audit reports continue to be issued with negative audit opinions (Table 1.5).

45. **The nature of the MIs identified by the audits and their spread across the various levels of government is identified by the AGSA Annual Report.** These irregularities range from issues related to Procurement, Resource management, and Revenue Management to Fraud and Compliance Issues, and creating harm to the general public or public sector institutions (see Appendix IV).

Table 1.5. South Africa: Audit Opinions on Financial Statements

Fiscal Year	Number of Audits						Total Audits
	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	
National and Provincial government							
2020/21	117	192	76	2	20	15	422
2021/22	128	184	76	1	9	26	424
Local Governments							
2020/21	41	100	83	4	26	3	257
2021/22	38	104	78	6	15	16	257

Source: AGSA, Consolidated General Report on National and Provincial Audit Outcomes, 2021/22 and Consolidated General Report on Local Government Audit Outcomes, 2021/22.

46. **An independent and published audit of the integrity of the financial information published by government is an important safeguard of fiscal transparency.** These reports should provide publicly available information on the reliability of government's financial information, and should also

provide recommendations on improving it. Audit recommendations should be followed-up to ensure that timely corrective measures for any financial misconduct is appropriately taken by government.[18]

1.4.3. Comparability of Fiscal Data (Basic)

47. **In South Africa the so-called Section 32 budget execution reports are prepared on the same basis as the fiscal forecast/budget but reconciliations with the fiscal statistics and final accounts (financial statements) are not available.** Section 32 of the PFMA provides clear provisions for publication of fiscal statistics. Within 30 days after the end of each month, the NT is required to publish, in the Government Gazette, a statement of actual revenue and expenditure with regard to the National Revenue Fund. The dates of the publication of the Section 32 report is announced in advance in a press release. The Section 32 report includes a summary Statement of the National Government's Revenue, Expenditure, and National Borrowing, a schedule of borrowing, and detailed tables on respectively revenue, expenditure, financing, cash-flows, and additional information on the National Revenue Fund receipts and payments. The tables present the budgeted amount, the data for the latest month, cumulative amounts for the year-to-date, as well as comparable information for the previous budget year.

48. **Section 32 also requires Provincial governments report after the end of a prescribed period, but at least quarterly, within 30 days after the end of the period.** They are required to publish a statement of revenue and expenditure with regard to the Revenue Fund for which that treasury is responsible. These reports contain the same comparator data between the budget, actual receipts and payments for the quarter, and cumulative amounts expressed as both nominal values and percent of the budgeted amount.

49. **For local governments, the NT publishes a Quarterly Municipal Borrowing Bulletin.** The bulletin primarily discusses the borrowing of the municipalities that are engaged in long-term borrowing (only 97 of the 257 municipalities are engaged in borrowing) and then compare the actual borrowing of municipalities for the period with the original budget and the adjustment budget.

50. **Currently no reconciliation between the budget, statistical reports, or financial accounts is published.** The BR, Annexure W2 contains a narrative about the main differences between the statistical tables contained in budget documentation and the data as compiled and published in the GFS dataset. The annexure explains issues around recording basis, reporting formats, structure of the accounts, and classifications, as well as the institutional coverage of the budget accounts. However, there is no reconciliation of the impact of these differences. In the financial statements and audit reports, references to the compliance with budgeted amounts are often made, but again no reconciliation between the budget

[18] AGSA has adopted a "Theory of change" approach to shift public sector culture sustainably and efficiently through insight, influence, and enforcement. The approach acknowledges that there is a broad-based network of stakeholders that could potentially drive and deepen public sector accountability. The aspiration is to move a critical mass of auditees toward organizational cultures characterized by performance, accountability, transparency, and institutional integrity. AGSA plot all auditees along a continuum of predominant culture observed in the auditee ranging from practices that do harm to practices that do good. Engagement through discussions and recommendation with auditees then has the intent to influence auditees to move over time from one end of the spectrum that represent bad practices to the next. In addition, the office of the accountant general hosts several initiatives to enhance the capacity of auditees to adhere to improved accounting and management practices.

and financial accounts is presented. Also, both SARB and StatsSA gave the assurance that they do internal reconciliations between the source data and GFS—however these are not publicly available.

51. It is common in many countries to continue to have the budget, fiscal statistics and financial accounts prepared on different basis, but reconciliations should be disclosed to inform the user of the reasons for the differences in the data.[19] In the absence of the harmonization of the basis on which these various reports are published, reconciliations give the users the assurance of the quality of the respective data sets. It is therefore important to firstly eliminate all unnecessary differences in the compilation of the data, and where differences continue to exist because of differences in underlying methodologies adopted, a reconciliation and clear explanation of the differences should be provided to the users of the data.

1.5. Recommendations

52. **While fiscal reporting generally performs well according to the FTE assessment some room for improvement remain.** Inconsistencies remain in various reports, with regards to coverage of institutions, transactions, and stocks, without clear reconciliations being available for the public, and some additional disclosures on reconciliation is lacking. Furthermore, the quality of financial statements and the timeliness could be better, and some information published, such as the tax expenditure report, is not effectively used to inform policy discussions.[20]

53. Based on the assessment (see Table 1.6) the evaluation highlights the following priorities for improving the transparency of fiscal reporting:

- **Recommendation 1.1. Expand and align fiscal reporting on the public sector using international guidelines by:**
  - Maintaining one comprehensive list of public sector institutions that is used for all fiscal reports;
  - Including the universities and technical colleges as part of the central government sector in budget reporting;
  - Ensuring that provincial and municipal entities are classified according to sector classification rules in GFSM 2014;
  - Utilizing non-financial and financial corporations data already published and consolidating with general government data; and

[19] For example, in terms of the European Union's Deficit and Debt reporting, all EU members countries are required to complete a notification table (Table 2A) that explains the transition between the public accounts budget balance and the central government surplus/deficit as reported in the deficit and debt tables. See https://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-notification-tables. Also, the UK's Whole of Government accounts includes a standard chapter on comparison to national accounts. See https://www.imf.org/en/Publications/CR/Issues/2016/12/31/United-Kingdom-Fiscal-Transparency-Evaluation-44395.

[20] A Government finance statistics technical assistance mission was conducted during 31 July to 11 August 2023. Recommendations from this mission can be found in the associated mission report; the authorities are encouraged to use these recommendations to improve their fiscal statistics.

- Expanding the reporting of the financial public corporations sector in GFS data by including public financial corporations such as GEPF, PIC, Land Bank, that are currently reported in capital market statistics.

- **Recommendation 1.2. Enhance fiscal reporting to cover all significant stocks and flows by:**
  - Estimating and including the value of mineral and energy resources in non-financial assets;
  - Identifying and reporting other non-financial assets such as land;
  - Reporting data for the value of non-financial assets of the sub-sectors of general government;
  - Reporting liabilities beyond debt securities and loans, for example pension liabilities and accounts receivable/payable;
  - Implementing fully accrual reporting for national and provincial government departments

- **Recommendation 1.3. Further strengthen the disclosure of actual and estimated tax expenditures to facilitate policy discussions and decisions by:**
  - Including in the Budget Review's Tax Expenditure Statement the rationale and budgetary objectives of all tax expenditures, and up-to-date and forward-looking estimates of its value to allow an assessment of their budgetary impact and a discussion on the impact that tax proposals may have on tax expenditures and tax collections;
  - Establishing and disclosing sunset-clauses for all tax expenditures; and
  - Considering introducing a cap on the overall size of tax expenditures.

- **Recommendation 1.4. Improve the adherence to the timelines for the compilation, audit, and publication of audited financial statements by:**
  - Providing capacity building support to entities that have difficulty to complete the compilation of their financial statements in a timely manner;
  - The NT, provincial treasuries, and municipal councils enforcing the deadlines for the compilation and submission of individual financial statement in line with the legal provisions;
  - AGSA to further improve the adherence to the timeliness of completion of audits; and
  - Considering publication of provisional data, pending the completion of final audits.

- **Recommendation 1.5. Further strengthen the historical revision policies and practices by routinely providing bridge tables to explain the difference between the old and new time series and its impact on the data.**

- **Recommendation 1.6. Improve the comparability of fiscal data by**:
  - Taking careful stock of all the differences between budgetary, statistical, and accounting data;
  - Eliminating all unnecessary remaining differences in the data;
  - Compile and present routinely a reconciliation between the budget data, statistical data, and financial accounts to users of the differences.

Table 1.6. Summary Evaluation: Fiscal Reporting

	Principle	Assessment	Importance	Recs
1.1.1	**Coverage of Institutions**	**Good:** Consolidated general government is reported in fiscal statistics, but fiscal reports do not extend to the consolidated public sector.	**Medium:** Excluding large financial public corporations from fiscal statistics results in 40 percent of PS liabilities not reported in fiscal statistics.	**1.1**
1.1.2	**Coverage of Stocks**	**Good:** Fiscal reports include most financial assets and liabilities. Non-financial assets are not fully covered.	**Medium:** Significant stock (92 percent of GDP) of mineral and energy resources are not included in the balance sheet.	**1.2**
1.1.3	**Coverage of Flows**	**Basic:** Fiscal reports are primarily on a modified-cash or cash basis.	**Medium:** Accrual reporting allows more accurate reconciliation of changes in balance sheets.	**1.2**
1.1.4	**Coverage of Tax Expenditures**	**Good:** Historical and sectoral analysis of tax expenditures by type is performed. There are no controls over tax expenditure, nor public discussion.	**High:** In 2020/21 revenue of almost 5 percent of GDP was forgone through tax expenditures.	**1.3**
1.2.1	**Frequency of In-Year Reporting**	**Advanced:** Monthly reports on national government revenue, expenditure, financing and debt are published within 30 days after the end of the month.	**Low:** Key information is made available in a timely manner.	
1.2.2	**Timeliness of Annual Financial Statements**	**Good:** Audited financial statements are published within 9 months.	**High:** Only 41 percent of audits performed during fiscal year 2021/22 were conducted in the legislated timelines.	**1.4**
1.3.1	**Classification**	**Advanced:** Fiscal reports include administrative, economic, functional and program classifications.	**Low:** Fiscal reports present information with clear classifications.	
1.3.2	**Internal Consistency**	**Advanced:** Fiscal reports include reconciliations of fiscal balance and financing debt ownership and financing and the change in debt.	**Low:** Reconciliations allow inconsistencies in data to be identified.	
1.3.3	**Historical Revisions**	**Good:** Major revisions to GFS data are reported and explained by SARB and StatsSA. A bridge table between the old and new data is not provided.	**Low:** Knowledge about the magnitude and frequency of fiscal revisions could be used to gauge data accuracy and reliability.	**1.5**
1.4.1	**Statistical Integrity**	**Advanced:** Fiscal statistics are compiled by independent and professional SARB and StatsSA.	**Low:** SARB and StatsSA are able to perform their functions independently.	
1.4.2	**External Audit**	**Basic:** Annual financial statements are subject to a published audit by AGSA, which validates their reliability.	**Medium:** Material irregularities are often found in audit reports. In 2021/22 327 MIs were found.	**1.4**
1.4.3	**Comparability of Fiscal Data**	**Basic:** Budget is comparable with budget execution reports. Reconciliations with financial statements and statistics are not made.	**High:** Lack of comparability of budget with financial statements and statistics hinders understanding of users and does not give assurance of quality.	**1.6**

LEVEL OF PRACTICE	RATING			
	Not Met	Basic	Good	Advanced

LEVEL OF IMPORTANCE	RATING		
	High	Medium	Low

II. FISCAL FORECASTING AND BUDGETING

54. Budgets and their underlying fiscal forecasts should provide a clear statement of the government's budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances. It is important that fiscal forecasts and budgets have the following characteristics:

- Are based on credible projections of macroeconomic developments;
- Provide comprehensive information on the government's fiscal objectives and budgetary plans, facilitate policy analysis and accountability;
- Gives the legislature enough time to scrutinize and approve the plans before the budget year begins.

55. South Africa's strong reputation for budget transparency is well deserved. The availability, quality and accessibility of budget information follow many principles of advanced practice. The Budget Review and Medium-Term Budget Policy Statement are well explained and rich in detail. Budget documents are readily available, going back 30 years, and other presentations, such as the People's Guide, the Budget Highlights, and the Vulekamali portal, make the budget accessible to a broader audience. This is consistent with the findings of the Open Budget Survey, which ranks South Africa as second in the world for transparency. Performance information is abundant, although almost to the point of becoming overwhelming for users.

56. However, the credibility of the fiscal framework has been undermined by biases in forecasting and a lack of accountability to clear fiscal objectives. While South Africa has a strong record of delivering credible aggregate expenditure against medium-term plans, these plans have been predicated on returning to higher levels of economic growth, and in turn stronger revenues. As government's Medium-Term Expenditure Frameworks have relied on optimistic growth projections which have consistently failed to materialize, plans to narrow the fiscal deficit have been derailed. This has led to debt rising in almost every year since 2009, in contradiction to the long-standing fiscal objective to stabilize debt. With bolstered capacity, the independent Parliamentary Budget Office and Financial and Fiscal Commission could play stronger roles in analyzing the credibility of the government's fiscal plans.

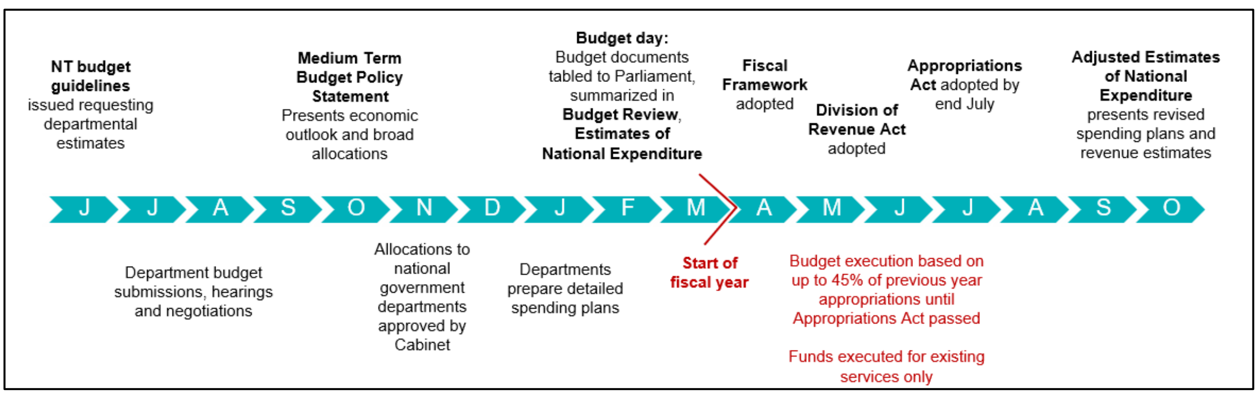
57. There is also a need to improve the effectiveness and transparency of the public investment management system and address significant deficiencies in public procurement. Full disclosure of total multi-year investment obligations and appraisals of major projects, prior to approval will support stronger budget decision making for public investment. More broadly, there is a need to review the effectiveness of the 4 percent of GDP spent on public investment, which could be supported by a Public Investment Management Assessment (PIMA). Significant deficiencies in public procurement continue to be raised by the independent reports (including the Zondo Commission) and the Auditor General. Addressing these issues are critical for both efficiency and the fight against corruption, for the approximately 10−15 percent of GDP that is procured publicly each year. Table 2.1 lists the key budget documents, and Figure 2.1 sets out the budget calendar for the national government. Municipal and provincial governments follow a separate timetable.

Table 2.1. List of Key Budget Documents (National Government)

Budget Document	Description	Timing of presentation
Medium-Term Budget Policy Statement (MTBPS)	Presents a macro-economic view by highlighting key government spending priorities and the size of the spending envelope for the next Medium Term Expenditure Framework (MTEF) period	October
Budget Review (BR)	The main presentation of the budget. Sets out budget narrative, economic outlook, and key policies underpinning the budget numbers.	February
Estimates of National Expenditure	Provides details of planned spending and service delivery commitments of all government votes, consistent with the BR.	February
Appropriation Bill	Legislation that provides for the appropriation of money by Parliament from the National Revenue Fund	February
Division of Revenue Act (DORA)	Legislation that provides for the equitable division of revenue raised nationally among the national, provincial and local government	February
Fiscal Framework	Framework for a specific financial year that gives effect to the executive's macro-economic policy. Includes projections for medium term.	February
Adjustments Appropriation Bill	Legislation that effects adjustments to the Appropriation Bill during the year	Usually October
Adjusted Estimates of National Expenditure	Provides details of revisions to spending plans the current financial year and revised spending and departmental revenue projections	October
Special Appropriation Bill	Appropriates an additional amount of money for the requirements of specific vote(s) for the current financial year.	Through year

Source: IMF mission staff

Figure 2.1. South Africa National Government Budget Calendar



Source: IMF staff

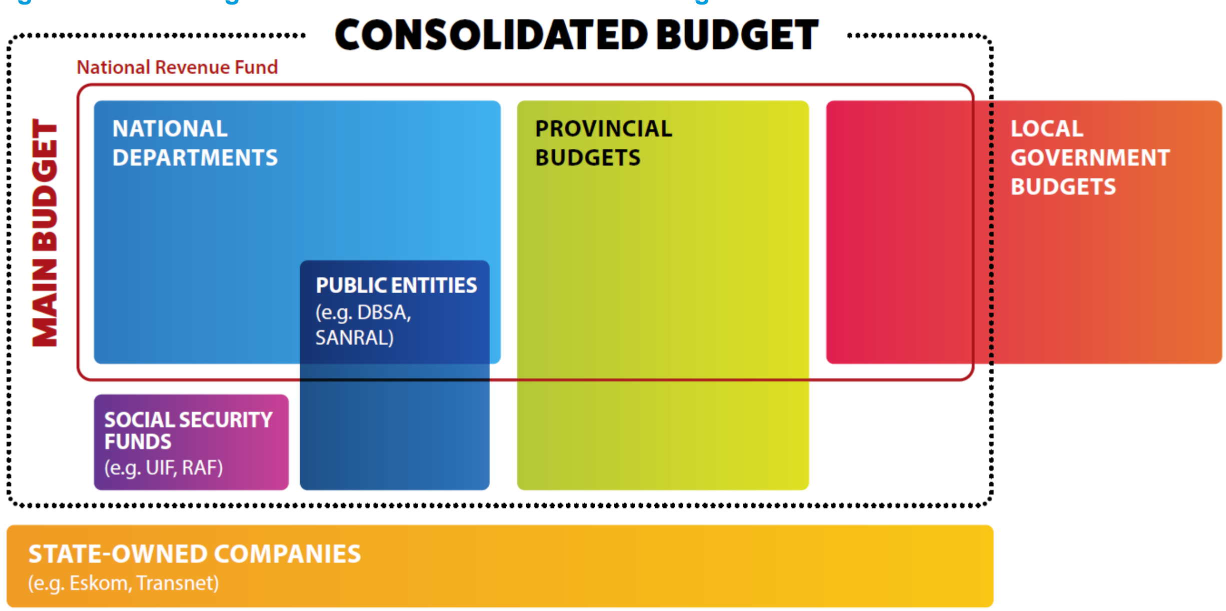
2.1. Comprehensiveness

2.1.1. Budget Unity (Basic)

58. The Budget documentation include the gross revenue, expenditure, and financing by budgetary central government, most extrabudgetary entities, social security funds, and provincial governments—the most notable omission is the tertiary education institutions that are not covered on a gross basis in the budget. The budget documentation makes a distinction between the Main Budget and the Consolidated Budget (see Figure 2.2). The Main Budget covers all expenditure financed from the National Revenue Fund. It covers most spending by national government departments and their agencies, and the transfer made to provincial and local governments. These transfers are made either as equitable shares of the national revenue pool, which can be used as the provinces and municipalities chooses, or a conditional grant, which can be used only for a particular purpose set by Parliament. Parliament votes on proposed appropriations for each government department, the exception being direct charges withdrawn from the National Revenue Fund in terms of the Constitution or separate legislation (for example the Eskom debt relief bill).

59. **The Consolidated Budget provides a broader view of the public finances in South Africa.** The Consolidated Budget includes the Main Budget and spending financed by sources other than the National Revenue Fund, such as taxes raised by provinces for their own use, and fees, charges and contributions raised by the other central government public entities. These additional revenues are largely funded through statutory levies or contributions. The Consolidated Budget includes public entities under the control of the government departments such as most extra-budgetary funds and social security funds. The Consolidated Budget excludes gross transactions of SOCs, such as Eskom and Transnet, in which government is the major or sole stakeholder, as well as local governments and tertiary educational institutions such as universities and vocational education and training (TVET) colleges. For these entities, the transfers of government to them are included in the budget, but their own source revenue and spending is not included in the budget.

Figure 2.2. Coverage of the Main and Consolidated Budget



Source: National Treasury, Budget Review 2022/23

60. **The significance of impact of tertiary educational institutions on government finances can be illustrated by their contribution to the GFS data for extrabudgetary units as published by the SARB and StatsSA.** According to the 2021 Financial statistics of higher education institutions published by StatsSA, approximately half of the operating revenue of higher education institutions were received from central government as grants while the other half were raised as fees. Together these receipts make up almost 30 percent of the receipts of extrabudgetary units as reported by SARB in the Quarterly bulletin. The omission of these higher education institutions therefore makes up a significant portion of the central government finances (see also paragraph 9).

2.1.2. Macroeconomic Forecast (Advanced)

61. **Forecasts of key economic indicators and their components are presented twice a year, with underlying assumptions.** The Medium-Term Budget Policy Statement (MTBPS), published six months before the end of the fiscal year, sets out the macro-fiscal framework underpinning the budget, and includes forecasts for the budget year, three outer years and outcomes for the three previous years. The BR, published 1−2 months before the end of the fiscal year, provides forecast revisions incorporating latest economic developments. Forecasts of GDP components from the expenditure side and production side and their underlying macroeconomic assumptions are presented, with narrative explanations of key sectoral outlooks supported by quantitative analysis. Alternative scenarios for economic growth providing upside and downside risk to the baseline forecast are briefly presented, and tailored to the economic conjuncture (for example, the 2020 downside risk scenario models additional waves of COVID-19). This analysis could be strengthened by expanding the implications, including fiscal impacts, of alternative scenarios.

62. **GDP forecasts have been persistently and substantially optimistic over the past decade.** Forecasts of GDP growth for the budget year are on average 0.5 percentage points higher than outturn for the past 10 years (Figure 2.3), rising to 1.6 and 2.3 percentage points in the second and third year of the MTEF respectively. While this may reflect a lengthy and unexpected economic slowdown since 2010, the persistent optimism has had significant implications for the Medium-Term Budget Framework (see Principle 2.1.3). Expenditure plans have been predicated on returning to higher levels of economic growth, and in turn stronger revenues. As government's fiscal plans have relied on optimistic growth projections which have consistently failed to materialize, plans to narrow the fiscal deficit have been derailed. As noted in the 2017 MTBPS, 'sustainable public finances require a significant acceleration of economic growth'. Undertaking ex-post analysis of forecasts errors, and comparisons with independent forecasts (see Principle 2.4.1), would help to strengthen the credibility and performance of economic forecasts.

Figure 2.3. Real GDP Forecast Error (percent)

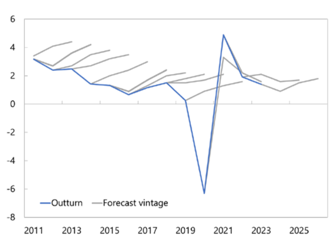
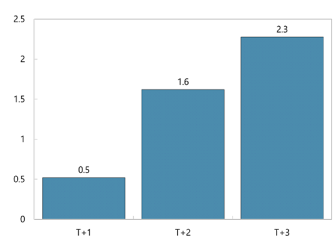


Figure 2.4. Average Absolute Forecast Error Real GDP (percent)



Source: National Treasury, IMF staff

2.1.3. Medium-term Budget Framework (Advanced)

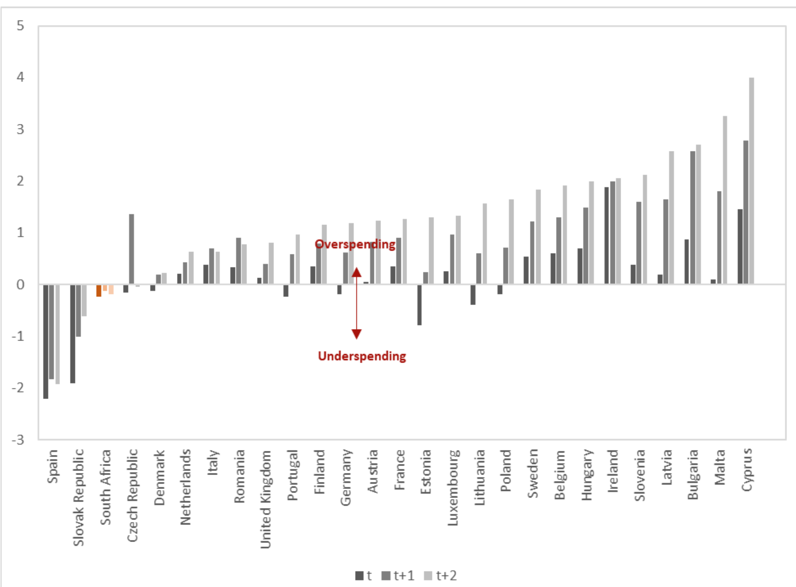
63. **Budget documents provide medium term forecasts of revenues, expenditure and financing over 3 years, estimates for the current year, and outturns for 3 previous years.** Consolidated expenditure is presented in the BR, by vote, function, and economic classification.[21] The ENE provide a

[21] As required by the Money Bills Amendment Procedure and Related Matters Act (2018)

more detailed breakdown of expenditure by vote, program, and sub-program, and covers the same planning window. BR and ENEs are published transparently and accessibly on the NT website from 1993, and South Africa's MTBF framework has been in place since 1997.

64. South Africa has a strong record of delivering credible aggregate expenditure against medium-term plans, although persistent revenue optimism has translated to missed deficit targets. Over the past 10 years, the budget has underspent by an average of 0.1 - 0.2 percent of GDP in each of the three years ahead relative to plans, this demonstrates the high level of credibility of aggregate expenditure over the medium term, comparing favorably against international comparators (see Figure 2.5). By contrast, revenue projections have demonstrated significant optimism, particularly in the outer years of the MTEF. On average, revenues have underperformed by 0.8 percent of GDP in the year ahead relative to forecasts, rising to 2.1 percent of GDP in the third year (see Figure 2.6). This could be in part driven by optimism in growth projections (see Principles 2.1.2 and 3.1.1). The fiscal deficit has shown significant slippage relative to forecasts, higher on average by 0.4 percent of GDP in the year ahead, rising to 1.9 percent in the third year ahead (Figure 2.7).

Figure 2.5. Cross-Country Comparison: Average Medium-Term Expenditure Forecast Error in Selected Countries (percent of GDP)



Source: IMF staff, National Treasury Budget Reviews 2013−23

Figure 2.6 Revenue Forecast History
(percent of GDP)

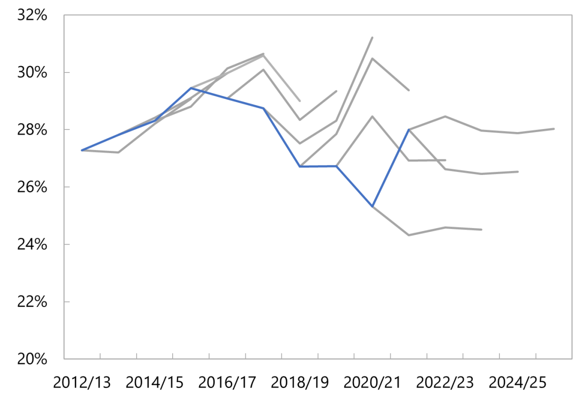
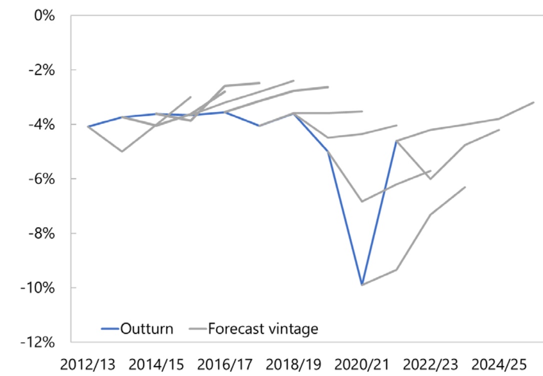


Figure 2.7. Fiscal Deficit Forecast History
(percent of GDP)



Source: National Treasury Budget Reviews 2013−23

65. A systematic analysis of underlying causes of revenue forecast errors should be undertaken and published. Reducing revenue forecast errors would strengthen the credibility of the fiscal framework and ensure that expenditure ceilings are consistent with the government's fiscal objective to stabilize debt. An analysis of the drivers of forecast errors would investigate the extent to which revenue underperformance is due to systematic errors in macroeconomic assumptions, policy costing errors, or modelling errors. This could be undertaken jointly between NT and SARS.

2.1.4. Investment Projects (Not met)

66. Cost benefit analysis is undertaken for major projects but are not systematically published prior to inclusion into the budget. The PFMA requires a system for properly evaluating all major capital projects prior to a major decision.[22] Major infrastructure projects above R1billion are submitted for consideration to the Budget Facility for Infrastructure (BFI). The BFI was set up in 2016 to support the execution of national priority projects and it establishes special procedures and criteria for committing budget resources to infrastructure spending. Submissions to the BFI require detailed appraisal, including options analysis, cost benefit analysis, and a risk statement. Appraisal guidelines are provided in the NT Infrastructure Planning and Appraisal Guideline. The BFI conducts independent appraisal and challenge, and the Government Technical Advisory Centre (GTAC) also provides analytical support to project sponsors, but these analyses are not made public.

67. Smaller projects have a less unified appraisal methodology. The NT Capital Planning Guidelines (2018) provides an overview of the types of analysis and encourages departments to have their own planning and appraisal processes. National departments use sector-specific appraisals, and provinces submitting capital projects to national departments are expected to follow these methodologies. However, there is no central standard-setting methodology at a high level, or challenge function for appraisals, unlike that for major projects.

[22] PFMA Section 32.

68. **SOCs are the largest investors in public infrastructure, making up a third of planned public investment over the 2023 MTEF period respectively.** Provinces and local government each make up about a fifth of planned public investment over the same period and are responsible for the majority of capital expenditures on major areas including health and education (Figures 2.8 and 2.9). This is consistent with the large amount of expenditure undertaken by sub-national government, as noted in Principles 1.1.1 and 3.3.1. National departments only directly implement six percent of infrastructure expenditure. Investment in transport, logistics and energy make up over 50 percent of total planned expenditure.

Figure 2.8. Public Sector Infrastructure Expenditure by Level of Government 2023/24 – 2025/26 (percent)

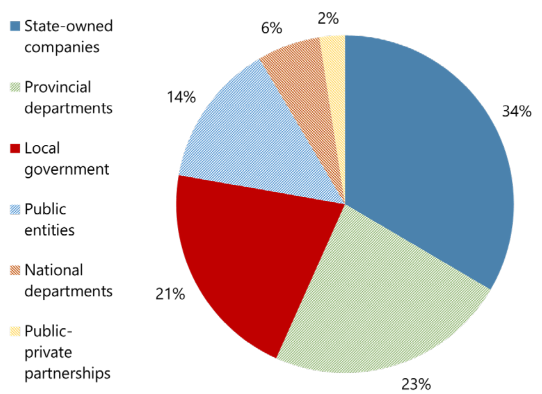
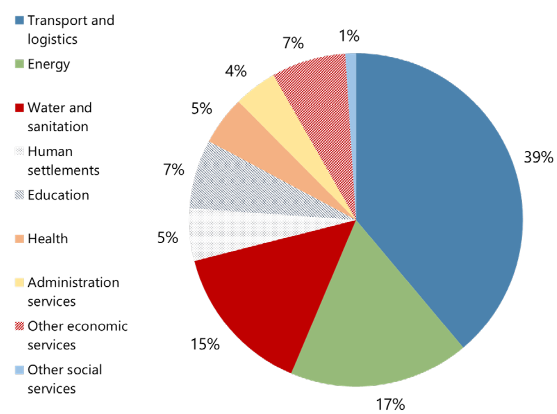


Figure 2.9. Public Sector Infrastructure Expenditure by Sector 2023/24 – 2025/26 (percent)



Source: Budget Review 2023

69. **Total public infrastructure spending plans by sector are presented in the budget, but total obligations for multi-year project costs are not disclosed.** Annexure D of the BR sets out infrastructure spending plans in a good level of detail, with explanations for major developments within sectors. However, the cost of multi-year projects are shown only for the 3-year MTEF horizon. Therefore, legislature does not have full information of project costs that span 4 years or greater. Under the Vulekamali initiative, approved projects can be viewed in more detail in the portal, including appropriated project costs, and progress in budget execution.[23] To support legislative oversight, budget documents should show total obligations of capital projects that extend beyond the 3-year MTEF.

70. **Open and competitive tender is required for procurement over R1 million.** The legislative framework for procurement is centered on the Preferential Procurement Policy Framework Act (2000) and Preferential Procurement Regulations (2022), and is overseen by the Office of the Chief Procurement Officer (OCPO) but is somewhat fragmented.[24] Procurements above R1 million are required to be tendered through an open and competitive process, and advertised centrally on the government E-tender portal.[25] Below this threshold, a Request For Quotations (RFQ) process is followed which does not

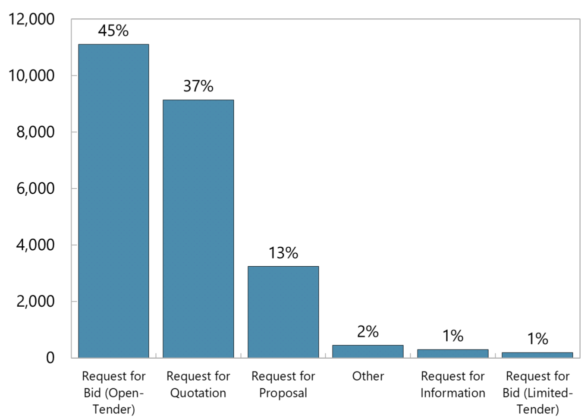
[23] https://vulekamali.gov.za/infrastructure-projects/

[24] The requirement of a procurement system that is "fair, equitable, transparent, competitive, and cost-effective" is set out in Constitution Section 217(1), and PFMA Section 51(a)

[25] https://www.etenders.gov.za/

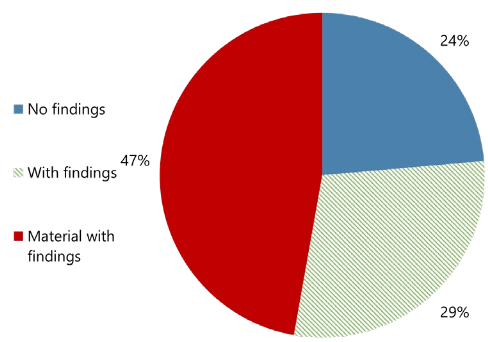
require open competition or use of the E-tender portal. Exceptions are permitted for framework agreements, and deviations from the above processes must be reported to the NT and AG. Documentation, TORs and awards for open tenders are published, and Open Contracting Data Standards (OCDS) were adopted in late 2022. Of 24,440 tenders published on the E-tender portal, only one percent were listed as limited tender (see Figure 2.10). However, there were 2,555 deviations and contract expansions in 2022/23, with deviations amounting to some R12 billion, and expansions worth R162 billion (nearly 3 percent of GDP).[26] Of the contract expansions, nearly 50 percent was due to Eskom, with cited reason as 'poor planning'.

Figure 2.10. Number of Published Tenders 2022/2023



Source: Office of the Chief Procurement Officer

Figure 2.11. Findings of Uncompetitive or Unfair Procurement Process in Municipal Audits 2020−21



Source: Auditor General, IMF mission

71. Significant deficiencies in procurement have been identified by successive independent reports. Open Reports from the Commission of inquiry in allegations of State Capture (2022) have illustrated how the preferential procurement system has been used as an avenue for corruption, state capture, and rent seeking. A 2020/21 Auditor General report shows findings of 'uncompetitive or unfair procurement process' in 76 percent of municipal audits (Figure 2.11), see also Principle 1.4.2.[27] Issues from the Supply Chain Management Review of 2015, which highlighted insufficient publication of bid documents, and lack of scrutiny of the bid evaluation process, are still being addressed. A 2023 IMF Selected Issues Paper on procurement provides an overview of key challenges in the procurement system and highlights the need for simplification and standardization of processes.[28] A draft Procurement Bill being considered is seeking to address some of these issues, including by standardizing the framework for procurement and preferential procurement across public entities. Procurement issues could be further examined through conducting an IMF Public Investment Management Assessment (PIMA).

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[26] http://ocpo.treasury.gov.za/Suppliers_Area/Pages/Deviations-and-Exspansions.aspx

[27] Auditor General South Africa. 2021. "2020–21 Citizens Report", Annexure 2: Auditees' financial health indicators, supply chain management findings and root causes.

[28] Simone, Alejandro and Balasundharam, Vybhavi, 2023. "Public Procurement in South Africa: Issues and Reform Options" IMF Selected Issues Paper (SIP/2023/041).

2.2. Orderliness

2.2.1. Fiscal Legislation (Advanced)

72. The legal framework determines the timetable for the preparation and approval of the budget, the key content of the budget, as well as the powers to amend the budget. Chapter 4 of respectively the PFMA, and the MFMA governs the budgetary processes. These acts are further supplemented with the Money Bills Amendment Procedure and Related Matters Act of 2009, and Treasury Regulations. The legal framework is further supported by the Annual DORA and the Annual Revenue Amendment Act which specifically regulate grants to other levels of government and taxes.

73. The timetable for the preparation and approval of the budget of the national government and provincial governments is set by Section 27 of the PFMA. The PFMA requires that the Minister must table the national annual budget for a financial year in the National Assembly before the start of that financial year or, in exceptional circumstances, on a date as soon as possible after the start of that financial year, as the Minister may determine (see Principle 2.2.2). Section 29 of the PFMA then indicates that if an annual budget is not passed before the start of the financial year to which it relates, funds may be withdrawn from the relevant Revenue Fund as a direct charge against the Fund until the budget is passed. For national government these withdrawals:

- may be utilized only for services for which funds were appropriated in the previous annual budget or adjustments budget; and
- may not (i) during the first four months of that financial year exceed 45 percent of the total amount appropriated in the previous annual budget; (ii) during each of the following months, exceed 10 percent of the total amount appropriated in the previous annual budget; and (iii) in aggregate, exceed the total amount appropriated in the previous annual budget.

74. The Member of the Executive Council for finance in a province must table the provincial annual budget. It is required that the provincial budget is tabled in the provincial legislature not later than two weeks after the tabling of the national annual budget. The Minister of Finance may approve an extension of time for tabling the provincial budget. Section 29 of the PFMA does not apply in respect of provinces unless a provincial act provides that a withdrawal of funds in terms of that section of the PFMA is a direct charge against the provincial revenue fund. For example, the Western Cape legal provisions allow a withdrawal of 33 percent of the previous annual budget for the first four months.

75. For local governments, Section 16 of the MFMA regulates municipal budgets. The MFMA requires that the council of a municipality must approve an annual budget for the municipality before the start of the financial year. Local government financial year differ from that of the national and provincial governments—their budget year starts on July 1. For municipalities to comply with this requirement, the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the financial year.

76. The PFMA and MFMA also set out the key content requirements for the budget. Section 27 (3) determines that an annual budget must be in accordance with a format as may be prescribed (by the respective treasuries) but must at least contain estimates of all revenue, all expenditure (including interest, debt service payments, capital expenditure, standing appropriations, and direct charges against the revenue fund), financing proposals and impact of borrowing on debt or liability. The law also requires that the updated projected revenue, expenditure and borrowing of the year preceding the budget year be included and any other information that may be required, including multi-year budget information. In addition, when the annual budget is introduced in the National Assembly or provincial legislature, the accounting officer for each department must also submit measurable objectives for each main division within the departments' vote. Section 17 of the MFMA set similar requirements for municipal budgets and determine additional documentation that should accompany municipal budget, for example, projections of cash flows for the year and amendments to the municipality's integrated development plan, among others.

77. The powers to amend the budget after it was approved are limited in the law, and changes to the budget are allowed only by means of an adjustments budget or virements between main divisions within votes. Section 16 of the PFMA authorize the Minister of Finance to use funds from the National Revenue Fund for emergencies that are exceptional in nature and that cannot be postponed.[29] These amounts may not exceed two percent of the total amount appropriated in the budget for the current financial year. Section 30 of the PFMA allows the minister to table an adjustments budget in the National Assembly when necessary. The law stipulates the conditions under which an adjustments budget may be tabled. Section 31 makes similarly provisions for an adjustments budget for provincial governments and the conditions under which this can be tabled (see Principle 2.4.2). In-year, an accounting officer for a department may also utilize a saving under a main division within a vote towards the defrayment of excess expenditure under another main division within the same vote, unless the relevant treasury directs otherwise. Such virements may not exceed eight percent of the amount appropriated under that main division. The law prohibits such virements in the following cases: (i) an amount specifically and exclusively appropriated for a purpose mentioned under a main division within a vote; (ii) an amount appropriated for transfer to another institution; and (iii) an amount appropriated for capital expenditure in order to defray current expenditure.

2.2.2. Timeliness of Budget Documents (Not met)

78. The national budget is introduced to the legislature within two months before the start of the fiscal year but it is passed several months after the start of the fiscal year. The Appropriations Bill, accompanied by the BR and ENE, is presented to the legislature in February, ahead of the fiscal year ending March 31. The Parliamentary process to pass the related legislation then is as follows.[30] The Fiscal Framework, which sets out the government's proposed macroeconomic policy including aggregate revenue, expenditure and borrowing, must be tabled within 16 days of the budget being tabled. The Division of Revenue Bill, introduced at the same time as the Appropriations Bill, sets allocations between national, provincial, and local levels of government. This must be passed within 35 days of the adoption of the fiscal framework. The Appropriations Bill is required by law to be passed by July 31, four months after

[29] Over the last 10 years it was used in 2017 to deal with South African Airways debt obligations and in 2021 to deal with Covid-19 related expenditure.

[30] The Money Bills Amendment Procedure and Related Matters Act, 2000.

the start of the fiscal year, and enables funds to be executed. The list of relevant budget documents is shown in Table 2.1. and timeline in Figure 2.1.[31]

79. This does not meet the basic practice of the FTC of approving the budget before the beginning of the financial year. In lieu of an approved budget, the expenditures for the first four months of the fiscal year are constrained as set out in Principle 2.2.1. Furthermore, while changes to tax and revenue policies are enacted from the start of the fiscal year, the relevant bills are tabled only in October and passed in the following January, through the Taxation Laws Amendment Bill, Rates and Monetary Amounts and Amendment of Revenue Laws Bill. In principle, delaying the implementation of the budget well into the fiscal year can create uncertainty and disruption, particularly if there are significant changes by the legislature.

80. In practice, disruption is limited because the budget is almost always approved with no amendments. South Africa has maintained this process for decades, and budget users have a reasonable level of certainty before the budget is approved. The MTBPS, which is presented in October (required at least 3 months before the budget is tabled in February), contains near-final expenditure ceilings for departments, provinces, municipalities, and other entities. When the budget is tabled in February, the legislature has relatively limited powers of amendment, as currently, the executive, which formulates the budget, is also member to the majority party in the Parliament. Should this situation change, for example due to formation of a coalition government, amendments to the budget after it is tabled could lead to greater disruption.

2.3. Policy Orientation

2.3.1. Fiscal Policy Objectives (Not met)

81. South Africa does not have a numerical or time bound fiscal objective. Set out in the 2022 MTBPS, South Africa's fiscal strategy aims to 'achieve fiscal sustainability by narrowing the budget deficit and stabilizing debt'. However, this aim is vague and therefore difficult to assess whether it is achieved over the forecast period. According to the 2023 BR, public debt as a share of GDP continues to rise every year of the MTEF period, falling only after end of the three-year projection period.

82. Fiscal strategy has been guided by broad aims which have changed over recent years and have not stabilized debt. Since 2020, the Medium-Term Budget Policy Statement (MTBPS) has stated commitments to stabilizing the debt to GDP ratio (Table 2.2). However, debt as a share of GDP as continued to increase over the past decade and a half (Figure 2.12). In 2019, a target was proposed to reach a main budget primary balance, excluding financial support for Eskom, by 2022/23, although this was set prior to the onset of COVID-19.

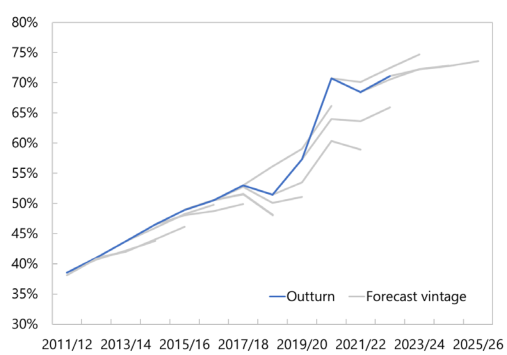
[31] Municipal budgets follow a different procedure from the national budget process.

Table 2.2. Selected Statements Relating to Fiscal Objectives in MTBPS 2017−23

2022 MTBPS	"The medium-term fiscal strategy prioritizes…achieving fiscal sustainability by narrowing the budget deficit and stabilizing debt"
2021 MTBPS	"Government remains committed to reducing the budget deficit and stabilizing the debt-to-GDP ratio" "The main budget expenditure ceiling provides an upper limit within which departments prepare their budgets. The ceiling has anchored fiscal policy since the 2012 Budget"
2020 MTBPS	"Government remains committed to closing the budget deficit and stabilizing the national debt-to-GDP ratio" "The main budget expenditure ceiling provides an upper limit within which departments prepare their budgets. The ceiling has anchored fiscal policy since the 2012 Budget"
2019 MTBPS	"Government is proposing a fiscal target: a main budget primary balance, excluding financial support for Eskom, by 2022/23" "The main budget expenditure ceiling provides an upper limit within which departments prepare their budgets. The ceiling has anchored fiscal policy since the 2012 Budget"
2018 MTBPS	"The main budget expenditure ceiling, which includes the contingency reserve, has anchored fiscal policy since the 2012 Budget" "Government is maintaining its commitment to fiscal sustainability and debt stabilization without introducing fiscal measures that could limit growth."
2017 MTBPS	"A presidential task team is considering a range of steps to bring the public finances back onto a sustainable path. Announcements will be made at the time of the 2018 Budget." 'More fundamentally, sustainable public finances require a significant acceleration of economic growth.

Source: NT Medium Term Budget Statements

Figure 2.12. Debt Forecast History (Percent of GDP)[1]



Source: National Treasury, consolidated budget, IMF mission.
1/ Data on public debt and GDP are from NT budget documents

83. **Successive MTBPS' have also noted that expenditure ceilings have anchored fiscal policy since 2012.** While these ceilings have largely been respected (see Principle 2.1.3), this has not been successful in stabilizing public debt which has increased as a share of GDP in almost every year since 2009, rising from 27 percent of GDP to 71 percent of GDP between 2009 to 2022 (Figure 2.12).

84. **Setting clear fiscal rules that strike a balance between flexibility and credibility is a priority to anchor fiscal policy.** The government is considering alternative fiscal rules including a debt anchor. Given the uncertain macroeconomic juncture, it is important that such rules provide credibility, ensure

sustainability of public debt, while providing flexibility to respond to shocks.[32] Well-designed fiscal rules, if met, should ensure sustainability of the public finances. By contrast, the expenditure ceiling that the authorities have relied on to anchor fiscal policy, does not necessarily ensure fiscal sustainability even if complied with, particularly if revenues persistently underperform.

2.3.2. Performance Information (Advanced)

85. Results on selected performance indicators and targets are published in budget documents in the ENE for each policy area. Achievement against a selection of performance indicators for each vote are provided for the past three years, estimated performance for the current year, and targets for the three years ahead (about 5-10 key indicators for each department). A fuller set of performance indicators are provided in departmental Annual Performance Plans, at the program and sub-program level. Performance information is detailed, provided by program and sub-program, and linked to broader governmental priorities set out in the 5-year Medium Term Strategic Framework (MTSF). Indicators are used during budget negotiation to guide reprioritizations.

86. Performance information is linked to a comprehensive planning framework managed by the Department of Planning, Monitoring and Evaluation (DPME). The performance budgeting system was introduced in 2002 and is tied to the planning system which is guided by a number of key national, sectoral and provincial planning documents (see Figure 2.3). These plans are integrated to the National Development Plan 2030, and the MTSF which sets out 561 indicators across government, aligned with 81 outcomes and 7 priorities. All national, provincial and local government institutions must ensure that the National Development Plan priorities are reflected in their institutional Strategic Plans and Annual Performance Plans.

Table 2.3. Key Elements of the South Africa Planning Framework

Document	Planning horizon	Level	Purpose
National Development Plan (NDP) 2030	2012-2030	National	Long term plan to 'eliminate poverty and reduce inequality by 2030'
Medium Term Strategic Framework (MTSF)	5-year (current: 2019/20-2023/24)	National	Implementation plan of the NDP, aligned with government priorities. Sets out performance indicators.
Strategic Plan (SP)	5-year (current 2020/21-2024/25)	Departmental/ Provincial	Articulates strategy and interventions for delivering MTSF by sector and related performance targets.
Annual Performance Plan (APP)	Annual	Departmental/ Provincial	Reports on annual plan and performance against the SP

Source: Department for Planning, Monitoring and Evaluation; IMF staff

87. In practice, there are challenges to ensure that performance information is leading to sufficient accountability and guide budget decision making. While the planning and performance information framework is comprehensive, the very large number of indicators creates burdensome reporting requirements and monitoring of results. Some indicators are also set at a very operational level (such as number of reports finalized), rather than being strategic in nature. difficulties to understand the

[32] Caselli, Francesca, Hamid Davoodi, Carlos Goncalves, and others. 2022. The Return to Fiscal Rules. IMF Staff Discussion Note 2022/002.

meaning of indicators, the consistency of targets across years, and alignment between the budget and planning system. It is also not clear whether performance indicators' results are used sufficiently in the process of adjusting policies and setting budget allocations.

2.3.3. Public Participation (Advanced)

88. The government publishes accessible information on the Budget in various formats and provides opportunities for citizens to participate in deliberations throughout the budgetary cycle. The People's Guide to the Budget is published in all eleven official languages of the country. It summarizes the highlights of the Budget, provides a short description of what the budget is and how it is put together. It provides an overview of the economic conditions against which the budget is being tabled, including short articles on the main economic objectives of the government and infographics on the main sources of revenue and expenditure. It then continues to illustrate the implications for individuals.

89. In addition to the citizens guide, NT publishes various levels of detailed summaries of the budget to serve the information needs of various groups of people. For example, on the NT's website they publish a Budget Dashboard, Budget highlights document, and various sections of the budget aimed at informing the public. NT also hosts the Vulekamali and Municipal Money websites that facilitates a database with access to different levels of details of the respective budgets.[33] They also publish a Tax Pocket Guide which provides a summary of the most important information relating to taxes, duties, and levies for the year. In addition, a section on "Frequently asked questions" offers more details on the budget initiatives for which the public may need more information.

90. Various opportunities are spread over the budget cycle to enable individuals and groups of individuals' participation in the budget processes. Section 59 of the Constitution of South Africa requires that the National Assembly must facilitate public involvement in the legislative and other processes of the Assembly and their committees. It also requires that the National Assembly conduct its business in an open manner and that measures should be taken to regulate public access to all the work of the Assembly and its committees. Against this background Parliament has developed a Public Participation Model and a Public Participation Framework. These processes are managed through the Parliamentary Committees when they consider new legislation, including the Budget, MTBPS and Division of Revenue and tax laws.

91. Every citizen has a right to make inputs or proposals to the budget, when the MTBPS or the Budget are submitted for Parliament's consideration. Public participation is managed through various committees, such as the Appropriations Committee. Participants can make an input on the proposals that must then be considered by the committees. Committees send out invitations to interested parties and publishes advertisements in national and community newspaper, the Parliament's website and social media platforms inviting for inputs/comments. The committees compiles a report to Parliament for consideration with all the comments, any changes proposed to the budget and instructions to departments, usually as recommendations. A summary of the results of the hearings are included in the

[33] See https://vulekamali.gov.za and https://municipalmoney.gov.za

report to Parliament, listing the contributors, and their comments. The results of the hearing and the recommendation of the committee is also published.[34]

92. There are other initiatives to facilitate public participation in the budget. On the homepage of the NT, citizens and groups of stakeholders are invited to provide "Budget Tips" to the Minister of Finance, although information on the nature of the tips received and respective response are not published. The standard form requires the completion of personal information and then the tip can be provided for consideration. In accordance with Section 7(4) of the Money Bills and Related Matters Act (2009), the Minister of Finance is also required to publicly respond to recommendations made to them. The report includes a short description of the issue that was raised, and the steps taken to give effect to the recommendation or why it does not do so.

93. Additional opportunities for engagement with citizens are also facilitated by the South African Revenue Services (SARS) and the AGSA. After the minister has approved the publication of draft tax bills for public comment, these are placed on the NT and SARS websites. Invitations to comment on the bills are extended, and taxpayers and stakeholders are given 30 days to provide public comments on the bills. NT and SARS then conduct public workshops with the taxpayers and stakeholders to discuss public comments received. This is followed by the process of parliamentary consultations described above. In the case of AGSA, they also provide briefing to the parliamentary committees and engage with stakeholders through public lectures, discussions, and network opportunities, as well as through social media. They regularly conduct information-sharing workshops with stakeholder groups and reach out to professional and business associations, industry organizations, civil society organizations and institutions of higher learning.

94. In spite of these opportunities for public participation, civil society organizations continue to feel that more opportunities could be available, the timing of budget consultations could be improved, and their voice could be used more effectively.[35] While the parliamentary consultation processes work well, there is a general feeling that the effectiveness of public participation could be enhanced with more pre-budget consultations so that citizens have an opportunity to meaningfully influence budget decisions before these are proposed. In this regard, South Africa participated in a pilot of the Fiscal Openness Accelerator Project of the International Budget Partnership of the Global Initiative for Fiscal Transparency (GIFT) for two years between 2021 and 2022. The intervention was specifically designed to enhance pre-budget consultation. While responses to the initiative was limited, it nevertheless provided valuable opportunities for citizen engagement, and it was well received by CSO. During the pilot it also became apparent that efforts should be made to enhance budget literacy, clarify the role of treasury, and strengthen the engagement of other departments with the public. The pros and cons of the approach during the pilot should be carefully examined so that lessons learned can be used to formally set up more pre-budget consultations.

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[34] See https://pmg.org.za/tabled-committee-report/5405/ for an example.

[35] This view is also reflected in the OBI evaluation for South Africa that ranked South Africa at 14/100 in 2021. Although this is a relative low score it is 36 percent better than the average score. South Africa's rating corresponds to Limited participation and indicators very much focus on the effectiveness of participation, however, out of 120 countries surveyed, no country scores higher than 60, which corresponds to the lowest value for an *Adequate* rating. In contrast the FTE primarily measures the availability of opportunities for citizens to have a formal voice in budget deliberations.

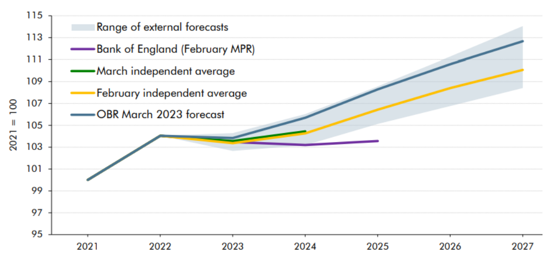
2.4. Credibility

2.4.1. Independent Evaluation (Not met)

95. Macro-fiscal forecasts presented in budget documentation are not compared to forecasts of other independent institutions. Including forecast comparisons of key economic indicators and high-level fiscal aggregates in the budget document with independent institutions such as SARB, IMF, World Bank, the African Development Bank, as well as reputable private institutions would provide valuable context and support credibility of the official forecasts. Box 2.1 shows an example of good practice in the UK.[36,37] Where official forecasts appear to be outliers relative to independent forecasts, these should be explained where possible, for example by comparing and justifying contrasting judgements of underlying macroeconomic assumptions.

Box 2.1. UK Example of Independent Evaluation of Forecasts and Fiscal Targets

OBR International Comparisons of Real GDP Growth and Assessment of Government Fiscal Objectives



		Per cent of GDP		£ billion	
		Forecast	Margin	Forecast	Margin
Change in public sector net debt (excluding the Bank of England) in 2027-28					
November 2022 forecast	Met	-0.3	0.3		9.2
March 2023 pre-measures forecast	Met	-0.5	0.5		14.5
March 2023 forecast	Met	-0.2	0.2		6.5
Memo: excluding fuel duty rises	*Met*	*-0.1*	*0.1*		*2.8*
Public sector net borrowing less than 3 per cent of GDP in 2027-28					
November 2022 forecast	Met	2.4	0.6	69.2	18.6
March 2023 pre-measures forecast	Met	1.4	1.6	41.1	46.9
March 2023 forecast	Met	1.7	1.3	49.3	39.2
Memo: excluding fuel duty rises	*Met*	*1.5*	*1.5*	*53.2*	*35.2*
Welfare cap: specified welfare spending in 2024-25					
November 2022 forecast	Met			148.8	0.6
March 2023 forecast	Not Met			150.6	-4.1

Source: IMF mission, UK Office for Budget Responsibility.

96. The independent Parliamentary Budget Office (PBO) and Financial and Fiscal Commission (FFC) undertakes some limited assessment of the government forecasts. Separate to official budget documentation, the PBO and the FFC publish comparisons of official forecasts of GDP growth with select independent forecasters (see Figure 2.13).[38] The PBO also produces and compares its own fiscal forecasts, which are constructed based on independent forecasters such as Reuters or Bloomberg, against NT forecasts (see Figure 2.1.3).[39] There is no underlying explanation of the reason for differences, and in recent years PBO fiscal forecasts have been significantly more optimistic than official forecasts. The PBO previously undertook forecast audits, but the last report was issued in 2018. The PBO does not assess the extent to which the government is meeting its fiscal objectives to stabilize debt, but has often issued opinions on whether the government's fiscal strategy is appropriate. The FFC provides in depth summaries of economic and budgetary developments, and provides recommendations on policy issues rather than evaluating the credibility of official forecasts or fiscal objectives. It also undertakes analysis and provides recommendations on issues that may put pressures on the fiscal

[36]https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1157160/_Independent_Forecasts_for_the_UK_Economy__May_2023.pdf

[37] . The Office for Budget Responsibility, the UK's independent fiscal council, regularly produces external comparisons of its forecasts and an assessment of the government's performance against its fiscal targets in the Economic and Fiscal Outlook (EFO). HM Treasury also publishes a monthly comparison of a wide range independent forecasts of the UK economy, of real GDP growth, its underlying components, and the fiscal balance.

[38] See for example, FFC: Submission on the 2023 Budget, Presentation on Appropriations Bill and Eskom Debt Relief 2023

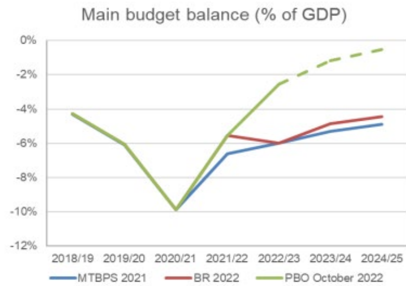
[39] See for example, PBO: Pre-MTBPS 2022 report.

framework, such as the risks from inflation and growth shocks, and from SOCs.[40] Table 2.4. summarizes PBO and FFC roles in assessing fiscal credibility.

Figure 2.13. PBO Comparisons of Official Forecasts

Table 5 South Africa revised economic growth outlook

GDP growth outlook - calender year*	2022	2023	2024
National Treasury - Budget 2022	2.1%	1.6%	1.7%
South African Reserve Bank - January 2022	1.7%	1.8%	2.0%
South African Reserve Bank - July 2022	2.0%	1.3%	1.5%
IMF - World Economic Outlook - January 2022	1.9%	1.4%	-
IMF - World Economic Outlook - July 2022	2.3%	1.4%	
Reuters Consensus Forecast - January 2022	2.0%	1.8%	2.0%
Reuters Consensus Forecast - August 2022	2.0%	1.5%	1.8%
*Growth projections correspond to publication date and not forecast date			
Data: National Treasury, South African Reserve Bank, IMF, Reuters			



Source: Parliamentary Budget Office: Pre-MTBPS report 2022

Table 2.4. Roles of PBO and FFC in Assessing Fiscal Credibility

	Mandate	Role in assessing government forecasts and fiscal objectives	Key budget publications
PBO	▪ Money Bills Amendment Procedure and Related Matters Act of 2009, Section 15. ▪ Supports Committees on Finance and Appropriations, providing advice and analysis on proposed amendments to the Fiscal Framework, Division of Revenue Bill, Money Bills and on policy proposals with budgetary implications	▪ External comparisons of growth forecasts ▪ Comparisons with own fiscal forecasts ▪ Provides opinion on appropriateness of government's fiscal objectives	▪ Pre-budget reports ▪ Appropriations Bill and DORA reports ▪ MTBPS reports ▪ Special Appropriations briefs ▪ Other special analyses on request of Committees
FFC	▪ Constitution of South Africa of 1996, Section 220. Reports to Parliament and Provincial legislatures. ▪ Must be consulted on financial matters, including equitable division of revenue.	▪ Explains budgetary and economics developments ▪ External comparisons of growth forecasts ▪ Provides policy recommendations	▪ Submission on MTBPS ▪ Submission on Budget ▪ Submission on the Division of Revenue ▪ Technical reports: submission for the division of revenues (special topics)

Source: IMF staff, PBO, FFC

2.4.2. Supplementary Budget (Advanced)

97. **Legislative authorization through an adjustments budget is required before substantive amendments to expenditure are made**. Virements between budget programs within a vote are limited to up to 8 percent of program allocation without requiring legislative approval. Furthermore, some additional approvals by accounting officers are required from the NT, for example, for transfers from capital to recurrent expenditure, or increasing personnel expenditure.[41] Larger virements, virements between votes, or increases to allocations require legislative approval through an adjustments budget, which helps to ensure the credibility of the approved budget. PFMA Section 16 permits the use of funds for emergency circumstances up to 2 percent of total appropriations without legislative approval, but this has only been used in a modest number of occasions in the past decade. Amendments to the PFMA is being considered, including a review of virement rules. This review should consider analysis of historic virements, and whether current rules strike the right balance of flexibility and parliamentary intention.

[40] FFC Technical Report, Submission for the Division of Revenue 2024/25

[41] Treasury Regulations 2005, Section 6.3, 6.6.

98. **There are two main ways that legislature approves changes to budget size and composition during the execution phase.** An Adjustment Appropriations Bill provides for changes that primarily relate to unforeseeable and unavoidable expenditures (for example, significantly higher inflation, or adverse weather conditions) and rollover of unspent funds from the previous fiscal year. Any such changes require justification, and are limited to reasons set out in PFMA Section 30. The Adjustment Appropriations Bill also allocates expenditure for announcements earmarked by the Minister of Finance during the budget speech that have not been fully elaborated. These have averaged 0.4 percent of appropriations in the past 10 years, although this has nearly doubled to an average of 0.7 percent in the past five years (Figure 2.14). There is usually one Adjustments Appropriation Bill each year, and the associated explanatory memorandum, the Adjusted Estimates of National Expenditure (AENE) is published in October.[42] Over the past 10 years, adjustment budgets have had modest aggregate expenditure impacts, increasing expenditure by 0.4 percent of appropriations on average (Figure 2.15).

99. **Other significant and specific events requiring appropriations are handled through Special Appropriation Bills, separately to the Adjustment Appropriations Bill.** In the past 10 years these have primarily provided transfers to troubled SOCs, as well as for the response to the unrest of July 2021. The size and number of Special Appropriation Bills has risen in recent years, and Eskom has received more than half the allocations in the past decade (Figure 2.14). On average Special Appropriations Bills have increased expenditure by 0.9 percent of total appropriations, more than double the size of the Adjustment Appropriation Bills. Taken together with the Adjustment Appropriations Bills, in-year adjustments increase expenditure relative to the initially approved budget by an average of 1.3 percent of total appropriations.

Figure 2.14. Expenditure Adjustment Through Adjusted Appropriations (share of total appropriations)

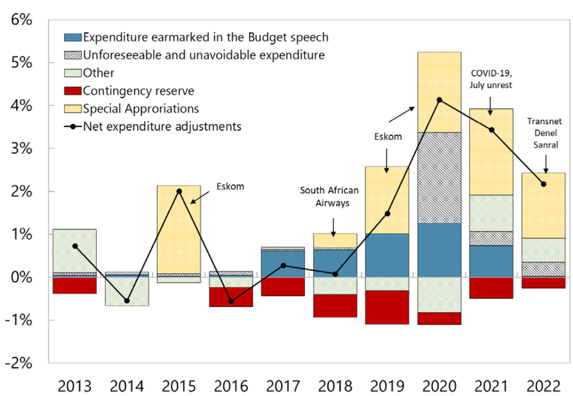
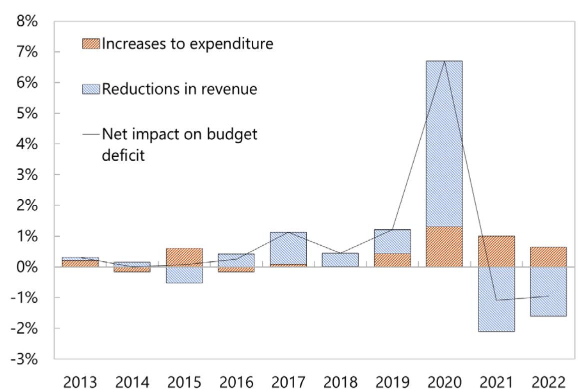


Figure 2.15. Expenditure and Revenue Adjustments Through Adjusted Appropriations (percent of GDP)



Source: NT Adjusted Estimates of National Expenditure (AENE)

100. **Adjustment budgets also reflect updated revenue estimates, which have on average seen downward revisions (Figure 2.15).** AENEs update estimates of revenue collection for the year, which on average have been revised downwards by 0.4 percent of GDP each October. This is consistent with the finding of Principle 2.1.3 on the Medium-Term Budget Framework, which shows persistent optimism in

[42] A second Adjustment Appropriations Bill in 2020 was enacted in response to COVID-19

revenue estimates. Therefore, while mid-year adjustment budgets tend to revise estimates of revenue down, they also increase expenditures, leading to an average worsening of the budget deficit by 0.8 percent of GDP.

2.4.3. Forecast Reconciliation (Good)

101. Budget documents present successive vintages of forecasts of revenue and expenditure, explaining impact of new policies, but effect of technical and accounting factors is not included. Chapter 3 of the BR shows comparisons of different vintages of forecasts of gross tax revenue and the implied buoyancies (Appendix VI). The impact of new tax policy measures for the budget year are presented separately in Chapter 4, including explanations for tax proposals. Reconciliation of expenditure estimates in Chapter 3 provides a breakdown by policy measure, and also includes sources of revision in the estimates of the previous year's spending. There is no explicit breakdown of changes due to technical and accounting factors.

102. Presentation of forecast reconciliations with the drivers of differences in government borrowing could improve credibility of budget forecasts. Presenting the different forecast reconciliations together for both expenditure and revenue would provide a more coherent and transparent view summary of the drivers of changes in successive borrowing forecasts. Drivers of changes could also be presented and classified between those due to policy changes, macroeconomic factors, technical factors (such as modelling changes), and accounting adjustments.

2.5. Recommendations

103. South Africa's fiscal forecasting and budgeting system is strong, but still there are areas for improvement. The efforts should be direct to improve the comprehensiveness of budget coverage, strengthen the credibility of the fiscal framework, improve the effectiveness of the public investment management system, and improve opportunities for public participation.

104. Based on the assessment (see Table 2.5), the evaluation highlights the following priorities for improving the transparency of fiscal forecasts and budgets.

- **Recommendation 2.1. Improve the budget unity by including information on the gross financial position of higher education entities in the budget.**

- **Recommendation 2.2. Improve the transparency of the public investment management system and address deficiencies in procurement by:**
  - Requiring that CBAs for major projects, already required for proposals through the BFI, are published and made readily accessible before being approved.
  - Undertaking a Public Investment Management Assessment (PIMA)
  - Conducting an assessment of the public procurement system against international standards using the Method of Assessing Procurement Systems Initiative (MAPS) tool and integrate key findings into draft Procurement Bill as necessary.

- **Recommendation 2.3. Bring forward the budget process for national government to ensure that the Budget is approved before the start of the fiscal year.**

- **Recommendation 2.4. Introduce numerical fiscal rules that are time bound, and stable over time by**
  - Undertaking a review of fiscal rules, considering appropriate balance of credibility, flexibility, and simplicity for South Africa.

- **Recommendation 2.5. Strengthen the effectiveness of formal opportunities for the public to participate in the budget process by:**
  - Analyzing the outcomes from the Fiscal Openness Accelerator Project pilot and developing a permanent forum to increase the opportunities to influence the budget.

- **Recommendation 2.6. Enhance the credibility of official forecasts by:**
  - Developing capabilities of PBO or FFC to independently assess performance against fiscal policy objectives and including comparisons of independent forecasts of economic and fiscal indicators into budget documents.

Table 2.5. Summary Evaluation: Fiscal Forecasting and Budgeting

	Principle	Assessment	Importance	Rec
2.1.1	**Budget Unity**	**Basic:** Budget documents include all central government units except tertiary education institutions under the control of government.	**Medium:** Tertiary educational institutions omitted from budget documents represent 30 percent of extra-budgetary institutions.	2.1
2.1.2	**Macroeconomic Forecasts**	**Advanced:** Forecasts of key economic indicators and their components are presented twice a year, with underlying assumptions.	**Medium**: Persistent forecast optimism. Absolute GDP forecast error is 0.5 percent points for budget year rising to 1.6 and 2.3 percent points for the two outer years.	
2.1.3	**Medium-term Budget Framework**	**Advanced:** Budget documents provide medium term forecasts of revenues, expenditure and financing over 3 years, estimates for current year and outturns for previous 3 years.	**Low:** Strong credibility of expenditure ceilings, averaging 0.1-0.2 percent of GDP underspend over the medium term, although revenues optimistic by average of 1.1 percent of GDP resulting in significant slippage in fiscal deficits.	
2.1.4	**Investment Projects**	**Not met:** Cost benefit analysis is undertaken for major projects but not systematically published. Significant deficiencies in public procurement	**High:** Independent reports highlight procurement deficiencies as avenue for rent seeking. Procurement around 10 percent of GDP.	2.2
2.2.1	**Fiscal Legislation**	**Advanced:** The legal framework determines the timetable for the preparation of the budget, key contents, as well as powers to amend the budget.	**Low:** Legal arrangements for timetables and rules for virements and adjustments are working.	
2.2.2	**Timeliness of Budget Documents**	**Not met:** The national budget is introduced to the legislature within 2 months of the end of the fiscal year but generally approved 4 months after the start of the fiscal year.	**Low:** Low risks of disruption to budget execution if legislature makes significant adjustments after start of fiscal year.	2.3
2.3.1	**Fiscal Policy Objectives**	**Not met:** South Africa does not have a numerical or time bound fiscal objective.	**High:** Public debt as a percent of GDP has risen almost every year since 2009, rising from 28 percent to 71 percent GDP in 2022/23	2.4
2.3.2	**Performance information**	**Advanced:** Results on selected performance indicators and targets are published in budget documents in the ENE for each policy area.	**Low:** MTSF sets out 561 indicators across government, aligned with 81 outcomes and 7 priorities. Some challenges in usability of information.	
2.3.3	**Public Participation**	**Advanced:** Various documents published to support accessibility to the public. Some opportunities for the public to participation in the budget.	**Medium:** Timing of budget consultations could be improved to facilitate input into budget proposals.	2.5
2.4.1	**Independent Evaluation**	**Not met:** Macro-fiscal forecasts presented in budget documentation are not compared to the forecasts of other independent institutions.	**High:** Fiscal deficit higher than forecast on average by 0.4 percent of GDP in the year ahead, rising to 1.9 percent in the third year ahead.	2.6
2.4.2	**Supplementary Budget**	**Advanced:** Legislative authorization through an adjustments budget is required before substantive amendments to expenditure are made.	**Low:** Adjustment budgets deteriorate fiscal balance by 0.8 percent of GDP on average	
2.4.3	**Forecast Reconciliation**	**Good:** Budget documents present successive vintages of forecasts with differences due to new policies explained.	**Low:** Changes to forecasts of revenues should be explained by macroeconomic factors.	

LEVEL OF PRACTICE	RATING			
	Not Met	Basic	Good	Advanced

LEVEL OF IMPORTANCE	RATING		
	High	Medium	Low

III. FISCAL RISKS

105. **Governments should disclose, analyze, and manage risks to public finances and ensure effective coordination of fiscal decision-making across the public sector.** This chapter assesses the quality of South Africa's fiscal risks analysis, management, and reporting practices against the standards set by three dimensions of the IMF's Fiscal Transparency Code:

- General arrangements for the disclosure and analysis of fiscal risks;
- The reporting and management of risks arising from specific sources, such as government contingencies and guarantees, public private partnerships (PPP), and the financial sector; and
- Coordination of fiscal relations and performances between central government, provincial and local governments, and PCs (referred to as state owned companies, or SOCs in South Africa).

106. **South Africa discloses information on fiscal risks in a number of fiscal reports that are regularly published (Table 3.1).** A Fiscal Risk Statement (FRS) is published as an Annexure to the MTBPS. Other information relevant to fiscal risk reporting is disclosed annually in reports such as the Consolidated Financial Statements of the State and Annual Estimates of National Expenditures. SARB, sector Departments, and AGSA also provide information to the NT on fiscal risk analysis.

Table 3.1. South Africa: Selected Government Reports Relevant to Fiscal Risks

Report	Related Risks and Issues	Author
Fiscal Risk Statement, as part of the MTBPS	Macroeconomic risks, main specific risks	NT
Annual Budget Review	Contingent liabilities, specific fiscal risks	NT
Financial Stability Report	Main risks and vulnerabilities to the financial stability	SARB

Source: IMF staff

107. **Analysis and disclosure of fiscal risks varies among the risk categories, with only two principles meeting the advanced level of risk disclosure—financial sector and sub-national governments.** The NT performs comprehensive analysis on most risk categories covered by this assessment, however, their disclosure was not consistent over time with some risk categories no longer covered in the most recent annual FRS.[43] Significant amount of information to support the fuller disclosure of fiscal risks is available in various NT documents, however, such fragmented information is difficult to piece together. By 2022/23, the FRS has become rather brief and omits sufficient level of detail on the largest categories of specific risks, or discussion of the emerging issues such as environment and climate change.

[43] Certain categories of risk analysis and disclosure were excluded for brevity. The most complete analysis was published as follows: (i) SOCs – in 2020 Budget Review; (ii) scenario-based macroeconomic forecast – in 2019 FRS (as part of MTBPS). Disclosure on natural resources reserves (see Principle 3.2.6) had stopped in 2017.

108. Macroeconomic shocks are a moderate source of fiscal risks for the South African economy. The NT regularly performs and publishes alternative macroeconomic scenarios and their fiscal impacts, based on emerging risks such as further waves of COVID-19, and continued challenges from the energy sector ("loadshedding"). Sensitivity of debt and debt service costs to changes in GDP, inflation, and exchange rates are presented in the BR. However, the detailed analysis seems more focused on direct impacts on the debt portfolio and less on more general impacts of economic changes on government revenue and expenditure. Revenues are more volatile than GDP growth (Principle 3.1.1) and have responded more than proportionately to changes in economic performance.

109. SOCs are identified by the NT as the largest source of contingent liabilities and a major risk category, but it lacks sufficient level of disclosure in the FRS. Regular assessment of the largest SOCs is performed by the NT and the sector Departments, but this information is fragmented and does not show the net impact of SOCs on the public finances. It is useful to compile and publish regular aggregated report on all SOCs in state ownership, including summary of all transfers between SOCs and the government in one document, to demonstrate the net fiscal effect of SOCs on the budget. Such analysis could also be supplemented with the stress testing exercise on major SOCs, such as Eskom and Transnet, to preempt crisis situations and reduce the risks of continuous bailouts.[44] Governments should disclose, analyze, and manage risks to public finances and ensure effective coordination of fiscal decision-making across the public sector. This chapter assesses the quality of South Africa's fiscal risks analysis, management, and reporting practices against the standards set by three dimensions of the FTC.

3.1. Risk Disclosure and Analysis

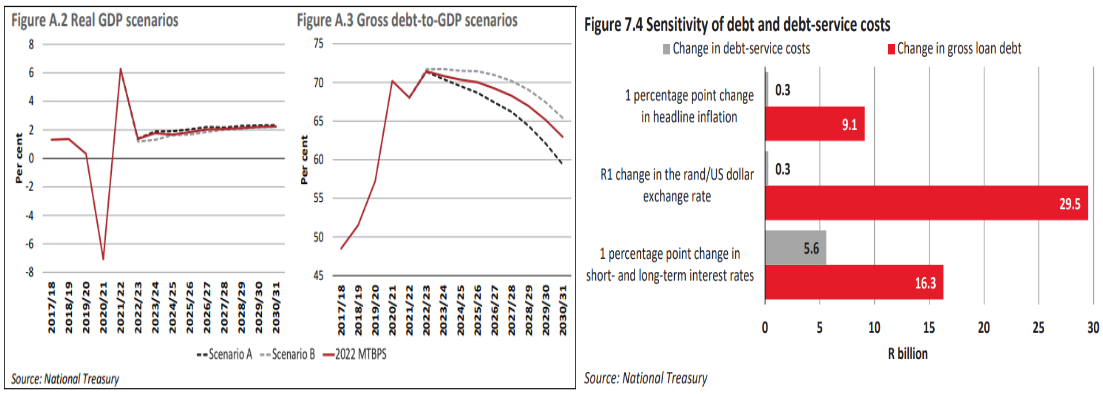
3.1.1. Macroeconomic Risks (Basic)

110. Budget documents present macroeconomic and fiscal scenario analysis but sensitivity analysis is focused on the debt portfolio and could be expanded to broader fiscal aggregates. The MTBPS Fiscal Risk Statement (FRS) presents alternative macroeconomic scenarios and their fiscal impacts (Figure 3.1). These scenarios are based on emerging risks such as further waves of COVID-19, and continued challenges from the energy sector ("loadshedding"). The identification of situationally relevant scenarios is useful, although more detailed explanation of how the scenarios are calibrated, underlying economic assumptions, and key transmission channels to the economy and fiscal aggregates, would greatly improve the analysis. Furthermore, the analysis should indicate the impact of different scenarios on government's fiscal objectives, and the sensitivity of fiscal forecasts to major macroeconomic assumptions. Sensitivity of debt and debt service costs to changes in GDP, inflation, and exchange rates are presented in the BR. However, it is not clear whether the more general impacts of economic changes on government revenue and expenditure, and the resulting public debt dynamics have been captured or in some cases whether the shocks simulated are severe enough to constitute realistic adverse scenarios.

[44] Please refer to the IMF Fiscal Risks Toolkit that includes SOE Health Check Tool and SOE Stress Test Tool, among others: https://www.imf.org/en/Topics/fiscal-policies/Fiscal-Risks

111. **A Fiscal Risk Committee (FRC) coordinates identification and management of key fiscal risks in the NT.** The committee produces internal fiscal risk briefs, and comprises officials from Economic Policy, Budget Office, Intergovernmental Relationships, Public Finance, Assets and Liability Management, and GTAC.

Figure 3.1. 2022 MTBPS and 2023 BR Macroeconomic Risks Analysis Example



Source: 2022 Medium-Term Budget Policy Statement and 2023 Budget Review

112. **Macroeconomic shocks have been a moderate source of fiscal risks for South Africa with volatility of economic growth lower than in comparator countries (Figure 3.2).** As an open and globally integrated economy, South Africa has faced shocks from global energy and food prices, tightening financial conditions and the COVID-19 pandemic in recent years. While the historic volatility of nominal GDP growth is lower than other countries (Figure 3.2) (nominal GDP growth has fallen negative only once in the past 30 years), South Africa faces significant macroeconomic risks, including the intensification of electricity shortages, an abrupt global slowdown, deepening geo-economic fragmentation, and worsening energy and food price volatility. South Africa has also faced a steady decline in real growth since 2010, owing to long standing structural impediments such as product and labor market rigidities, human capital constraints and energy shortages. Post-COVID growth prospects remain highly uncertain.

113. **Revenues show relatively high sensitivity to GDP volatility, posing potential fiscal risks** (Figure 3.3). Revenues have responded more than proportionately to changes in economic performance (average elasticity of 1.6 between 2001 and 2022). This amplifies the impact of economic shocks on fiscal sustainability and highlights the importance of detailed macroeconomic risk analysis.

Figure 3.2. Volatility of GDP Growth and Revenue (percent)

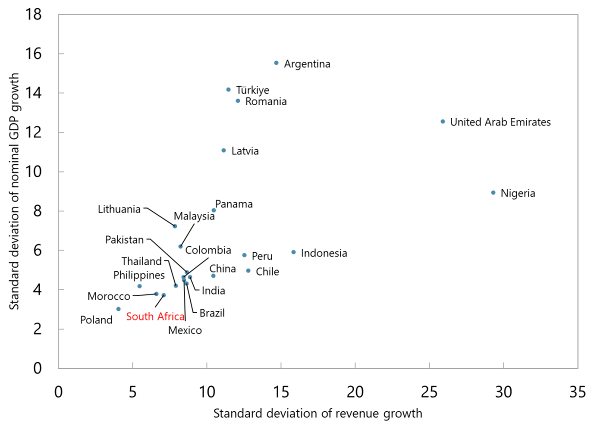
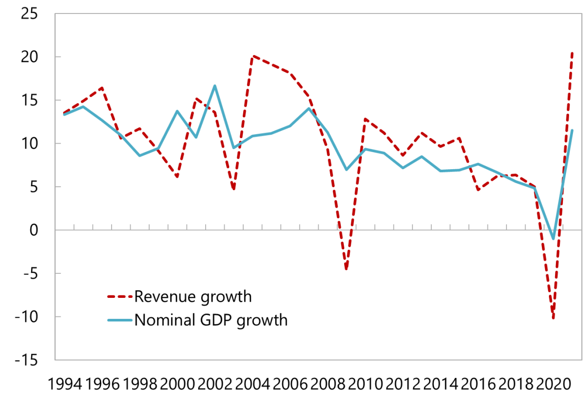


Figure 3.3. Nominal GDP and Revenue Growth (percent, 1994-2021)



Source: IMF World Economic Outlook

3.1.2. Specific Risks (Good)

114. The NT regularly discloses, in addition to macroeconomic risks, main categories of specific fiscal risks, their magnitude and potential mitigation measures, but lacks discussion on the likelihood of their materialization. The FRS discusses the main categories of fiscal risks and contingent liabilities identified by the NT. Such major categories include government guarantees provided to state-owned companies (SOC), issued under the Renewable Energy Independent Power Producer Program, public-private partnerships, and obligations to the Road Accident Fund (RAF), Unemployment Insurance Fund, other social security funds. Detailed discussion on these main categories of risks is also included in the dedicated chapters of the Annual BR.[45] Main categories of specific risks identified by the Government, are listed in Table 3.2.

115. Financial condition of SOCs and the contingent liabilities they pose to the public finances are identified as the main sources of fiscal risks by the NT.[46] The coverage and complexity of the SOC's financial assessment is focused on the largest entities and discusses the main factors that already have or may impact their viability in the future. The analysis quantifies the SOCs' existing and potential liabilities and specifies the size of contingent liabilities for the government.[47] Second group of contingent liabilities identified by the National Treasury include liabilities of the Road Accident Fund that provides compensation to road users for losses or damages caused by road accidents. Financial condition of this entity is dire with its net labilities reaching R 345 billion (or 5.5 percent of GDP) at March 31, 2022. The entity is insolvent and struggles with balancing their revenue earned from the respective levies with the amount of road accident claims received from the public. Other risk categories included in the FRS and the Annual BR include subnational governments' liabilities, and public-private partnerships (PPPs). The

[45] Budget Review contains the following detailed Chapters: Chapter 7 Government Debt and Contingent Liabilities, and Chapter 8 Financial Position of Public-sector Institutions.

[46] Multiple documents discuss the financial health of major SOCs, including but not limited to: Annual Budget Review, Medium Term Budget Policy Statement and FRS, report by the Department of Public Enterprises, etc.

[47] National Treasury. 2022 Annual Budget Review, Chapter 8.

risk associated with the guarantees issued to the renewable energy is regularly monitored and quantified, although rated as low.

Table 3.2. South Africa: Selected Specific Fiscal Risks, Gross Exposure

Specific Fiscal Risk	Magnitude		Reporting
	R Billions	Percent of GDP	
Non-financial Public Sector			
SOC Liabilities[1]	862.8	13.7	Annual Budget Review
Public Private Partnerships	7.9	0.1	Annual Budget Review
Financial Sector			
Explicit Exposure to financial sector	176.2	2.8	SARB Annual Report, Annual Budget Review[4]
Contingent Liabilities			
Government Guarantees, incl. to SOCs	568.9	9.0	Annual Budget Review
Road Accident Fund[2]	357.0	5.7	Annual Budget Review, FRS
Provincial Governments' Medico-Legal Claims[3]	109.0	1.7	FRS
Provincial Governments' Arrears	24.6	0.4	FRS
Local Governments' Arrears	58.2	0.9	FRS
Natural Disasters	N/A	N/A	Not Reported
Long-term risks			
Social Relief of Distress Grant	64.9	1.0	FRS
Benefits-Relates Liabilities	61.2	1.0	Government Employees Pension Fund Annual Report

1/ State-owned companies listed in PFMA schedule 2, excluding development finance institutions, but including liabilities guaranteed by the NT.
2/ RAF compensates road users for losses or damages caused by motor vehicle accidents, it receives its revenue from RAF levy. The number differs from the RAF Annual Report due to ongoing legal proceedings between RAF and AGSA as to the accounting treatment of reserves.
3/ Legal claims associated with medical malpractice, negligence that are pursued against public hospitals.
4/ Annual Budget Review contains the analysis of state-owned development finance institutions.

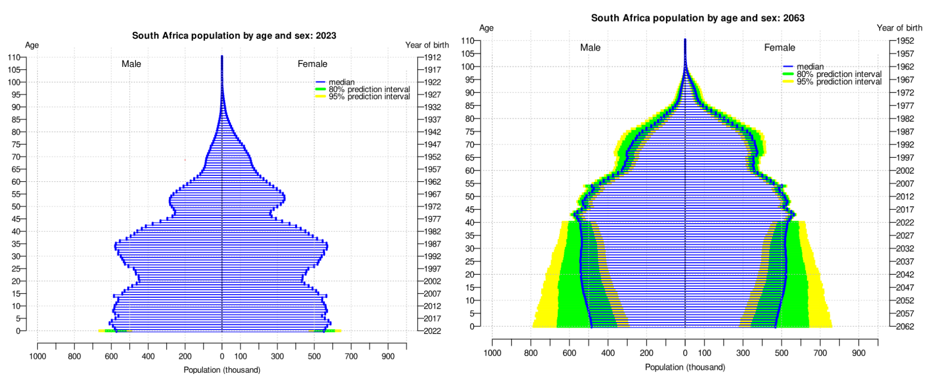
116. **The coverage of the FRS has decreased over the past five years, but it can be strengthened.** Previous years' FRSs covered various matters related to high-risk categories, such as exposure to SOCs and bailout amounts (latest available – in 2020 Budget Review), scenario-based macroeconomic forecast (latest available – in 2019 FRS), or a comprehensive assessment of PPP-related exposure. These categories are no longer detailed in more recent years. The FRS would also benefit from including other risks' categories, such as litigation risks within and outside of the country, and risks arising from natural disasters and climate change, given the rise of climate-related events.

117. **FRS can be improved by publishing an analysis and the likelihood of risks' materialization, provide a longer-term perspective of risks to fiscal forecasts.** Such details could provide a more comprehensive picture of how risks might impact the budget and better inform a policy change that might be required to address them. In cases where estimates of probability of realization are difficult to calculate, risks may be classified into categories (e.g., probable, possible, and remote). It would also be useful if all the information on specific fiscal risks is summarized in a single dedicated FRS, even if details are presented in a variety of other documents such as BR, MTBPS, reports on public debt, Financial Stability Report and others; this will provide a comprehensive view and better understanding of the universe of fiscal risks.

3.1.3. Long-term Fiscal Sustainability Analysis (Not met)

118. The FRS presents an eight-year fiscal projection, focusing on the impact of different economic growth scenarios, but has not factored in consistently other long term fiscal pressures. While the projection goes beyond the three-year MTEF, it is usually not far-sighted enough to capture the impact of potentially significant pressures over the longer term and does not model other drivers of fiscal pressures such as demographic changes. A long-term model spanning over 30 years, that explicitly models a wider range of fiscal pressures, would provide a more comprehensive overview and inform policy choices that impact on fiscal sustainability. The 2019 MTBPS explored a selection of long-term social spending pressures over a 20-year horizon, including in social assistance grants, health and education, due to demographic and economic changes. Such analysis could feed into a long-term fiscal sustainability model.

Figure 3.4. Population Pyramid for South Africa – 2023, 2063

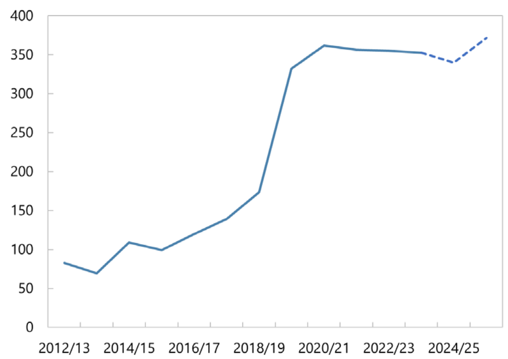


Source: UN World Population Prospects 2022

119. Demographic projections represent risks and opportunities for fiscal sustainability. The population of South Africa is projected to rise from 60 million in 2023 to 76 million in 40 years according to the United Nations Population Division, with a strong growth in the working age population. However, if fewer jobs are being created to absorb the new labor market entrants, it creates risks of weaker revenues needed to support the social spending needs of the aging population (Figure 3.4). Long term fiscal projections should include demographic-related costs, such as from old-age benefits and healthcare as relevant.

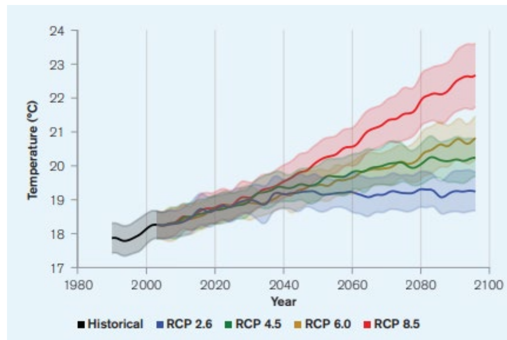
120. Other long-term risks should be comprehensively identified and analyzed. The Road Accident Fund presents a substantial long-term fiscal risk, provision for claims have risen significantly as growth in claims has outstripped growth in revenues derived from fuel levies (See Principle 3.1.2.). Outstanding claims have nearly doubled as share of GDP over the past decade (Figure 3.5), reaching 5.3 percent of GDP in 2022/23, and could rise further over the long term, particularly if longer term vehicle-use trends erode the size of fuel levy revenues. Long term revenues from mineral resources should also be considered, which currently make up about 0.5 percent of GDP (See Principle 3.2.6), drawing on total mineral reserves and potential changes to commodity prices.

Figure 3.5. Road Accident Fund Provision for Claims (R billions)



Source: National Treasury Budget Review 2023

Figure 3.6. Projected Average Temperature for South Africa



Source: Climate Risk Profile: South Africa (2021): The World Bank Group. RCP is Representative Concentration Pathways and reflects different climate scenarios

121. The NT should update its internal long-term model and publish its outputs in the FRS. The NT's Macroeconomic Policy Unit is responsible for producing long-term fiscal sustainability analyses. The unit has a long-term fiscal projection model that is used for costing new policy initiatives and to determine the sustainability of current expenditure commitments under specific economic and demographic growth assumptions. Although not published, the model is updated annually and produces projections for a 20-year horizon. This model should be extended to at least a 30-year horizon and assess fiscal implications from a broad range of spending and revenue pressures as well as other debt-creating flows. Given the potentially significant impacts from climate change (Figure 3.6), it could also be adapted to include the implications of climate risks. The IMF's Q-CRAFT model[48], which analyzes the impact of different climate scenarios on GDP growth, could support this modelling.

3.2. Risk Management

3.2.1. Budgetary Contingencies (Good)

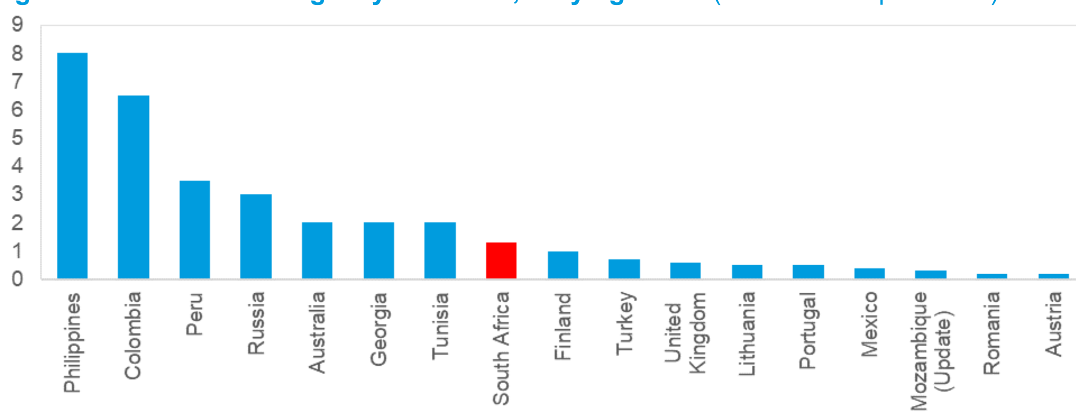
122. Contingency and unallocated reserves are quantified and disclosed regularly, access criteria are defined, but utilization is not detailed. The government allocates contingency reserves for emergencies and unforeseeable events, governed by the PFMA Section 30(2), which allows adjustment allocations for unforeseeable and unavoidable expenditure that can be funded by contingency reserves. From 2021, the NT also introduced an unallocated reserve—an amount set aside to accommodate changes in the economic environment and to meet the spending pressures. The size of contingency reserves for South Africa fluctuates around 1.3 percent of total expenditures, which is on the lower side, as compared to selected peer countries (Figure 3.7).

[48] The IMF's Quantitative-Climate Risk Assessment Fiscal Tool (Q-CRAFT) is a projection tool designed to generate long-term fiscal projections under different climate change scenarios.

123. Detailed guidance on accessing contingency reserves is provided by the NT's Circulars.[49] These circulars define the unforeseeable and unavoidable expenditures as those that could not be anticipated at the time of the main budget, and only such expenditures can be funded by the contingency reserves. Use of contingencies is regulated by the Appropriation Act and is reported to Parliament. The NT manages the allocation of funds from the contingency reserves within the legislated criteria, and reports on their use in the MTBPS. In 2022, the government decided to increase the size of the contingency reserve in the outer years from the typical R5 billion to R6 billion in 2023−2025, and further to R10 billion in 2025/26 fiscal year aiming to improve responsiveness to emergencies such as natural disasters. Historical data on contingency reserves allocation and usage are presented in Figure 3.8.

124. Disclosure on the allocation and use of contingency reserves could be strengthened to raise transparency on the use of funds. Presently, disclosures provided in the Annual BRs and MTBPS are limited to aggregate information on contingency and allocated reserves in the overall budget adjustments (Figure 3.9). It is unclear which priorities were funded by these reserves. Linking the usage of contingency reserves with the events they funded would provide a greater clarity to the public as to which unforeseeable expenditures were funded and inform future estimation of amounts to be allocated for unavoidable costs, such as natural disasters (see Principle 3.2.7).

Figure 3.7. Size of Contingency Reserves, Varying Years (Percent of expenditure)



Source: IMF FTE reports, IMF Staff Calculations.

[49] NT Circular 8/2/1/5/1 for the 2023/24 budget cycle.

Figure 3.8. Contingency Reserves in the National Budget (percent of GDP, and R billion)

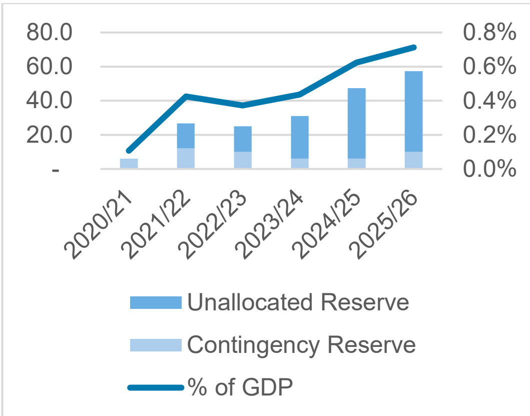
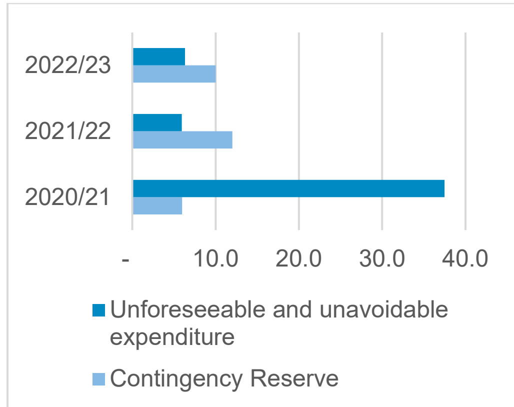


Figure 3.9. Contingency Reserves Usage (R billion)



Source: Annual BR, Medium Term Budget Policy Statement, Adjusted Estimates of National Expenditure (multiple years)

3.2.2. Asset and Liability Management (Good)

125. **Borrowing by the government is authorized by law and the BR discloses the risks surrounding the assets and liabilities of national government, but an overall strategy on managing the balance sheet of government is not published.** A detailed budget funding strategy is prepared annually and signed off by the Minister of Finance for internal use. From that, a summary of plans for funding, as well as cash and debt management is presented in Chapter 7 of the BR. It presents an overview of financing needs, analysis of expected performance against strategic debt portfolio benchmarks and the main risks to the financing strategy over the medium term. It also discusses the expected mix between domestic and external borrowing, the trends in these markets and presents a sensitivity analysis of debt and debt service costs against the main risks (these relate to the inflation rate, exchange rate, and interest rates).

126. **Government's financing strategy aims to finance its borrowing requirement at the lowest possible cost within a set of strategic risk benchmarks (see Table 3.3).** The objective with the benchmarks is to determine the best mix of debt instruments and maturities to finance the borrowing requirement while minimizing refinancing risk, currency risk and overall borrowing costs. The main risks for the medium-term financing strategy identified in the 2023 BR are:

- Higher interest rates in developed economies coupled with low domestic economic growth that could reduce demand for domestic bonds;
- Further depreciation in the rand exchange rate would raise the cost of outstanding foreign-currency debt; and
- The materialization of contingent liabilities at SOCs could increase funding needs and associated costs.

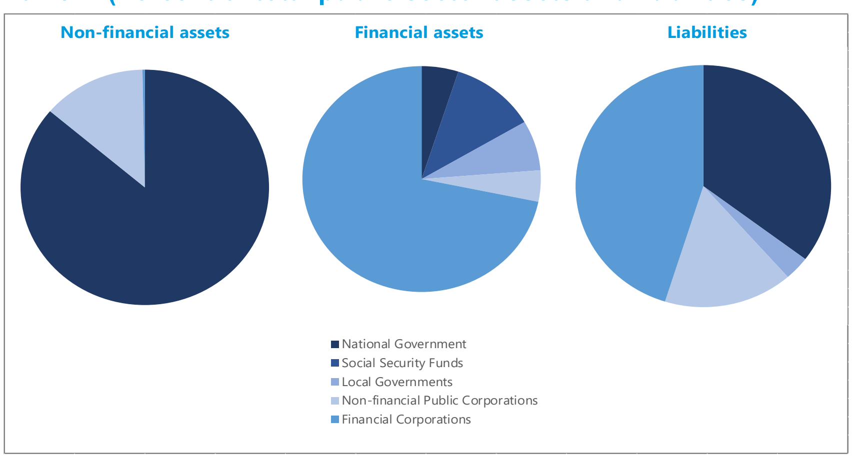
Table 3.3. South Africa: Strategic Risk Benchmarks for National Government Debt

Description	Benchmark Range	2022-23 Estimate	2023-24 Estimate
Treasury bills as % of domestic debt	15.0	9.9	10.4
Long-term debt maturing in 5 years as % of bonds	25	16	16.1
Inflation-linked bonds as % of domestic debt	20.25	23.9	22.0
Foreign debt as % of total debt	15.0	11.7	11.2
Weighted term-to-maturity of fixed-rate bonds and Treasury bills (years)	10-14	11.2	10.6
Weighted term-to-maturity of inflation-linked bonds (years)	14-17	12.8	13.6
Term to maturity of total debt (years)		11.6	11.2
Term to maturity of foreign debt (years)		12.2	12.2

Source: Budget Review 2023

127. **The remainder of the debt and wider liabilities of the public sector are being monitored by NT but are managed by various institutions in the subsectors of the public sector** (see Figure 3.10). Some information on their net asset positions is presented in budget documents, without going into the details of their asset and liability strategies and risk management. The assets and liabilities of these institutions are governed by their respective legislative instruments. Most concerning of these institutions is the negative net asset position of the Road Accident Fund. The Fund compensates road users for losses or damages caused by motor vehicle accidents and receives its revenue from the fuel levy. The long-term provision for claims is significantly larger than their assets which poses a significant risk to government.

Figure 3.10. Composition of Public Sector Assets and Liabilities by Subsector as at the end of FY 2021/22 (Percent of total public sector assets and liabilities)



Source: SARB Quarterly Bulletin and IMF staff calculations- See Table 0.1

128. **Government's main asset management responsibilities are spread across various entities**. The cash holdings of national government consist of deposits held at commercial banks and the Reserve Bank. These deposits are used as bridging finance to cover short-term obligations. For example, the higher gross borrowing requirement arising from government's response to Covid-19 was partially

financed by borrowing and resulted in an increase in this cash buffer. Government's largest contingent asset is the Gold and Foreign Exchange Contingency Reserve Account that is administered by the SARB. It reflects profits and losses on gold and foreign exchange reserves to meet foreign exchange obligations and to maintain liquidity in the presence of external shocks. The management of government's equity stake in SOCs are under the control of various government departments (see Principle 3.3.2).

129. The largest asset portfolio of the public sector in South Africa is managed by PIC, which manages a portfolio of R2.5 trillion of assets. The PIC is an asset management company wholly owned by the government as represented by the Minister of Finance and according to the PIC annual report, it is ranked amongst the best and largest successful public asset management companies in Africa. The clients are mostly public sector entities which focus on the provision of social security including the Government Employees Pension Fund (GEPF), Unemployment Insurance Fund (UIF), Compensation Commissioner Fund, and others.

130. The PIC manages a diversified investment portfolio which comprise of multiple asset classes including listed equities, real estate, capital market private equity and impact investments. Through listed investment the PIC controls over 10 percent of the Johannesburg Stock Exchange and has exposure to all sectors of the South African economy. Their asset management strategy is based on mandates received from their clients, which led to an investment philosophy based on financial returns and sustainable investing that also generates social returns by investing in projects that ensure inclusive growth. All of these are supported by a robust risk management strategy considering risk factors around people, systems, and processes. Risk management is built around principal risk categories including strategic risk, investment risks, operational risks, legal and regulatory risks and reputational risks.

131. In accordance with the PFMA and MFMA, it is a general responsibility of accounting officers to manage, safe-guard and maintain the non-financial assets of their department, trading entity or constitutional institution for which they are responsible. Based on this Treasury made regulations and instruction on the management of assets. The accounting officer must take full responsibility and ensure that proper control systems exist to prevent theft, losses, wastage and misuse, and that stock levels are at an optimum and economical level. They also must ensure that procedures are in place for the effective, efficient, economical, and transparent use of the institution's assets. Government also recognized the need for a robust, holistic, and integrated asset management practices to deal with ever expanding and more complex asset portfolio. In response to this growing recognition, they have published their Asset Management Framework for National and Provincial Governments in 2021.[50] The publication built on an earlier edition but put focus on asset componentization, valuation principles and techniques, risk management, and performance management.

3.2.3. Guarantees (Basic)

132. The NT regularly publishes information on government guarantees, disclosing the beneficiaries and gross exposure, but there is no legislated ceiling established for guarantees. Guarantee requests and respective guarantee fees are approved by the NT Fiscal Liabilities Committee

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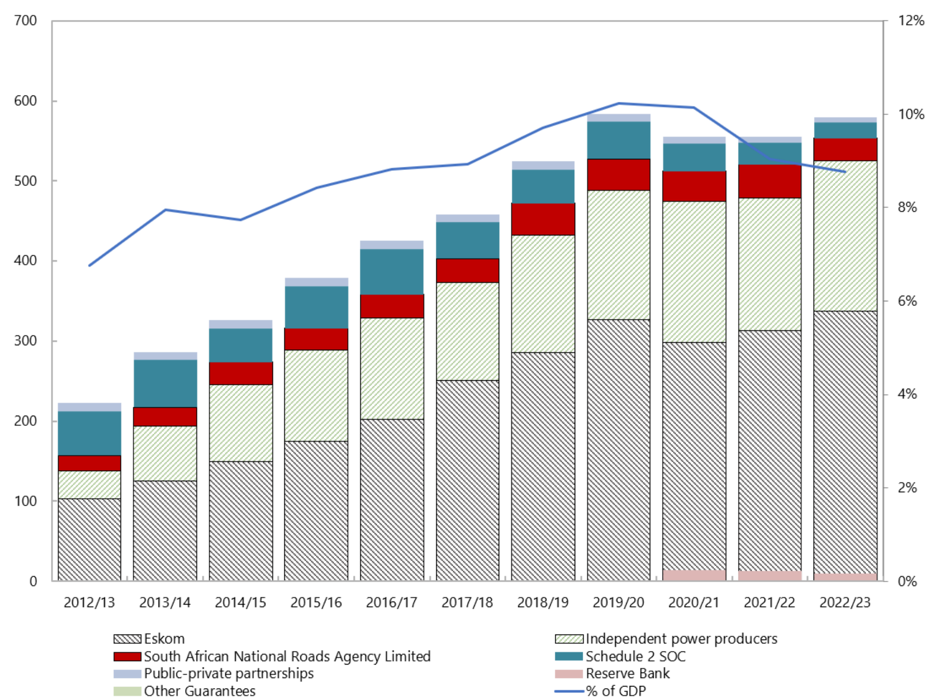
[50] See https://ag.treasury.gov.za/org/tss/Shared%20Documents/Asset%20Management/Asset%20management%20framework%20for%20national%20and%20provincial%20departments.pdf

based on each requestor's credit risk assessment. Annually, detailed guarantee disclosure is published as part of the NT's BR, supplemented by detailed multi-year tables for outstanding guarantees per beneficiary. As per 2023 BR, the total volume of guarantees exposure reached 9 percent of GDP during 2022/23 financial years, with Eskom dominating total guaranteed portfolio taking up to 60 percent of all outstanding guarantees (see Annex VI). Total volume of guarantees issued by the Government has increased significantly over the past decade—from R225 billion (or 6 percent of GDP) in 2012/13 to R569 billion (or 9 percent of GDP) in 2021/22.

133. Risks of potential realization of the government guarantees are discussed in the annual FRS. The largest share of outstanding guarantees are those extended to Eskom (R313 billion or 55.8 percent of all outstanding guarantees). Eskom guarantee exposure has been on the rise over the past decade, culminating into the Eskom Debt Relief deal approved in February 2023.[51] This transaction aims to improve Eskom's commercial viability by the Government's taking over its debt obligations, with stringent covenants attached. The authorities expect that Eskom guarantees would reduce overtime, to R118.9 billion by the end of 2025/26 (see Principle 3.3.2). Guarantees issued to other SOCs are on decline, mainly due to tightened criteria for the guarantee issue by the NT, and stood at R27 billion or 0.4 percent of GDP at 2021/22. Another large component of public guarantees are the guarantees provided to independent power producers that feed into the national grid. This program has been picking up swiftly, reaching R166 billion (or 2.6 percent of GDP) in 2021/22, it is considered by the NT to be a low risk to public finances. Information on the probability of guarantees being called is not disclosed in the FRS.

Figure 3.11. Guarantee Exposure per Category of Beneficiaries (R billion and percent of GDP)

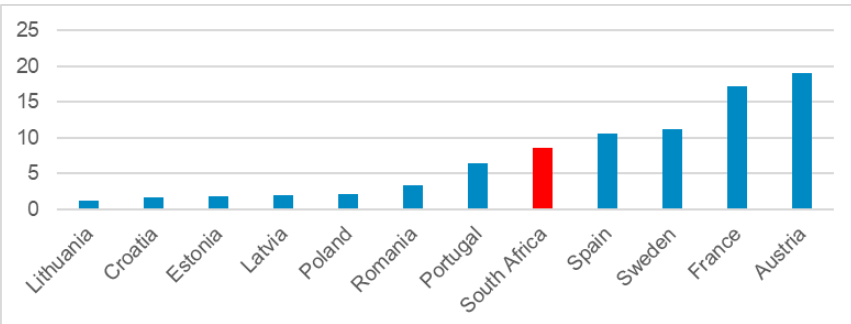


Source: National Treasury, Budget Review 2023

[51] Eskom Debt Relief Act, 2023.

134. The existing legislative framework does not establish any limits on the annual volume or total value of outstanding guarantees. The PFMA Chapter 8 places a restriction on any public entity to borrow, guarantee or enter into other commitments, unless it is within the secondary legislation authorizations, which include the NT's Instruction on minimum criteria for guarantee requests to be submitted by departments and public entities for the NT's authorization.[52] While the combination of the PFMA and the NT Instructions provide a guiding framework and requirements to the entities requesting guarantees, this is not sufficient to manage the risk of growing volume of the issued guarantees. South Africa's guarantee exposure is at par with comparable EU peers (Figure 3.12), and as its stock has grown systematically, it could benefit from establishing a legislated overarching limit on the maximum guarantee exposure to reduce vulnerabilities and potential impact on public finances.[53]

Figure 3.12. Guarantee Exposure at Selected Peer Countries, Varying Years (Percent of GDP)



Source: Eurostat, IMF Staff Calculations

3.2.4. Public Private Partnerships (Basic)

135. The NT regularly publishes an aggregate PPP exposure, related contingent liabilities and potential termination amounts in their Annual BR. The FRS and the Annual BR disclose the total PPP exposure for each level of the public sector—national, provincial, and public entity level, with the Annual BR offering further details on the advancing and pipeline PPP transactions, including the information on their sector, region, total size, and progress status.[54] Additional disclosures, such as fees paid or capital created, are offered in the Government's consolidated financial statements.[55] Disclosure of an aggregate level of PPP related contingent liabilities is deemed sufficient, as the country's PPP portfolio is presently insignificant at only 0.1 percent of GDP (Figure 3.13).

136. South Africa operates under a solid PPP framework, with NT holding a final decision-making power. The NT applies a multi-stage approval process to ensure that contingent liabilities arising from PPP contracts are assessed, measured and are acceptable from the fiscal risk perspective. The Government Technical Advisory Center (GTAC), a separate unit operating under the NT mandate, provides technical support to the sector departments proposing PPP transactions by assisting with

[52] NT's Instruction #09 of 2020/2021.

[53] For example, in Estonia, the State Budget Act requires the government to set an annual limit on the total value of outstanding guarantees, to be agreed by Riigikogu (Parliament), and to publish this annually in the explanatory memorandum to the annual budget.

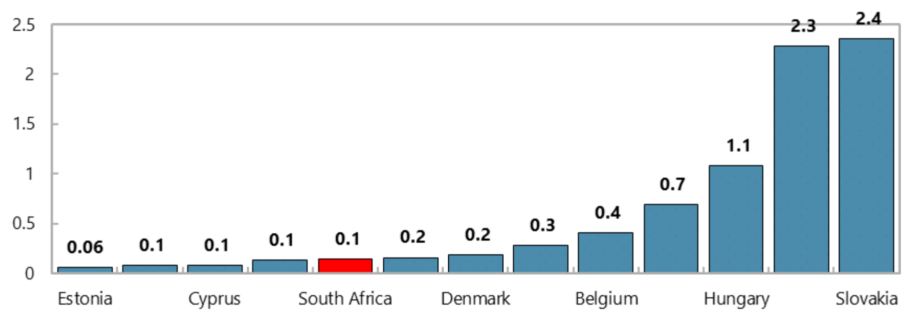
[54] 2023 Annual Budget Review, Annexure D.

[55] Consolidated financial statements, Note 38 and Note 51.

documents preparations, processing bids documentation and bids evaluations. The NT monitors these liabilities on an ongoing basis and publishes respective amounts per level of the public sector in the BT and FRS. GTAC possesses all necessary information on PPP transactions, elements of which could be publicly disclosed by NT should it chose to provide transaction level detailed disclosure on PPP portfolio.

137. The authorities have undertaken a PPP review to increase transparency of their PPP management and to enable greater private sector participation. The NT undertook a comprehensive review of the PPP regulatory framework and is currently revising their PPP regulations to better inform the decision-making process. The same framework revisions will aim to improve PPP-related fiscal risks assessment, management of contingent liabilities and public disclosure on PPPs and blended finance projects. If introduced, additional disclosure on the existing PPPs, their direct and contingent liabilities, total rights, expected annual receipts and payments, and related fiscal risks will improve the PPP transparency. The review of the PPP regulatory framework should also look at establishing limits to accumulated obligations, and consideration should be given to bring this limit to the legislation. This will reduce the potential accumulation of PPP liabilities at high levels.

Figure 3.13. PPP Exposure, Selected Countries (Percent of GDP)



Source: IMF Database. Data from 2020-21 financial years.

138. More detailed disclosure of the characteristics of PPP projects may be warranted given the authorities' efforts to implement an ambitious pipeline of PPP transactions. Some large PPP projects are undergoing various stages of project preparation, such as Gauteng Rapid Rail Network Extension (R65.4 billion), Salvakop Precinct Project (R18 billion), or Inkosi Albert Luthuli Central Hospital (R10.4 billion).[56] The revised PPP framework—presently in progress—should aim to facilitate timely transactions processing, prudent risks assessment, and ensure a more detailed relevant disclosure of the PPPs' main features, including related rights, obligations, and other exposures.

3.2.5. Financial Sector Exposure (Advanced)

139. Regular assessments of the financial sector stability, including stress-tests of the banking system, and explicit support to the financial sector are published. SARB and its Prudential Authority perform regular assessments of the financial sector stability (twice per year), stress-testing of the banking system is carried out every two years.[57] SARB runs stress tests of the systemically important financial institutions (SIFI) based on two scenarios—baseline and adverse, based on historic simulations and main

[56] 2023 Annual Budget Review, Annexure D.

[57] Latest available stress-test is available at the Second Edition of the 2021 Financial Stability Report.

risks to the economy, such as change in the GDP growth. Individual bank's results are not published, but a summary of SIFI results is included in the Financial Stability Report. In addition to bi-annual stress testing, SARB assesses the stability of the country's financial sector, its main risks, and vulnerabilities to the financial stability, and offers policy recommendations to ensure the sector's stability. These are updated twice a year in the Financial Stability Report. Explicit support provided to the financial sector is published, when relevant.

140. **Two main government exposures to risks in the financial sector include equity investments into three state-owned development finance institutions, and several standard guarantee schemes offered by commercial banks.** The government has no equity in commercial banks, it does however, own three development financial institutions that are tasked with different development mandates. Total exposure to such financial institutions via their liabilities and outstanding guarantees was around R154 billion (or 2.5 percent of GDP) at 2021/22 (Table 3.4) Additional exposure to potential risks is posed by the guarantees issued for several standard guarantee schemes, largely in place since COVID-19 and social unrest, aimed to stimulate businesses' recovery. Their exposure reduced significantly since the origination date in 2020, and currently stands at R21.7 billion (or 0.3 percent of GDP), mainly comprising of Loan Guarantee and Bounce Back schemes.

Table 3.4. South Africa: Summary of Exposure to State-Owned Development Financial Institutions
(R billions)

	2018/19	2019/20	2020/21	2021/22
Industrial Development Corporation				
Total Assets	144.6	109.7	143.7	174.1
Total Liabilities	49.3	49.5	57.7	59.5
Equity	95.3	60.2	86.0	114.6
Financial Support Received	-	-	-	-
NT Guarantees Outstanding	0.1	0.2	0.1	0.1
Development Bank of Southern Africa				
Total Assets	89.5	100.5	100.0	100.0
Total Liabilities	52.3	62.9	60.8	57.1
Equity	37.2	37.6	39.2	42.9
Financial Support Received	3.0	-	-	-
NT Guarantees Outstanding	4.3	4.7	4.9	5.2
Land Bank				
Total Assets	47.7	44.1	40.2	34.7
Total Liabilities	45.8	43.8	37.6	30.7
Equity	1.9	0.3	2.6	4.0
Financial Support Received	-	-	2.9	-
NT Guarantees Outstanding	1.0	2.5	2.4	1.9

Source: NT 2023 Annual Budget Review, Annual Estimates of National Expenditures, individual financial statements.

141. **South Africa has recently made significant changes to its financial sector legislation, with the Financial Sector Laws Amendment Act, that among other changes establishes the deposit insurance guarantee scheme.**[58] With this Act, SARB will assume an overarching authority over failing financial institutions and will have the power to transfer their assets and liabilities, assume control of their

[58] Financial Sector Laws Amendment Act 23 (2021), Financial Sector and Deposit Insurance Levies Act 11 (2022).

management and restructure banks. The new framework replaces the previously existing curatorship arrangement. The deposit insurance scheme is part of this reform effort, and once operational, it will cover all deposits in the country up to R100 thousand per depositor per bank (retail and corporate), aiming to reach around 90 of all customers in the country. Respective legislation establishes the Corporation for Deposit Insurance, enabling the deposit insurance guarantee scheme to take effect in April 2024.

Figure 3.14. Capital Adequacy and Leverage Ratios
(percent)

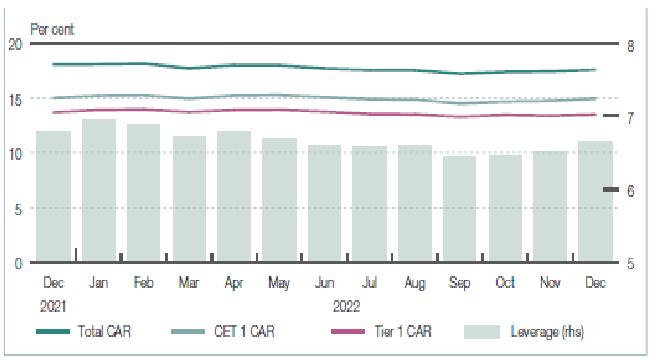
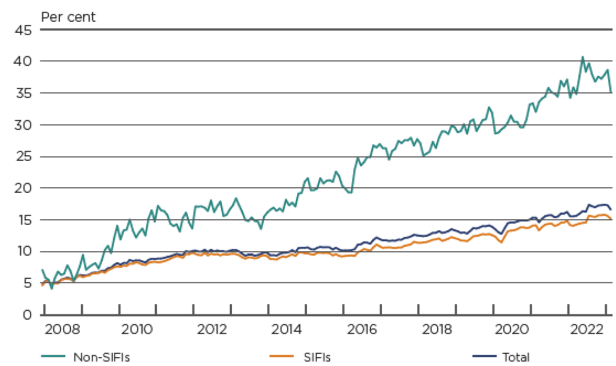


Figure 3.15. South Africa: Selected Indicators Government Bond Holding by Banks
(as a share of total assets)



Source: SARB Financial Stability Report, Prudential Authority Annual Report.

3.2.6. Natural Resource Stocks and Flows (Not met)

142. The authorities regularly publish fiscal revenue per major classes of natural resources but lack information on value and volumes of available natural resources reserves and sensitivity analysis to price and quantities. South Africa possesses abundant natural resources, including gold, diamonds, platinum, and coal. Mining industry contributes around 7 percent to the country's GDP.[59] Most of the mining industry is privately owned, and all extractors are subject to the Mineral and Petroleum Resources Royalties (MPRR) Act of 2008. SARS regularly publishes the information on the annual revenues collected as MPRR per major class of natural reserves (Table 3.5) and discloses it as part of the annual Tax Statistics Report.

[59] Minerals Council of South Africa 2018 Annual Report.

Table 3.5. South Africa: MPRR Payment by Commodity 2019−22 (R millions)

Commodity Type R million	2019/20	2019/20 relative proportions	Year-on-year growth	2020/21	2020/21 relative proportions	Year-on-year growth	2021/22	2021/22 relative proportions	Year-on-year growth
Coal	1 741	14.7%	-15.4%	1 970	13.8%	13.2%	3 258	11.4%	65.3%
Diamond	95	0.8%	-73.9%	29	0.2%	-69.7%	101	0.4%	254.2%
Gold and uranium	180	1.5%	-37.5%	608	4.3%	238.2%	511	1.8%	-15.9%
Industrial Minerals[1]	453	3.8%	94.6%	596	4.2%	31.7%	1 355	4.8%	127.2%
Iron Ore	4 413	37.3%	112.3%	4 190	29.4%	-5.1%	6 907	24.3%	64.9%
Manganese	787	6.7%	-1.9%	158	1.1%	-79.9%	642	2.3%	305.2%
Platinum	2 786	23.6%	147.2%	5 743	40.4%	106.1%	14 902	52.4%	159.5%
Zinc[3]	-9	-0.1%	-376.4%	23	0.2%	-369.5%	24	0.1%	0.8%
Other[2]	1 384	11.7%	-16.6%	909	6.4%	-34.3%	757	2.7%	-16.7%
Total	**11 830**	**100.0%**	**37.4%**	**14 228**	**100.0%**	**20.3%**	**28 456**	**100.0%**	**100.0%**

Source: SARS Tax Statistics (2022).

143. The Department of Mineral Resources and Energy (DMRE) used to publish regularly on sectoral mineral dynamics, but this was discontinued in 2017. The mining industry is overseen and regulated by the DMRE, and its respective agencies, which are tasked with regulation and transformation of the minerals and energy sectors. The DMRE's Mineral Economics Directorate has a mandate to collect, processes and compile mining and mineral statistical data, and issue regular publications and bulletins. Such statistical bulletins were produced until 2017 and compiled statistical information from various sources covering volumes of extraction, price dynamics and sector trajectory per mineral. The Council for Geoscience, an agency under the DMRE, maintains and updates the information on South Africa's mineral reserves, detailed information repository that is available to public per exploration site. This information, however, is not aggregated.

144. South Africa would benefit from regularly disclosing its natural reserves information, assessing the impact of changing prices on volume and value of reserves. Such reserve information is not available. South Africa is the leading holder of the global reserves in platinum, manganese and gold among others (Table 3.6). To improve the transparency of the fiscal revenues, identify and quantify potential fiscal risks from natural resources and improve fiscal sustainability, the authorities should resume their mineral economics bulletins, supplementing them with the quantitative and qualitative disclosure on the total reserves of major groups of minerals. Applying an IMF FAD standard methodology, the value of natural resources in the Public Sector Balance Sheet is estimated at R5 Trillion, resulting in a high value for non-financial assets. Estimating and including the value of mineral and energy resources in non-financial assets is a recommendation of this FTE (Pillar I, Principle 1.1.2).

145. South Africa can further improve its transparency profile by joining global transparency initiatives, such the Extractive Industries Transparency Initiative (EITI). EITI is the global initiative that promotes the open and accountable management of oil, gas, and mineral resources. While South Africa was one of the eight states to have officially launched the Open Government Partnership in 2011, it has not yet joined the EITI. The country could consider joining this initiative to reinforce its path to greater transparency and lead by example among the countries in the region.

Table 3.6. South Africa: Global Positions in Minerals Reserves

Ranking	Mineral	Reserves	Global Share
1st	Platinum Group of Metals	63,000,000 kilograms	90%
1st	Manganese	640,000 thousand metric tons	70%
3rd	Fluorspar	41,000 thousand metric tons	16%
3rd	Gold	5,000 metric tons	10%
4th	Vanadium	3,500 thousand metric tons	13%
4th	Diamonds	120 million carats	9%
6th	Uranium	447,700 tons	5%

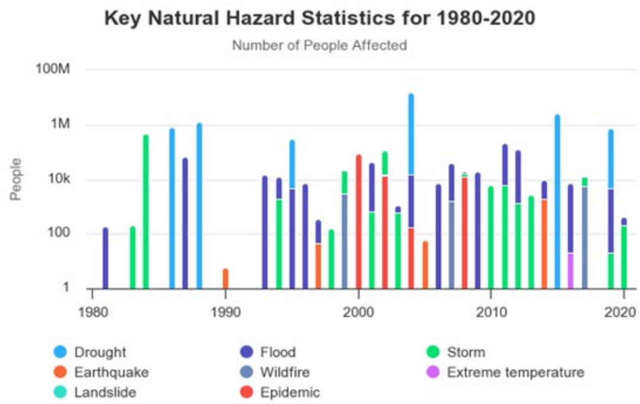
Source: Uranium 2020. Resources, Production and Demand (OECD Nuclear Energy Agency); US Geology Survey Mineral Commodity Summary 2023 (other minerals).

3.2.7. Environmental Risks (Basic)

146. Risks related to natural disasters are identified in a broad range of different government documents, but they are not quantified, consolidated or managed according to a published strategy. Floods and storms are the most common natural disaster since the 1980s (Figure 3.16). The National Disaster Management Centre (NDMC), a branch of the Department of Cooperative Governance (DCoG), maintains the role of promoting an integrated and coordinated system of disaster management, with special emphasis on prevention and mitigation.[60] The Department of Forestry, Fisheries and Environment (DFFE) also plays a role in management of wildfires. NDMC publications identify floods, droughts, fires, oil spills as key environmental risks. The NDMC also oversees the Provincial and Municipal Disaster Relief Grants, which is one of several mechanisms for channeling funds for disaster response. Other disaster relief grants include the Provincial and Municipal Emergency Housing Grants, but funds can also be channeled through sectoral or provincial grants, such as Municipal Infrastructure Grant and Human Settlement Grant, depending on specific need. While the NDMC reports on use of funds from the Disaster Relief Grants, it does not undertake broader quantified analysis of fiscal costs of natural disasters. The lack of single reports on disaster expenditure reflects the broad range of financing streams used to respond to disasters.

[60] Established under The Disaster Management Act 57 of 2002

Figure 3.16. Natural Disaster Incidences in South Africa: 2010−22



Source: World Bank World Development Indicators

147. **Fiscal responses to natural disasters have been prominent in 2018 and 2023 budgets due to floods and drought, although such disasters are not identified and analyzed in the FRS.** Relative to GDP, fiscal costs of recent natural disasters have been small (less than 0.1 percent of GDP).[61] In 2018, R6 billion (0.1 percent of GDP) was allocated to the water sector in response to droughts in Cape Town and other regions, and almost R2.3 billion (0.03 percent of GDP) was allocated to disaster relief grants to provinces and municipalities. the FRS in the budget documents does not identify or analyze environmental risks.

148. **The NT acknowledges the need to intensify its strategic role and coordination on climate responsiveness.** Insights on the potential long-term impact of climate change would be useful to inform fiscal policy decisions, especially where policy options should be pre-emptive. To estimate the potential fiscal costs from climate change, the IMF Q-CRAFT discussed under 3.1.3 may be used. In a joint exercise with the World Bank, the NT estimated the average funding gap for financing disaster response in South Africa of R2.3 billion, and it is considering a revised financing strategy that could reduce fiscal costs by about R100 million on average per shock event and R7.5 billion for large shock events. Further developments are due to be presented in the 2023 MTBPS. The government indicated its intention through the 2022 MTBPS to increase the size of the contingency reserve over the next two years to improve responsiveness to emergencies, such as natural disasters. Risk analysis could be further strengthened by including climate risks from a more holistic perspective, capturing the climate transition risks from carbon pricing, border carbon adjustments, and highlighting the importance of investing in climate resilient infrastructure.

[61] For example, in response to the 2022 floods in KwaZulu-Natal and Eastern Cape, R2.9 billion (0.04 percent of GDP) was allocated to Transnet to restore infrastructure damage, and a further R283.3 million (0.004 percent of GDP) was added to the education infrastructure grant to repair infrastructure damage to schools in the region, adding up to R5.5 billion (0.1 percent of GDP).

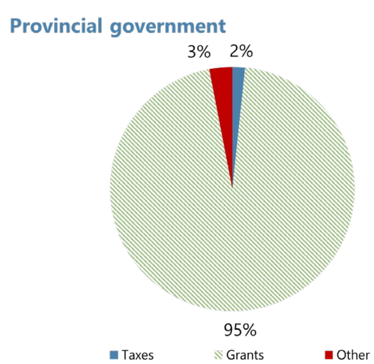
3.3. Fiscal Coordination

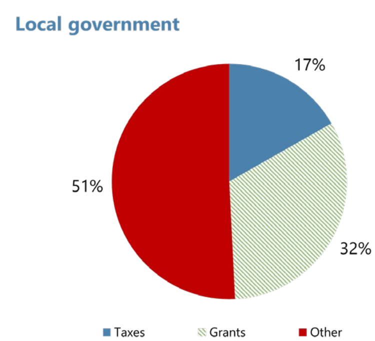
3.3.1. Sub-National Governments (Advanced)

149. Provinces and local governments (municipalities) individually report on their fiscal position and performance to the NT on a monthly, quarterly, and annual basis[62] **and there is a limit on their borrowing.**[63] Borrowing by provincial governments is regulated through the PFMA whilst the MFMA governs borrowing by municipalities. Provinces are allowed to borrow only for capital projects with NT's authorization. Section 50(c), of the MFMA authorizes municipality to guarantee the debt of a municipal entity under its shared control or of any other person, but only with the approval of the National Treasury. Such borrowing, which should be authorized by the Municipal Council is restricted to up to 45 percent of their operating revenue; NT are notified of such borrowing.

150. Provincial governments and local governments form sub-national government (SNG) in South Africa and are largely responsible for service delivery. Their revenue comprises of the equitable share of the national revenue pool, conditional grants, tax collections, and service charges. Notably, at least 95 percent of provincial government revenue is transferred from national government in the form of grants (equitable and conditional), while for local government that share is 32 percent (Figure 3.17).[64] These result in SNG executing 45 percent of all general government expenditure. The monitoring system mandates that provincial governments submit monthly in-year performance reports by the 15th day of every month to provincial treasuries, who in turn report to the Inter-Governmental Relations (IGR) unit of NT by the 22nd day of every month.

Figure 3.17. Sub-National Government Revenue by Source (Percent)





Source: IMF Staff Calculations

151. Budget performance of individual municipalities, including annual financial statements and annual audit reports from 2002/03 are available on the municipal portal. The portal also provides simplified analysis of receipts and spending, including on operational and capital budgets. In

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[62] Frequency of in-year reporting meets "Advanced' practice. See Principle 1.2.1

[63] This indicator rating assesses the frequency of reporting information on financial condition and performance of SNG and limit on borrowing, and does not assess the quality of service delivery of subnational governments.

[64] Large urban municipalities raise significant amounts of own revenue, with transfers playing a smaller role.

addition, a consolidated position of local government is presented in the annual State of Local Government Finances and Financial Management Report, which provides a quantitative analysis of the financial health of the 257 municipalities using a set of predetermined financial ratios and audited financial information.

152. National government is cognizant of arrears of, and unpaid bills to provincial and local governments, which negatively impact service delivery. For provincial governments these are estimated at R24.6 billion (0.4 percent of GDP) as at end of 2021/22, while R58.2 billion (0.9 percent of GDP) of local government debt was overdue for payment. Uncollected revenue for municipalities, estimated at R255.4 billion (4 percent of GDP) as of June 2022 and contingent liabilities from potential legal claims against provincial medical departments estimated at R109 billion (1.6 percent of GDP), reinforce the vulnerability that SNG present to public finances and potential adverse effects on service delivery**.** SNG's unpaid bills to Eskom, the Department of Water and Sanitation and the water boards stems from large uncollected services charges of R255 billion (4 percent of GDP) as at end June 2022. Government's efforts to address the municipal debt spiral have not yielded desired results in the past with the municipal debt relief initiative now being proposed.[65] Resolving these financial issues at SNG level would require a coordinated and properly sequenced mitigation strategy to avoid systemic risks from this sector.

3.3.2. Public Corporations (Basic)

153. The authorities publish information on transfers between the government and State-Owned Companies (SOC) in multiple sources, but an SOC ownership policy is not yet adopted and there is no report on the overall financial performance of the public corporation sector. The Budget Review and FRS contain brief financial analysis of the major SOCs, while the ENE contains detailed transfer information to SOCs by each national government department. This information is fragmented and does not show the net impact of SOCs on the public finances. In addition to the centralized reporting by the NT, each Department reports on the SOCs under their mandate, in their Annual Reports. For example, the Department of Public Enterprises (DPE) includes the analysis on the major SOCs under their control in their detailed Annual Report.[66]

154. The country does not report on its aggregate SOC portfolio, lacking a complete picture on SOC performance, operations, and quasi-fiscal activities performed by the companies. To fully understand the impact of SOCs on the economy, such reporting would typically cover all (or major) SOCs in the country and include all transactions with the state budget: (i) SOC expenditures: dividends, taxes, royalties, license fees, product shares paid by the SOCs to the budget; (ii) SOCs revenues: subsidies received, capital transfers for write-off of debt or public investment, cost of public service obligations compensated to the SOCs; and (iii) transactions in assets and liabilities including equity injections, loans and on-lending received from the government.

155. The size of the South African SOCs, as measured by their liabilities, appears to be comparable to those of peer countries (Figure 3.18). Eskom, the largest non-financial SOC dominates

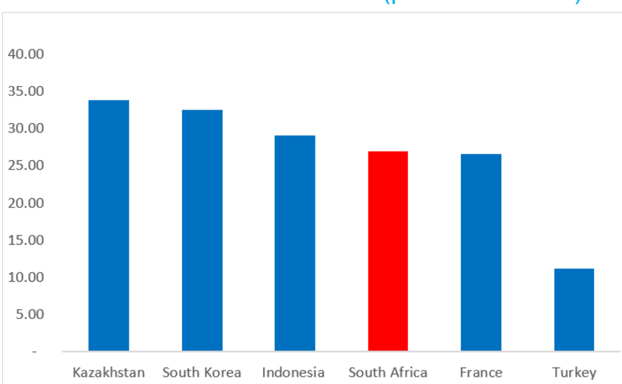
[65]Municipal Debt Relief proposal is available here on municipal arrears

[66] The six SOCs under the DPE ownership include: (i) Eskom SOC Ltd, (ii) Alexkor SOC Ltd, (iii) South African Forestry Company SOC Limited (SAFCOL), (iv) Transnet SOC Ltd, (v) South African Airways SOC Limited, and (vi) Denel SOE Limited.

the sector with up to 60 percent of all SOC liabilities (Figure 3.20).There are 38 non-financial SOCs identified in the PFMA: (i) 22 major SOCs defined in PFMA Schedule 2, which are entities that operate on a commercial basis with an aim to generate profit and owned by the national government; and (ii) 16 SOCs, defined by PFMA Schedule 3B, operating on a commercial basis by the local governments, including regional water utilities. Most of these entities are subject to the Company Act, in addition to the PFMA.

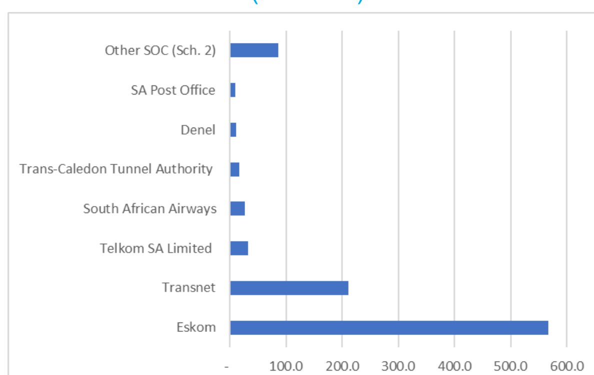
156. **SOC sector, dominated by Eskom, includes several large corporations, and a number of smaller in scale, yet important, public service providers and security companies.** The second largest SOC in the country is Transnet—integrated freight and logistics company operating pipelines, ports and cargo rail in the country. Transnet operations and performance have been negatively affected by high levels of vandalism to their physical infrastructure (rail network), infrastructure maintenance backlog, and shortage of locomotives. This, in turn, has led to longer supply time of coal between the mines and the coal-powered power plants, contributing to the country's energy crisis. In 2022, Transnet benefitted from two packages of state funding of R 5.8 billion to finance their locomotive maintenance, and to provide emergency support to the flood affected area of KwaZulu-Natal. Figure 3.19 below shows other SOCs that operate in the sectors of Infrastructure, Transportation, Communications, Defense and Mining.

Figure 3.18. Liabilities of Non-Financial SOCs in Select Countries in 2020 (percent of GDP)



Source: IMF Public Sector Balance Sheet Database, IMF Staff Calculations

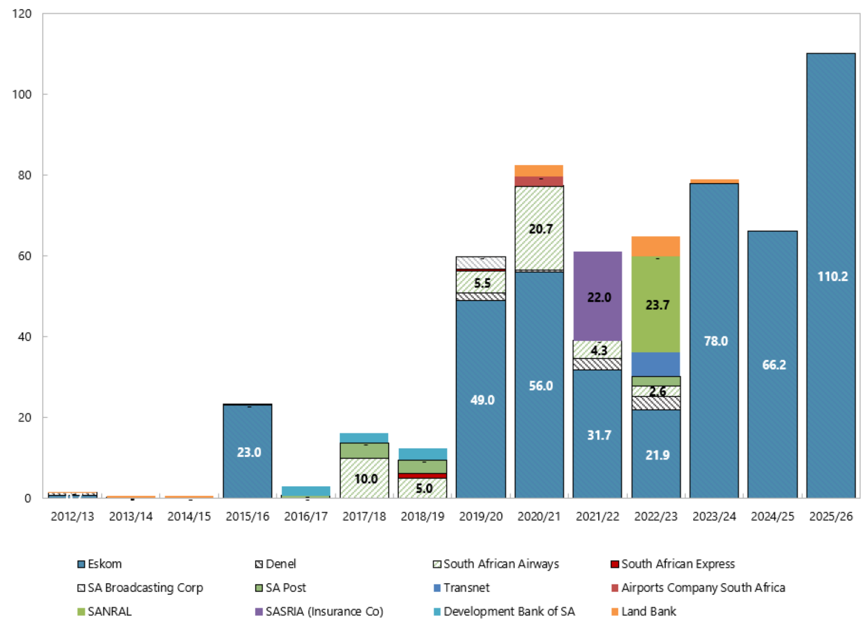
Figure 3.19. Liabilities of Select SOCs in 2020−21 (R Billion)



Source: Audited financial statements (2020-2021) of select non-financial corporations

157. **SOCs remain a major source of fiscal risks for the government.** Over the past decade, the government has increased financial support to SOCs through equity injections and loans (Figure 3.20). The growing support culminated in the Eskom Debt Relief deal, proposed via a dedicated Debt Relief Bill in February 2023 for the total amount of R254 billion or 4 percent of GDP, which is recorded by the NT in the budget documents as part of financing transactions (Appendix VII). Other major SOCs have also received financial support from the budget, although, at a much lower scale as compared to Eskom. As discussed in Principles 2.4.2, 3.2.3, and 3.3.1, the Eskom rescue operation has an impact on the volume of public debt and guarantees issued to cover this debt relief effort. At this stage, data on the finances of major SOCs indicate that the state interventions have not been satisfactory, and measures to improve their finances to turn SOCs to a sustainable profitable path have proved to be insufficient and will require a more hands-on involvement from the NT to bring results.

Figure 3.20: NT Direct Budget Interventions to Provide Financial Support to SOCs
(R Billion, Multiple Years)[1]



Source: Annual Budget Reviews, Annual Estimates of National Expenditures, Eskom Debt Relief Bill (2023), South African Post Office SOC Ltd Amendment Bill (2023).
1/ Guarantees provided to SOCs are covered separately in Principle 3.2.3.

158. The authorities are implementing wide-ranging reforms of SOCs responding to findings of the Judicial Commission of Inquiry into Allegations of State Capture, Corruption and Fraud in the Public Sector including Organs of State. The mission was informed that the DPE has drafted a SOC ownership policy, and that an SOC bill will replace the existing ownership and governance framework. While being a good initiative, the authorities should exercise utmost care in restructuring the ownership system in the country, specifically, as it relates to establishing a SOE holding company. The global experience with placing SOCs under the management of such holding companies has been diverse, and not performing as expected, leading to state capture and instances of power abuse, including from political and private corporate interference.

159. Centralization of SOC ownership and oversight can be carried out in multiple forms, as recognized by the OECD. One of such forms includes establishing of a centralized oversight body within a central level Ministry or Department to officially carry this mandate. This way, the government can maintain control over SOCs, as an owner, and avoid pitfalls of a weak governance environment susceptible to corruption risks and power abuse.

3.4. Recommendations

160. While there are fiscal risks management practices in place, quantification, analysis and disclosure varies among risk categories. The NT performs analysis on most risks categories covered in this pillar, but the information is fragmented and doesn't provide a comprehensive view, including from SOC's, which is the most significant source of fiscal risks.

161. Based on the above assessment, the evaluation highlights the following priorities for improving fiscal risks management and transparency. In addressing these recommendations and strengthening their FRS, the authorities may consider utilizing the IMF Fiscal Risks Toolkit, including the overarching portfolio perspective on a spectrum of fiscal risks – Fiscal Risks Assessment Tool (FRAT).

- **Recommendation 3.1. Strengthen analysis of macroeconomic risk, specific risks, and long-term risks in the Fiscal Risk Statement (FRS) by:**
  - Undertaking sensitivity analysis of the impact of changes in key macroeconomic indicators on government expenditure, revenue, borrowing and debt over the medium term.
  - Expanding scenario analysis to explain how the scenarios are calibrated, underlying economic assumption, and key transmission channels to the economy and fiscal aggregates.
  - Expanding the FRS coverage and analysis to include other categories, such as financial sector, litigation, environmental, climate change, others.
  - Increasing the visibility of the FRS and its outreach by publishing the FRS as a separate document of the annual budget documentation.
  - Producing and regularly publishing long-term fiscal forecasts covering at least 30 years for the main fiscal aggregates with multiple economic, demographic and risk scenarios
- **Recommendation 3.2. Increase transparency of contingency and unallocated reserves' use, by:**
  - Introducing utilization disclosure for contingency and unallocated reserves, including in-year reporting.
  - Informing contingency reserve estimation with the historical data on natural disasters recovery costs (see Principle 3.2.7).
- **Recommendation 3.3. Strengthen Asset and Liability Management by publishing a medium-term debt management strategy.**
- **Recommendation 3.4. Introduce limitation to the guarantee exposure by establishing a ceiling that can apply to the total stock of guarantees or to the annual issuance of new guarantees.**

- **Recommendation 3.5. Strengthen the disclosure of risks arising from PPP projects by:**
  - Regularly publishing financial information on PPP projects, including total rights, obligations, future service payments and receipts for the duration of the projects (see IMF Fiscal Risks Toolkit).[67]
- **Recommendation 3.6. Introduce regular and transparent reporting on the natural resources' reserves, by volume and value, based on international standards by:**
  - Introducing centralized disclosure of the estimated volume and value of natural resource assets per major mineral type, based on international standards, and subjecting the reserves estimates to different scenarios including those from the market prices fluctuation.
  - Consider joining the EITI initiative to instill greater transparency on the use and availability of the country's natural resources.
- **Recommendation 3.7. Integrate natural disaster risk into budget contingency planning, and disclose the fiscal impacts of natural disasters by:**
  - Continuing to develop, complete and publish its review of a financing strategy for natural disasters, and integrate risk analysis into budget contingency allocations.
- **Recommendation 3.8. Strengthen the risk management of SNG assets and liabilities by implementing strategies to enhance collection of overdue service charges and settle unpaid bills.**
- **Recommendation 3.9. Strengthen the level of disclosure on SOCs, and develop a state ownership policy for SOCs based on their policy objectives by:**
  - Compiling and publishing regular aggregated report on state ownership, including summary of all transfers between SOCs and the government in one document, to demonstrate the net fiscal effect of SOCs on the budget.
  - Defining and legislating the explicit rationale for SOCs ownership, amending primary and secondary legislation accordingly.

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[67] IMF Fiscal Risks Toolkit, among other tools, includes PPP Fiscal Risk Assessment Model (PPPFRAM), accessible here: https://infrastructuregovern.imf.org/content/PIMA/Home/PPPs-and-PFRAM.html

Table 3.7. Summary Evaluation: Fiscal Risks

	Principle	Rating	Importance	Rec
3.1.1	**Macroeconomic Risks**	**Basic:** Budget documents present macroeconomic and fiscal scenario analysis but sensitivity analysis is focused on the debt portfolio	**Medium**: Steady decline in real growth since 2010, and revenues that are more volatile than GDP growth.	**3.1**
3.1.2	**Specific Fiscal Risks**	**Good:** NT regularly discloses some categories of specific fiscal risks, their magnitude and potential mitigation measures but lacks discussion on the likelihood of their materialization.	**Medium:** Growing magnitude of specific fiscal risks, i.e., SOCs at 13.7 percent of GDP, RAF liabilities, and local governments arrears.	**3.1**
3.1.3	**Long-term Fiscal Sustainability**	**Not met:** The FRS presents 8-year fiscal projections focusing on the impact of different economic growth scenarios but does not factor in other long term fiscal pressures.	**Low:** Long term demographic projections are relatively favorable for fiscal sustainability	**3.1**
3.2.1	**Budgetary Contingencies**	**Good:** Contingency and unallocated reserves are quantified and disclosed regularly, access criteria are defined, but utilization is not detailed.	**Medium:** Contingencies are growing from R5 billion to R6 billion in 2023/25 (0.5 percent of GDP) and expected to reach R10 billion in 2025/26 (0.7 percent of GDP).	**3.2, 3.7**
3.2.2	**Asset & Liability Management**	**Good:** Borrowing is authorized by law and the BR discloses the risks surrounding the borrowings of national government, but an overall strategy is not published.	**Low:** Asset and liability management activities could benefit from a holistic overview and asset/ liability management strategy.	**3.3**
3.2.3	**Guarantees**	**Basic:** NT regularly publishes information on government guarantees, disclosing the beneficiaries and gross exposure, there is no legislated ceiling established for guarantees.	**High:** Total volume of guarantees issued by the Government has increased from 6 percent of GDP in 2012/13 to 9 percent of GDP in 2021/22.	**3.4**
3.2.4	**Public Private Partnerships**	**Basic:** NT publishes aggregate amount of PPP exposures and related contingent liabilities in the BR and FRS, does not report on PPPs' annual receipts.	**Medium:** The country's PPP portfolio is currently insignificant at only 0.1 percent of GDP. Prioritized as Medium given the country's plans to raise the use PPPs.	**3.5**
3.2.5	**Financial Sector Exposure**	**Advanced:** Regular assessments of financial sector stability, including stress-tests of the banking system, and explicit support to the financial sector are published.	**Low:** No public banks and total exposure to development financial institutions was only 2.5 percent of GDP in 2021/22.	
3.2.6	**Natural Resources**	**Not met:** Authorities regularly publish natural resource related revenue but lack information on the value and volumes of available natural resource reserves.	**High:** Applying an IMF FAD methodology, the value of natural resources in the Public Sector Balance Sheet is estimated at R5 Trillion.	**3.6**
3.2.7	**Environmental Risks**	**Good:** Risks related to natural disasters are identified in a broad range of different government documents, but they are not quantified, consolidated, or managed according to a published strategy.	**Medium:** Fiscal responses to natural disasters due to floods and droughts have been small, although identifying risks from climate transition are increasing in importance.	**3.2, 3.7**
3.3.1	**Sub-national Governments**	**Advanced:** The finances of SNGs are published quarterly, provinces can only borrow for capital projects and there is a numeric limit on local governments' borrowing.	**Low**: Growing arrears and unpaid bills of SNG should be managed.	**3.8**
3.3.2	**Public Corporations**	**Basic:** Authorities publish information on transfers between the government and SOCs in multiple sources, there is no report on the overall financial performance of the public corporation sector, and the SOC ownership policy is not yet adopted.	**High:** SOCs' existing and potential liabilities to the amount of 13.7 percent of GDP is the most significant and growing risk.	**3.9**

IV. Appendices

APPENDIX I. MAIN FISCAL REPORTS PUBISHED IN SOUTH AFRICA

The following main fiscal reports are published in South Africa and were used during the evaluation:

- **Statement of National and Provincial Governments' Revenue, Expenditure and National Borrowing** which reports monthly data on revenue, expenditure and financing and is produced by the National Treasury (NT) within 30 days of the end the month. Revenue data are broken down by each tax while expenditure is broken down by vote and broad economic classification categories.

- **Provisional Financing Figures** published by National Treasury (NT) within 3-4 days of the end of the month presenting high-level figures of financing.

- **Quarterly Spending Data** which reports expenditure of national government departments disaggregated by broad economic classification categories and published by NT 30 days after the end of the quarter.

- **Provincial and local government in-year figures** published quarterly by the NT within 2 or 3 months of the end of the quarter, showing receipts and expenditure data for Provincial and Local Governments.

- **Quarterly Bulletin** published quarterly by the SARB and shows government finance statistics for the consolidated general government, in line with GFSM 2014, as well as information on non-financial and financial public corporations.

- **Financial statistics of consolidated general government and its subsectors** which are a number of publications by StatsSA show revenue and expenditure data for general government and its subsectors, in line with GFSM 2014 and the Classifications of Functions of Government (COFOG).

- **Consolidated Financial Statistics** which presents consolidated financial statements of National Government as well as information on major public entities such as Eskom, Transnet and Telkom.

- **Debt management report by NT** providing an overview of governments borrowing requirement, financing, holdings of debt instruments and risks.

- **State of Local Government Finances** published annually and showing the financial health of local governments.

APPENDIX II. PUBLIC SECTOR INSTITUTIONAL COVERAGE IN SOUTH AFRICA

In financial year 2021/22 South Africa's public sector comprised 867 units. As shown in Table 1.2, these can be broken down as:

- **Provincial governments,** which comprises 8 provincial legislators, with 115 provincial government departments, 57 extra-budgetary entities and a further 21 provincial government business enterprises that require further classification as extra-budgetary units or as provincially controlled public corporations.

- **Local governments,** which comprises 44 district councils, 205 local municipalities, 8 metropolitan councils, and a further 53 local government entities that require further classification as extra-budgetary units or municipal controlled public corporations.

- **Public non-financial corporations,** which comprises 38 entities controlled by national or provincial governments. Included are corporations delivering key public services such as Eskom, Transnet, Telkom, and several provincial controlled water companies, as defined by the PFMA (Schedule 2 and Schedule 3B).

- **Financial public corporations,** which comprises 14 entities including the SARB, Government Employees Pension Fund, Export Credit Insurance, development banks, life and non-life insurance providers. No public banks exist.

APPENDIX III. SOUTH AFRICA'S NATIONAL CLASSIFICATIONS OF FUNCTIONS

Function	Description	Difference with COFOG (if applicable)
Community development	The community development function supports access to housing and basic services, affordable public transport, and spatial transformation and urban development.	
Economic development	The economic development function promotes faster and sustained inclusive economic growth to address unemployment, poverty and inequality.	Expenditure related to innovation, science and technology is included in the economic development function group, while in the statistical tables it is classified as research and development according to the function to which it relates.
General public services	The general public services function helps to build a state that is capable of playing a developmental and transformative role, as envisioned in the National Development Plan.	In the key spending categories, transfers made to international organizations are classified within the category of the paying department. In the statistical tables, they are classified under general public services.
Health	The health function supports the provision of equitable access to health care services.	
Learning and culture	The learning and culture function includes basic and post-school education and training, as well as sport, arts and culture.	Expenditure in this category includes spending related to school and tertiary education, as well as arts, culture, sport and recreation. In the statistical tables, this expenditure is included as part of either the education or recreation, culture and religion functions.
Peace and security	The peace and security function receives funding over the medium term for safety and security, and the criminal justice system.	This includes expenditure by defense, police, justice and home affairs. In the statistical tables, the bulk of this expenditure is included in the public order and safety function, with home affairs split between general public services and public order and safety.
Social Development	The social development function facilitates access to social grants and welfare services to reduce poverty and inequality, protect children, and empower women, young people and people with disabilities.	

Source: MoF, Budget Review 2023, Chapter 5.

APPENDIX IV. SOUTH AFRICA: LEGAL FRAMEWORK FOR THE COMPILATION OF AUDITED FINANCIAL STATEMENTS

Section 8 of the PFMA requires that the NT prepares consolidated financial statements in accordance with generally recognized accounting practices covering the national departments, public entities under the ownership control of the national executive, constitutional institutions, the SARB, AGSA, and Parliament, and that those statements be submitted to AGSA for audit within three months after the end of the financial year.

AGSA must audit the consolidated financial statements and submit an audit report within three months of receipt of the statements. The Minister of Finance is required to submit the financial statements and the audit report to Parliament for tabling in both houses within one month. The consolidated financial statements must be made public when submitted to Parliament. If the Minister fails to submit the statements and reports within seven months after the end of the financial year, the Minister must submit to Parliament a written explanation setting out the reasons for not submitting, while AGSA may issue a special report on delays. Similar arrangements exist for provincial governments in Section 19 of the PFMA, where the Member of the Executive Council for finance must submit the report to the provincial legislature according to similar timelines.

To facilitate the preparation of the consolidated financial statements, the timeliness for individual financial statements of entities is also set. Departments and Constitutional Institutions must submit their individual financial statements to AGSA and the relevant Treasury (National Treasury for national government and provincial treasuries for the respective provinces) within two months after the end of the financial year to enable auditing and the preparation of the consolidated financial statements. AGSA must audit these individual financial statements within two months after the receipt of the statements. In addition, such an entity must submit within five months after the financial year end to the relevant treasury and the executive authority responsible for that department or entity an annual report on the activities of the entity, including the audited financial statements and the audit report on those statements. In the case of constitutional institutions, these reports need to be submitted to parliament within one month after receiving the audit report. The same timelines are required for the financial statements of public entities.

For municipalities, the MFMA, Section 121 requires that every municipality and every municipal entity prepare an annual report and submit these to the municipal council within nine months after the end of the financial year. The annual report must include the annual financial statements as well as the AGSA report on those financial statements. The municipal and consolidated municipal financial statements must be prepared in accordance with generally recognized accounting practices as prescribed in the PFMA. While the individual financial statements need to be submitted to the AGSA within two months after the end of the financial year, the municipality’s consolidated financial statements must be submitted within three months after the financial year. The law requires that the statements be audited within three months after receipts—if not the Auditor-General needs to submit a report outlining the reasons for the delay to the relevant municipality or municipal entity, and to the relevant provincial legislature and Parliament.

APPENDIX V. SOUTH AFRICA: NATURE OF MATERIAL IRREGULARITIES IDENTIFIED IN 2021/22

Group of MIs	Number and detail of Mis		
Procurement and payment	**41 Cases** Non-compliance in procurement processes resulting in overpricing of goods and services procured or appointed supplier not delivering	**8 Cases** Uneconomical procurement resulting in overpricing of goods and services procured	**77 Cases** Payment for goods or services not received / of poor quality / not in line with contract or to ineligible beneficiaries
Resource Management	**16 Cases** Assets not safeguarded, resulting in loss	**13 Cases** Loss of investments	**19 Cases** Inefficient use of resources – no / limited benefit derived for money spent
Revenue Management	**17 Cases** Revenue not billed	**6 Cases** No measures taken to recover debt and interest was not charged on unpaid debt	**1 Case** Receipts not recorded / deposited
Interest and penalties	**60 Cases** Eskom, water boards, lenders and suppliers not paid on time resulting in interest	**21 Cases** Payroll and value-added tax returns not paid on time or incorrectly calculated resulting in SARS interest and penalties	
Fraud and compliance	**4 Cases** Suspected fraud, resulting in loss	**3 Cases** Non-compliance, resulting in penalties	
Harm to the general public	**8 Cases** Non-compliance with environmental legislation resulting in pollution of water resources	**1 Case** Landfill site mismanagement resulting in harm to the public	
Harm to public sector institutions	**24 Cases** Full and proper records not kept as evidenced by repeat disclaimed opinions – resulting in substantial harm to municipalities	**7 Cases** Non-submission of financial statements	
Misuse of material public resources	**1 Case** Under-utilization of a material public resource		

Source: AGSA, Integrated Annual Report 2021/22

APPENDIX VI. FORECAST RECONCILIATIONS IN THE BR 2023

Table 3.1 Revised gross tax revenue projections

R billion	2021/22[1]	2022/23	2023/24	2024/25	2025/26
Revised estimate	**1 563.8**	**1 692.2**	**1 787.5**	**1 907.7**	**2 043.5**
Buoyancy	*2.07*	*1.42*	*1.06*	*1.06*	*1.09*
2022 MTBPS	**1 563.8**	**1 681.9**	**1 788.9**	**1 907.3**	**2 036.5**
Buoyancy	*2.07*	*1.30*	*1.03*	*1.00*	*1.06*
2022 Budget	**1 547.1**	**1 598.4**	**1 694.3**	**1 807.6**	
Buoyancy	*1.93*	*1.09*	*1.06*	*1.06*	
Projected improvement against 2022 MTBPS	–	10.3	-1.4	0.4	7.0
Projected improvement against 2022 Budget	16.7	93.7	93.2	100.1	

1. Actual outcome
Source: National Treasury

Table 3.4 Changes to main budget non-interest expenditure over MTEF period

R million	2023/24	2024/25	2025/26	MTEF total
Non-interest expenditure (2022 Budget)	**1 657 028**	**1 733 044**	**1 820 169**	**5 210 242**
Spending pressures funded in the 2023 Budget	**91 022**	**61 337**	**74 660**	**227 019**
Carry-through of 2022/23 public-service wage increase	14 973	15 198	15 426	45 597
Infrastructure-related spending	11 046	13 830	17 880	42 757
Service delivery[1]	16 095	17 568	20 238	53 902
Security cluster	4 396	4 503	5 474	14 373
COVID-19 social relief of distress grant	36 081	–	–	36 081
Social grants increase with CPI inflation	5 890	9 114	14 572	29 575
Other allocations[2]	2 539	1 124	1 069	4 732
Changes in provisional allocations not assigned to votes[3]	**-29 678**	**-25 686**	**-32 046**	**-87 410**
Change in reserves and other adjustments[4]	**-24 252**	**6 410**	**6 648**	**-11 194**
Revised non-interest expenditure (2023 Budget)	**1 694 120**	**1 775 105**	**1 869 432**	**5 338 656**
Change in non-interest expenditure from 2022 Budget	37 092	42 060	49 263	128 415

1. Health, education and local government free basic services
2. Details are in Table 5.2
3. Includes Infrastructure Fund and SARS provisional allocations, rescheduling of infrastructure projects and other adjustments and removal of Eskom funding provision from expenditure to financing
4. Includes changes in contingency and unallocated reserves, skills development levy and NRF payments adjustments
Source: National Treasury

Table 4.3 Impact of tax proposals on 2023/24 revenue[1]

R million		Effect of tax proposals
Gross tax revenue (before tax proposals)		**1 800 456**
Budget 2023/24 proposals		**-13 000**
Direct taxes		**-9 000**
Personal income tax		
Increasing brackets by inflation	–	
Revenue if no adjustment is made	*15 700*	
Increase in brackets and rebates by inflation	*-15 700*	
Rooftop solar tax incentive for individuals	-4 000	
Corporate income tax		
Expansion of section 12B - renewable energy incentive	-5 000	
Indirect taxes		**-4 000**
Fuel levy		
Not adjusting the general fuel levy	-4 000	
Specific excise duties		
Increasing excise duties on alcohol by inflation	–	
Increasing excise duties on tobacco by inflation	–	
Gross tax revenue (after tax proposals)		**1 787 456**

1. Revenue changes are in relation to thresholds that have been fully adjusted for inflation
Source: National Treasury

Table 3.3 Revisions to 2022/23 non-interest expenditure since 2022 Budget

R million	2022/23
Non-interest expenditure (2022 Budget)	**1 673 450**
Upward expenditure adjustments	**77 419**
2022 MTBPS	54 117
Special appropriation[1]	*30 014*
Other allocations in the AENE[2]	*24 102*
Second adjustments appropriation	23 302
South African Airways	*1 000*
South African Post Office	*2 400*
2022/23 public-service wage increase	*14 602*
Political parties fund	*300*
Land Bank section 6 provision	*5 000*
Downward expenditure adjustments	**-54 039**
Projected underspending	*-19 427*
Other downward adjustments[3]	*-34 613*
Revised non-interest expenditure (2023 Budget)	**1 696 829**
Change in non-interest expenditure from 2022 Budget	**23 379**

Source: 2023 Budget Review

Appendix VII. 2023 Eskom Debt Relief Initiative

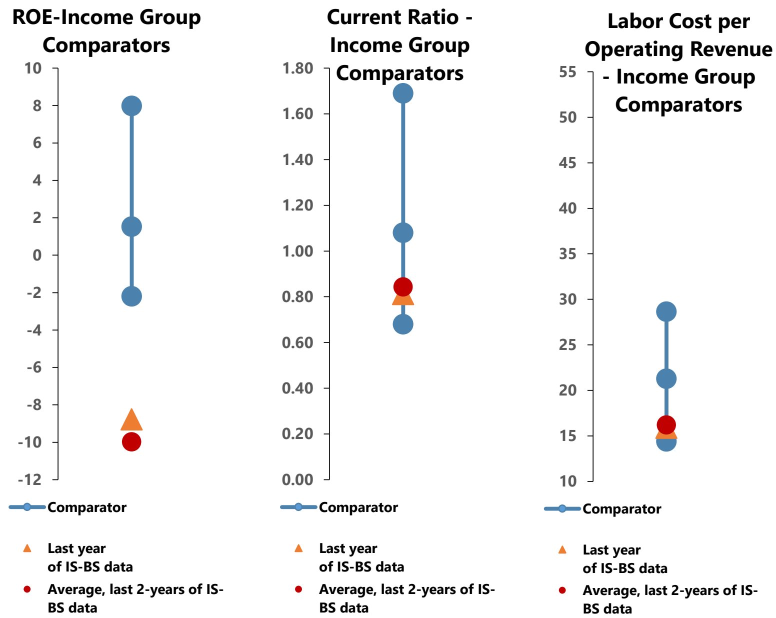
Eskom has struggled with its operating performance for the past decade, but this was especially the case during the state capture period between 2010 – 2018 (refer to the Judicial Commission of Inquiry into Allegations of State Capture, Corruption and Fraud in the Public Sector including Organs of State).[68] Eskom has experienced high level of corruption, leading to stripped cash flows, rigged procurement and bad maintenance and forward planning management practices. As a result, its existing power generation infrastructure declined and failed, and its financial position deteriorated. Prolonged load-shedding (power switch-offs) had been employed by Eskom to reduce the demand on the grid since as early as 2007 but became progressively more frequent and longer. The company is working on upgrading its generation facilities (mainly, coal powered) to improve energy supply, but the situation remains dire with daily load-shedding. The company continuously benefitted from a government loan guarantee facility equivalent to about 6 percent of GDP. Despite this support, Eskom continued to register net losses which averaged 0.4 percent of GDP per year between FY 19/20 and FY 2021/22.

The rapidly deteriorating Eskom's financial condition led the government to intervene in 2023. Growing liabilities and debt service costs had increased the risk of Eskom's default, and to prevent this, the NT proposed the Eskom Debt Relief Bill for a total of R254 billion (4 percent of GDP) to provide the company with convertible subordinated loans to finance its debt service costs and capital investment. This relief is planned in three tranches over the following financial years: 2023/24 R78 billion; 2024/25 R66 billion, and 2024/25 R40 billion. These loans shall be converted to Eskom's equity upon compliance with the NT's loan conditions, and therefore, should be recorded as capital transfers to adhere to the nature of the transaction according to the international guidelines. This amount is further supplemented by the government's taking over of up to R70 billion of Eskom's debt in 2025/26. The arrangement is safeguarded by strict conditions to safeguard public money and achieve operational and financial improvement. Its effectiveness remains to be established.

Eskom remains overleveraged and undercapitalized, consequence of prolonged underinvestment into maintenance of the existing facilities and new investment infrastructure. Concurrent losses over the past years deteriorated Eskom's equity, and negatively impacted its cash flows. Its debt-to-equity ratio fluctuates around 1.7−1.9 over the past three years, by far exceeding the good practice of up to 0.5, indicating that the company' equity is exhausted to sustain its activities. The Eskom Debt Relief deal came in time to alleviate its high debt burden, which combined with insufficient operational cash flows, reduces Eskom's options to be financially viable without government support measures. Comparative charts of Eskom performance against its peers are presented below and indicate that Eskom is performing far below its sector and income group peers (Graph V).

[68] https://www.statecapture.org.za/site/information/reports

Graph V: Eskom Performance Analysis, as Compared to Selected Peer Companies via IMF FAD SOE Stress Test Tool[69]



Source: Eskom Debt Relief Bill, NT Annual Budget Review, IMF Staff assessment.

[69] https://www.imf.org/en/Topics/fiscal-policies/Fiscal-Risks/Fiscal-Risks-Toolkit/Fiscal-Risks-Toolkit-SOE-ST