



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

SOUTH AFRICA

Fiscal Transparency Evaluation

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High-Level Summary Technical Assistance Report Fiscal Affairs Department

South Africa: Fiscal Transparency Evaluation Prepared by

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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: 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's practices are strongest in fiscal reporting, followed by fiscal forecasting and budgeting, and weakest in fiscal risk analysis. South Africa's Balance Sheet public sector net worth – including assumptions for the values of non-reported assets – is estimated to be 100 percent of GDP. There is room to improve South Africa's fiscal reporting, budget transparency, and management of fiscal risks.

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Background

In response to a request from the National Treasury, a team from the IMF's Fiscal Affairs Department (FAD) visited Pretoria, South Africa from July 11–25, 2023, to conduct a Fiscal Transparency Evaluation (FTE). The FTE assessed and benchmarked South Africa's fiscal transparency institutions and practices against the IMF's Fiscal Transparency Code.

South Africa has long scored well in the Open Budget Index (OBI) and is now being ranked second out of 120 countries surveyed. 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.

The FTE is the IMF's fiscal transparency diagnostic. It provides an analysis of the scale and sources of fiscal vulnerability, an estimate of the financial position of the entire public sector, and targeted recommendations to improve fiscal transparency. The evaluation for South Africa, based on the Fiscal Transparency Code, comprised an assessment of a set of 36 principles built around three pillars: Pillar I: fiscal reporting; Pillar II: fiscal forecasting and budgeting; and Pillar III: fiscal risk analysis.

Summary of Findings

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, 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).

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 been made in the coverage of stocks where there is now broader coverage of financial assets and liabilities, and fiscal reports are broadly in line with international standards. Additionally, concerted efforts have been made to improve the timeliness of reporting. Nonetheless, some room for improvement remains. 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 improved, and some information published, such as the tax expenditure report, is not effectively used to inform policy discussions.

South Africa's strong reputation for budget transparency is well deserved, although fiscal credibility should be strengthened. 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. However, the credibility of the fiscal framework has been undermined by a lack of accountability to clear fiscal objectives. There is also a need to improve the effectiveness and transparency of the public investment management system and address significant deficiencies in public procurement.

South Africa practices some analysis and disclosure of fiscal risks, and this should be built upon to better manage the substantial risks to public finances. The National Treasury performs analysis on most risk categories covered by this assessment. However, disclosure is not consistent over time. Significant amount of information to support the fuller disclosure of fiscal risks is available in various NT documents, yet such fragmented information is difficult to piece together. State-Owned Corporations are identified as a large source of contingent liabilities and a major risk category, but levels of disclosure can be improved.

Summary of Recommendations

The evaluation highlights several recommendations for improving the comprehensiveness, quality, comparability, and integrity of fiscal reports. This includes expanding and aligning fiscal reporting on the public sector using international guidelines; currently, exclusion of large financial public corporations from fiscal statistics results in 40 percent of public sector liabilities not being reported in fiscal statistics. Strengthening the disclosure of tax expenditures to facilitate policy discussions is important given that revenue of almost 5 percent of GDP was forgone through tax expenditures in 2020/21. South Africa should also improve the adherence to the timelines for the compilation, audit, and publication of audited financial statements, which is important as only 41 percent of audits performed during fiscal year 2021/22 were conducted in the legislated timelines.

South Africa should improve budgeting and fiscal forecasting. Enacting and enforcing fiscal rules that are precise, time bound and stable over time, and enhancing independent evaluation of official forecasts will strengthen budget credibility. This is important, given that public debt has risen in almost every year since 2009, in contradiction to the long-standing fiscal objective to stabilize debt. Actions to address deficiencies in procurement is also critical, including through conducting an assessment of the public procurement system against international standards. Independent reports have highlighted procurement deficiencies as a key avenue for rent seeking.

The FTE highlights a number of priorities for improving fiscal risks management and transparency. This includes strengthening analysis of macroeconomic risk, specific risks, and long-term risks in the Fiscal Risk Statement, and regularly publishing financial information on PPP projects. Including a summary of all transfers between State Owned Corporations (SOCs) and the government in one document, to demonstrate the net fiscal effect on the budget, would greatly strengthen the level of disclosure on SOCs. Introducing limitations to guarantee exposure can be supported by establishing a ceiling that can apply to the total stock of guarantees or to the annual issuance of new guarantees.