Outline of Presentation

Summary

• Key messages
• Recommendations for MTEF 2019

Detail

• Discussion of key messages
• Concluding thoughts
For the last six years, South Africa experienced a centrally-driven fiscal adjustment programme.

The initial targets were poorly performing spending units or programmes (infrastructure as an example) and non-priority expenditures (consultants, travel etc.).

Expenditure Cuts Always Raised The Issue Of How Far And When Expenditure Cuts Begin To Impact Economic Growth Or Service Delivery.

MTBPS 2018 Represents first major policy statement in six years that appears to halt centrally-driven cuts.

In 2018 and beyond, onus is on departments to make important trade-offs in view of increased personnel costs without corresponding compensation from the central level.
Key messages

• Downward revisions to spending ceilings over the last six years have produced mixed results for priority expenditure for children.

• The MTBPS 2018 signals the first major policy statement in six years that appears to halt centrally-driven cuts, but departments will now have to decide on difficult internal trade-offs.

• In spite of a general fiscal austerity climate, fiscal space for priority expenditures for children has increased and should continue its upward trend over the 2019 MTEF, albeit at a much slower rate.

• Fiscal space grew, in part, because of demonstrated efficiencies in some departments, and the government’s own commitment to the country’s social wage.

• There is a growing record of innovation and efficiencies in government departments, but this needs to be expanded in order to justify the allocation of additional financial resources for social sector departments.
UNICEF recommendations for the 2019 MTEF
UNICEF recommendations for the 2019 MTEF

Provincial governments should develop medium-term sector plans (education, health and social development) for the gradual elimination of spending arrears.

- Plans should be developed with the concurrence of the provincial treasury and the relevant line departments
- Plans should be specific about when spending arrears will be eliminated
- Clear commitment to enforce government's own benchmark for paying service providers within allotted timeframes

Priority programmes—such as Violence against Women and Children—that are funded through provinces’ equitable shares, should be reported on in annual budgets.

- Important details such as the actual amount of money spent should be reported
- The report should also focus on Outputs achieved during the past financial year and promote a results-based financing framework
UNICEF recommendations for the 2019 MTEF

Health sector efficiencies were achieved at the expense of further investments in infrastructure. Re-engage the health sector to increase infrastructure spending, especially in rural areas.

- Use clear allocation criteria in the prioritisation of rural health infrastructure
- Undertake an improvement in rural health infrastructure within the context of agreed “non-negotiable” items and strategic appointment of health staff members
- Urgently address the Supply Chain Management problems that are the cause of poor spending on provincial health infrastructure

Urgently improve the take-up of the Child Support Grant among infants and very young children.

- Ensure that new-born children are registered upon birth and that caregivers know how to apply for the CSD
- Report to the National Assembly how the identification and registration of potential beneficiaries progress against set targets as to reduce existing exclusion error.
UNICEF recommendations for the 2019 MTEF

The financing of the school sanitation programme should be fully implemented and education planners should carefully balance spending on school sanitation and other parts of the school infrastructure budget.

- Detailed unit costs models for school sanitation should be published.
- The government should provide evidence of how unit costs are controlled and how innovation can help drive down the unit costs in large-scale water and sanitation projects.

Transfers to NPOs have suffered in both national and provincial governments, leading to recurring under-spending. The government should expedite the new NPO financing framework and report on progress in implementing provincial equitable share funding set aside for this purpose

- Important details such as the actual amount of money spent should be reported
- The report should also focus on Outputs achieved during the past financial year and promote a results-based financing framework
Downward revisions to spending ceilings have impacted on planning and prioritisation
Downward revisions to spending ceilings have impacted on planning and prioritisation

<table>
<thead>
<tr>
<th></th>
<th>2017/18</th>
<th>2018/19</th>
<th>2019/20</th>
<th>2020/21</th>
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<tbody>
<tr>
<td><strong>2017 Budget Review</strong></td>
<td>R1.2 trillion</td>
<td>R1.3 trillion</td>
<td>R1.4 trillion</td>
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<tr>
<td><strong>2017 MTBPS</strong></td>
<td>0.32% (+R3.9 billion)</td>
<td>-0.53% (-R7 billion)</td>
<td>-1.04% (-R15 billion)</td>
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<td><strong>2018 Budget Review</strong></td>
<td>-0.08% (-R1 billion)</td>
<td>-0.12% (-R1.6 billion)</td>
<td>-0.27% (-R3.8 billion)</td>
<td>-0.03% (-R460 million)</td>
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<td><strong>2018 MTBPS</strong></td>
<td>-0.59% (-R7.2 billion)</td>
<td>-0.01% (-R137 million)</td>
<td>0.00% (R0.00)</td>
<td>0.00% (R0.00)</td>
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Budget Review 2017 and the MTBPS 2017 put into place some of the most demanding spending cuts.

The severity of the actual and proposed cuts has forced departments to make tough decisions.

Spending on infrastructure, transfers via the equitable share mechanism, conditional grant funding, and transfers to NPOs have suffered.
While social sector spending rose above inflation over this period, the expenditure cuts have negatively impacted on the overall well-being of children.

In view of the recent and severe cuts to key social services programmes, and in the absence of clear criteria for informing trade-offs, great care is required to safeguard spending on children.

This situation requires intensive monitoring, especially for spending that is done via provinces’ equitable shares.

Departmental reporting of priority programmes in annual budgets (such as violence against women and children) is recommended.
The MTBPS 2018 spending framework continues to drive strong trade-offs that produce mixed benefits for children’s programmes.
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The nominal commitment to children’s programmes is supported in both MTBPS 2017 and 2018.

However, this commitment competes with strong investment in post-school education and training and rising debt servicing costs.

The latter items are projected to grow nearly four times faster than corresponding investment in basic education and social protection.

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Government spending by function, 2017 and 2018 MTBPS

- **Consolidated expenditure**: 1.7 (2017) vs 2.2 (2018)
- **Debt service costs**: 5.3 (2017) vs 5.2 (2018)
- **Social Protection**: 1.9 (2017) vs 1.8 (2018)
- **Health**: 1.9 (2017) vs 2.3 (2018)
- **Post-school education and training**: 2.6 (2017) vs 4.8 (2018)
- **Basic education**: 1.9 (2017) vs 1.9 (2018)

Real average annual growth over MTEF (%)

MTBPS 2018 – UNICEF for every child
The MTBPS 2018 spending framework continues to drive strong trade-offs that produce mixed benefits for children’s programmes

- Compensation gets a lower billing in 2018, but it is unclear how these estimates accommodate recent wage increases.
- Expenditure on capital seems to have recovered marginally, due to additional funds for education and health.
- Additional funding for NPOs and programmes aimed at violence reduction for children and women explain some of positive growth in transfers to NPOs.
- Expenditure on goods and services continue to show de-prioritisation of non-essential items (consultants, travel etc.)

<table>
<thead>
<tr>
<th>Category</th>
<th>2017 MTBPS</th>
<th>2018 MTBPS</th>
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<tbody>
<tr>
<td>Consolidated expenditure</td>
<td>1.7</td>
<td>2.2</td>
</tr>
<tr>
<td>Debt service costs</td>
<td>5.3</td>
<td>5.2</td>
</tr>
<tr>
<td>Payment for capital assets</td>
<td>1.2</td>
<td>1.6</td>
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<tr>
<td>Transfers to households</td>
<td>1.9</td>
<td>3.4</td>
</tr>
<tr>
<td>Transfers to NPOs</td>
<td>0.9</td>
<td>2.8</td>
</tr>
<tr>
<td>Goods and services</td>
<td>1.5</td>
<td>1.1</td>
</tr>
<tr>
<td>Compensation of employees</td>
<td>1.7</td>
<td>1.6</td>
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Real average growth over MTEF (%)
Although the reversals to education and health infrastructure cuts are only partial, it’s a move in the right direction.

Departments are likely to continue to make strategic personnel decisions that could preserve service delivery.

However, further support is needed to reduce the vacancy rate, which if left unchecked, will continue to impede service delivery.

Initial evidence from Budget 2018 suggests that provinces are using the earmarked R788 million to better finance anti-violence programmes for women and children.

Social grants for children continue to be linked to inflation, even though concerns remain that allocated amounts are not adequate.
The zero-rating of sanitary pads and the provision of free sanitary towels are important interventions, and the latter should be implemented uniformly across provinces.

Budget 2018 and the MTBPS 2018 do not provide sufficient information on progress in implementing the NHI or anticipating financial implications of roll-out over the MTEF.

Provincial social sector departments can and should strategise more effectively to protect vital spending.

A positive example are provincial health departments, which have succeeded in protecting “non-negotiable” spending (medicines, medical supplies, laboratories, HIV/AIDS spending etc.) over an extended period of time.
Provincial basic education can and should capitalise on the surge in funding for the post-schooling sector by sharply increasing the number of university-trained teachers in Mathematics, Science and English.

By merely closing the under-spending gap on social grants for children, the social development sector can increase its coverage without requesting additional financing.

Unchanged spending baselines do not mean the end of expenditure cuts: it merely displaces hard decisions to departmental level, thus implicating available fiscal space.
There is fiscal space for priority expenditures that finance children’s programmes.
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Growth in revenue, expenditure and non-interest expenditure in government budget.

- The widening gap between revenue and expenditure is caused by a larger debt servicing burden.
- Total revenue consistently exceeds non-interest expenditure.
- This would suggest that the government’s policy agenda could be affordable.
- The primary balance (difference between revenue and non-interest expenditure) approaches 0% of GDP over the new MTEF; further evidence of available fiscal space.
There is fiscal space for priority expenditures that finance children’s programmes


- “Priority expenditures” include consolidated basic education, spending on teacher training at universities, consolidated health, social grants for children and provincial social welfare.
- Overall fiscal space for priority expenditures increased from 9.5% of GDP in 2010/11 to 10.3% in 2014/15.
- The increase in fiscal space was driven by increases in tax and non-tax revenue and decreases in non-priority expenditures and external debt disbursements.
- UNICEF estimates that the fiscal space for priority expenditure will average 11% of GDP over the 2016-2020 period.

Source: UNICEF Case Study South Africa: Fiscal Space Analysis (2017)
There is fiscal space for priority expenditures that finance children’s programmes

The estimates for 2016-2020 are based on projections (cost drivers of key programmes and assumptions about economic variables etc.) and is necessarily subject to more “error” than comparable historical data.

Updates of the historical data (2010/11 to 2016/17) and new projections will be made available for discussions and deliberations in time for Budget 2019.

While mechanistic determinations of “fiscal space” are useful and help the debate, the IMF advice (2005) is still relevant: “But no simple mechanistic formulas can be offered that bypass this kind of detailed, country-specific, macroeconomic, and fiscal policy assessment.”

While we are mindful of the limitations of any fiscal space calculation, it is important to note that the protection and expansion of priority expenditures for children is an undertaking of the government.

In view of the country’s growing expenditure needs, available fiscal space must be used as efficiently as possible to extract maximum benefits for beneficiaries and stakeholders.
Innovation and efficiency are needed at both the departmental level and in service delivery institutions to expand access and improve the quality of services for children.

In a time of fiscal austerity, under-spending undermines the claims of the big three social sector departments for additional funding.

It also decreases the overall efficiency and effectiveness of spending, especially on poor children.

Underlying factors that drive under-spending such as the **deferral of payments**, due to pressures in the budgets, must be addressed as a matter of urgency.

Under-spending further undermines complementary government efforts, such as the improvement of funding and financing flows to NPOs.

NPOs in all three social service sectors have been hard hit by under-spending, thus threatening sustainable service delivery to children who need it most.
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Budget execution rates in the social development sector, 2013/14 to 2016/17

- For national DSD, under-spending caused by lower than expected uptake rates among grant beneficiaries.
- Take-up of Child Support Grant (CSG) is particularly poor for infants under 1 and orphans.
- Provinces are doing poorly on infrastructure procurement.
- Suffering the effects of cost-containment measures.
- Delivering timely NPO financing, and
- The ongoing moratorium on public servant’s appointments negatively affects execution.

MTBPS 2018 – UNICEF for every child
Innovation and efficiency are needed at both the departmental level and in service delivery institutions to expand access and improve the quality of services for children.

- Poor spending in DBE on the indirect infrastructure grant, including liquidation of appointed contractors
- PEDs are struggling with cash flows, leading to under-spending on institutions dependent on transfers
- Deferral of payments, leading to accumulating spending arrears
- Unauthorised use of earmarked/conditional funding

- For NDoH, poor spending on infrastructure grants and fewer transfers to NPOs
- Under-spending in provincial departments caused by supply chain challenges
- Procurement of emergency vehicles, slow execution of contracts, and lower rates of transfers to NPOs

MTBPS 2018 – UNICEF for every child
Innovation and efficiency are needed at both the departmental level and in service delivery institutions to expand access and improve the quality of services for children.

The education and health sectors are engaged in efficiency efforts to improve spending and to improve the quality and quality of outcomes.

In health, improvements in efficiency are focused on (Daven et al, 2017):

- Control of personnel and non-personnel costs (caps on personnel, centralised procurement of medicines, price negotiations strategies)
- Improving access (using alternative and easy-to-reach sites for accessing chronic medicines, and promoting the use of Primary health Care centres)
- Protecting non-negotiable items such as HIV/AIDS spending, medicines, laboratories etc.) and reducing costs on administration and non-core spending

While these strategies are commendable and have helped health departments cope with shrinking budgets, a separate strategy is needed to improve the effectiveness of institutions that deliver health services.
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Per capita expenditure on Primary health Care by District and immunisation rate for children younger than 1 year (District Health database)

- Large variability in spending and the outcome (immunisation) among Districts.
- In the example, a District with a per capita spending of R998 achieved an immunisation rate of 97%.
- Whereas a relatively high-spending District (R1,700) achieved an immunisation rate of only 68%.
- Understanding both internal and external factors that lead to different outcomes among Districts is an important part of efficiency and innovation.

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In education, improvements in efficiency are focused on: (DBE, 2017)

- An online learner tracking system (Learner Unit Record Information Tracking System or LURITS), which enables responsive data and assists in directing resource allocation
- An Early Grade Reading Study (EGRS), which tries to address deficits in learning quality
- Coaching teachers on-site on reading methods appears to produce the best impact on learning outcomes

LURITS should make the resource allocation process more efficient, and if the DBE can produce results from the reading study that can be scaled up affordably, then further innovations and efficiencies are possible.
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The impact of primary schools in progress of children

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<thead>
<tr>
<th></th>
<th>Literacy</th>
<th>Numeracy</th>
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<tbody>
<tr>
<td><strong>Between-school variance</strong></td>
<td>0.55</td>
<td>0.51</td>
</tr>
<tr>
<td><strong>Within-school variance</strong></td>
<td>0.38</td>
<td>0.37</td>
</tr>
<tr>
<td><strong>Total variance</strong></td>
<td>0.92</td>
<td>0.89</td>
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Researchers explain differences in performance as the result of
   - Attending different schools
   - Differences among learners within the same school.

The study traced learners in Grades 3 to 5 in 8 of the 9 provinces between 2007 and 2009.

UNICEF preliminary results show that almost **60 per cent** of the reason for why children progress at different rates can be explained by the schools they attend.

Focusing on the institutional level to improve performance and efficiency of spending will be critical to maximise spending benefits.

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<th>% variation in pupil progress attributed to schools</th>
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<tbody>
<tr>
<td><strong>Literacy</strong></td>
<td>59.30</td>
</tr>
<tr>
<td><strong>Numeracy</strong></td>
<td>58.13</td>
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Concluding thoughts

Sharp spending trade-offs over the 2019 MTEF within departments are inevitable and carry with them real danger, especially as far as investment in children’s programmes and services are concerned.

The Government has been careful to preserve fiscal space for priority expenditures for children, and UNICEF projects that this trend will continue, in spite of the harsh spending environment.

Spending efficiencies will become more central over the new MTEF, and while the health and education sectors are making serious inroads, more work is needed to make service delivery institutions more effective.

Under-spending has become the norm in social service sector departments and must be addressed to safeguard the fiscal space for children and improve service delivery overall.

This requires a strong commitment from line departments and treasuries to identify underlying causes of under-spending (for example growing spending arrears), commit to fully spend what is allocated, and intensify innovation and the search for more effective and efficient ways of using public resources to the benefit of South Africa’s children.
Thank You