



**national treasury**

Department:  
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REPUBLIC OF SOUTH AFRICA

## **PUBLIC FINANCE MANAGEMENT MECHANISMS AND PRACTICES USED IN SOUTH AFRICA'S HEALTH RESPONSE TO COVID-19**

*Background paper for Montreux Collaborative meeting, November 2021.*

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### **Introduction**

The first recorded case of COVID-19 in South Africa was confirmed by the National Institute of Communicable Diseases on 5 March 2020<sup>1</sup>. Ten days later, Government declared a state of national disaster and on 21 March highly stringent lockdown measures were implemented in the hope of containing spread or at least postpone the first wave in order to buy time to prepare the country's response. Since then, the country has experienced three large waves of infection, which have at the time of writing accounted for 2.9 million confirmed cases and more than 88,000 confirmed deaths<sup>2</sup>, the latter figure likely being undercounted as the excess deaths are estimated at 262,879<sup>3</sup>.

Healthcare in South Africa is a concurrent function of national, provincial and local levels of government. Service delivery is predominantly a provincial responsibility, with nine provincial health departments operating more than 4,000 health facilities across the country. There is also a large private healthcare sector and approximately 16% of the population is covered by private medical schemes. The South Africa's level of public health financing compares fairly well with other upper middle-income countries, in terms of total health expenditure as well as government health expenditure per capita, as a percentage of general government expenditure and as percentage of GDP. Out-of-pocket expenditure is comparatively low at 7.7% of health expenditure, far below the UMIC average of 32.6%.<sup>4</sup> However the sector nonetheless has funding constraints and quality problems, partly due a high burden of disease (especially HIV/AIDS and TB) and high personnel unit costs, and life expectancy is considerably below peer countries.

Funding the response to the COVID-19 pandemic posed a considerable challenge to South Africa's public finances, which were severely constrained even before the pandemic due to more than a decade of weak economic growth, rising debt and escalating debt service costs. Nonetheless, a relief package of R500 billion (approximately 10% of GDP) was announced by the President on 21 April 2020, which included government spending increases (R190bn), tax relief measures (R70bn) and a loan guarantee scheme (R200bn) to support economic activity.<sup>5</sup>

Funding of the health response, which is the focus of this note, was implemented through several already existing mechanisms, some of which are specifically designed for disasters and emergencies and others are more general or routine budget mechanisms used also in non-emergency situations.

### **Summary of PFM mechanisms used in the health response to COVID-19**

South Africa has a range of mechanisms in its PFM framework to respond to emergencies and other extraordinary events<sup>6,7</sup>, several though not all of which were used in the COVID-19

response. The mechanisms used are summarised in Table 1 and described in further detail below.

**Table 1. Summary of PFM mechanisms used for COVID-19**

<b>PFM mechanism</b>	<b>Description</b>	<b>Used for</b>
<b>Provincial disaster relief grant</b>	Ring-fenced transfer from National Disaster Management Centre to provinces to respond to disasters declared in terms of Disaster Management Act	Funding initial PPE requirements in provincial DOH
<b>Section 29 and virements</b>	PFMA s29 authorises spending before the 2020 Appropriation Bill was enacted (23 July 2021).  PFMA S43 authorises virements within budgets, in some cases requiring Treasury approval	Funds were unlocked by allowing treasuries to approve the shift of funds from various areas towards COVID related spending .  Was used to authorise the use of budgeted funds from NDOH vote, including R315 million in the COVID component of the HIV/AIDS grant.
<b>Special adjustment budget</b>	PFMA s30 allows Minister of Finance to table an adjustments budget during the course of the financial year. Under normal circumstances, only one adjustments budget is tabled, but in this case a special adjustment budget was tabled shortly after the main budget was passed in Parliament.	The most comprehensive mechanism used in the COVID response, whereby R21.5 billion was allocated for the health COVID-19 response.  Provinces subsequently also tabled special adjustments budgets.
<b>Emergency funding</b>	PFMA s16 allows Minister of Finance to authorise use of funds from for emergency purposes not already catered for in the budget.	Allocate R1.3 billion for COVID vaccines towards the end of the 2020/21 fiscal year.
<b>Funding for areas announced during the tabling a previous budget.</b>	Appropriation Act s6 allows Minister of Finance to authorise expenditure for areas not budgeted for but announced during the tabling of the budget.	Used to augment budgets to procure vaccine by R2.3 billion in-year.
<b>Procurement instruction notes</b>	National Treasury issued a series to allow for fast procurement and price regulation	Issuing reference price lists for PPE, exemptions from following normal procurement processes etc.

### Early short-term mechanisms

The first mechanism used was the *provincial disaster relief grant (PDRG)*, through which R466 million was channelled to provincial health departments to fund immediate PPE needs.<sup>8</sup> The PDRG is a ringfenced transfer (a “conditional grant”) that can be transferred to provinces by the national Department of Cooperative Governance and Traditional Affairs (COGTA) through its Disaster Management Centre. The grant may only be utilised when a state of disaster has been declared by the Minister of COGTA (or the Premier of a Province), and a national disaster was declared on 15 March 2015. The 2019/20 allocation of the grant was transferred to provinces on 27 March, just days before the end of that fiscal year<sup>a</sup> and in terms of the grant framework, which regulates the use of the PDRG, provinces had 6 months to utilise these funds.

On 1 April 2020, a new fiscal year started and all departments thus had new budgets and their “coffers refilled”. While the 2020/21 budget, which was tabled in February 2020, did not

<sup>a</sup> The South African fiscal year runs from 1 April to 31 March

include any specific provisions for the COVID-19 response, National Treasury issued an instruction note telling all government departments to utilise their existing budgets for immediate COVID-19 needs and that, where required, National Treasury (and in the case of provinces, Provincial Treasuries) can approve the reallocation of funds (virements) between programmes and items, with certain limitations set out in section 43 of the PFMA.<sup>9</sup> There is also a considerable flexibility for departments to reallocate funds within budget programmes, which in most cases does not require Treasury approval.

### Special adjustments budget

The most comprehensive budgetary mechanism used to fund the government-wide COVID-19 response was the tabling of a special adjustments budget<sup>5</sup> in June 2020. Adjustments budgets are regulated by section 30 of the PFMA for national process and section 31 of the PFMA for the provincial adjustment budget process and may *inter alia* provide for “adjustments required due to significant and unforeseeable economic and financial events affecting the fiscal targets set by the annual budget”. This was done only days after the main adjustment budget was signed into law. The adjustments budget was to a large extent informed by the prior announcement by the President that a R500 billion response package was being prepared, of which R145 billion was on-budget including R20 billion for the health sector and R40 billion for social protection. South Africa was in a precarious fiscal position before the pandemic, with a decade of weak economic growth, budget deficits, growing debt and rapidly escalating debt service costs. The economic recession caused by the pandemic and lockdown measures worsened this position drastically and at the time of the special adjustments budget, revenue projections for the year was revised downwards by R300 billion compared to the February budget. A large share (around R109 billion) of the spending increases therefore had to be funded through spending reductions elsewhere, with the balance of R36 billion net increase funded through increased lending.

**Table 2. Summary of allocations to the health sector in the special adjustments budget**

<b>Funding mechanism</b>	<b>COVID-19 allocation (ZAR '000')</b>	<b>Areas to be funded</b>
New COVID-19 component of HIV grant	3,450,537	PPE, testing, Cuban medical brigade, contracting private hospitals
Health Facility Revitalisation Grant	1,065,786	Infrastructure requirements for COVID19, e.g additional bed space, field hospitals etc.
National Tertiary Services Grant	297,617	Tertiary hospital COVID-19 care, e.g. ventilators and other equipment and supplies
NHI Grant	22,706	Contracting health professionals to assist with COVID-19 response
Indirect Health Facility Revitalisation Grant	200,000	Various infrastructure needs for COVID-19
National Institute for Communicable Disease	96,700	Disease surveillance and control
NDOH core budget	411,029	NDOH’s own PPE requirements, port health services, Cuban public health advisory team etc.
Provincial Equitable Share	15,955,625	Various areas of the COVID-19 response not covered or only partially covered by other allocations.
<b>Total</b>	<b>21,500,000</b>	

The health allocation of around R21.5 billion (summarised in Table 2), was also partly funded by internal reprioritisation within health departments, and approximately R17 billion was additional to the sector.<sup>10</sup> It was to a large extent informed by a cost model, which was based on projected testing and hospital bed needs from an epidemiological model, both models developed by a modelling consortium established early on in the pandemic.<sup>11</sup> The special adjustments budget also created a R3.5 billion COVID-19 component within an existing conditional grant, which was transferred to provinces and ring-fenced for specific purposes while allowing national government to set certain conditions on the use of the allocation.

### Funding of COVID-19 vaccines

South Africa's first procurement of COVID-19 vaccines was via COVAX and the partial upfront payment of R327 million was funded by a donation by the Solidarity Fund (a platform set up to manage voluntary donations and contributions from business, civil society, government and the general public). While budget provision was being made for to fund the bulk of the vaccination programme in the 2021/22 financial year<sup>12</sup>, it became clear around January that some government funding would also be required before 1 April, partly because of pre-payments required for bilateral purchase agreements with manufacturers. To this end, Minister of Finance invoked section 16 of the PFMA, which allows him to authorise expenditure (up to 2% of the total annual budget) for emergencies previously not budgeted for. Although emergency is not clearly defined in the PFMA, this section refers to expenditure which cannot "without serious prejudice to the public interest, be postponed to a future parliamentary appropriation of funds". R1.25 billion was allocated through this mechanism<sup>13</sup>, whereas R9 billion was allocated over the 2021/22 and 2022/23 financial years in the main 2021 Budget.<sup>12</sup>

Finally, a mechanism that was invoked in July 2021 is section 6 of the 2021 Appropriation Act, which authorises the Minister of Finance to authorise expenditure which was "was announced during the tabling of the 2021/22 annual budget". The Minister, during the tabling of the budget in February did announce that the allocations for vaccines may be augmented should need arise. Given the considerable uncertainty regarding vaccine availability and delivery schedule, prices and uptake/demand at the time of tabling the 2021 Budget, this mechanism provided the flexibility to adjust allocations based on assessed need and performance. R9 billion was originally made available in the contingency reserve and to date R2.3 billion was allocated using this mechanism. Further allocations can still be made, either through section 6 or other appropriate funding mechanism (e.g. section 16 or adjustments budget).

**Table 3. Summary of allocations to the vaccine rollout**

R million	2020/21	2021/22	2022/23	Total	Purpose
National Department of Health	1,100*	6,692**	2,100	9,892	Vaccine procurement, distribution, information system, private contracting
Provincial Departments of Health	0	1,500	900	2,400	Service delivery costs
Medical Research Council	150*	100	0	250	Sisonke trial, vaccine research
Government Communication and Information System	0	50	0	50	Communication campaigns
<b>Total allocated</b>	<b>1,250</b>	<b>8,342</b>	<b>3,000</b>	<b>12,592</b>	
<b>Additional potential funding</b>		TBC			Contingency reserve and emergency allocations

\* Allocated through emergency provisions in Section 16 of PFMA

\*\* R4.35 billion in main 2021/22 budget and R2.342 billion allocated in year through section 6 of the 2021 Appropriation Act.

### Emergency procurement provisions

Procurement is guided by the PFMA, the Preferential Procurement Framework Act, Treasury Regulations and National Treasury instruction notes and circulars. The two main mechanisms normally used in government procurement are (i) open tenders for items above a specified threshold, or (ii) obtaining three quotes from suppliers if the procurement is below that threshold. Given the need for more expeditious procurement for to respond items, National Treasury issued Instruction no 5 of 2020/21<sup>14</sup>, which eased some of the procurement requirements, including:

- *Invoked section 8 of the National Treasury SCM Instruction Note 3 of 2016/17* allowing departments and public entities to deviate from the normal competitive bidding process. Institutions were allowed to procure required goods and services by other means, subject to certain conditions, such as:
  - Prices not exceeding reference prices, as set out in a price list published and regularly updated by National Treasury, by more than 10 percent.
  - Goods and services conforming to the specifications issued by WHO, NDOH and Department of Trade, Industry and Competition (DTIC)
- *Amended section 9.1 of the National Treasury SCM instruction Note 3 of 2016/17;* authorising accounting officers to deviate from original contract values for construction related goods and services to 30% or R30 million (as opposed to the normal 20% or R20 million) and 25% or R25 million for all other goods and services (as opposed to the normal 15% or R15 million).

While relaxing procurement rules was seen as necessary to rapidly source PPE and other necessarily supplies in an environment of global supply shortages, it regrettably may also have opened up to abuse and corruption, particularly in PPE procurement. PPE contracts at a total value of R14.2 billion across Government became subject to investigation by the country's Special Investigative Unit, an experience the President referred to as a "disgraceful chapter that must be closed". In August 2020, National Treasury repealed Instruction no 5, thereby instructing institutions to revert back to normal procurement procedures.<sup>15</sup>

Given that only a small number of COVID-19 vaccines and vaccine suppliers are available, procuring vaccines through open tendering processes, was deemed impractical. The Chief Procurement Officer of the National Treasury therefore approved requests from the NDOH to deviate from normal competitive procurement process and source vaccines through direct negotiation with vaccine suppliers.

## Discussion

### How has programme budgeting allowed re-programming/facilitated the re-directing of resources?

South Africa has implemented programme budgeting for at least two decades. Departmental budgets are appropriated in the form of a *budget programme structure*. A budget programme is defined as a main division within a department's budget that funds a defined set of objectives as they pertain to the said division. Departments have considerable discretion to reallocate budgets within and in certain instances where between these programmes. This is laid out in section 43 of the PFMA read together with section 6.3.1 of the Treasury Regulations<sup>16</sup>, which also sets parameters within which this permissible and where approval

of the relevant treasury would be necessary. The idea is to allow enough flexibility to manage programmes effectively, while not allowing radical budget shifts between programmes which were allocated funds to meet specific objectives as approved by Parliament or Provincial Legislature.

Towards the end of the 2020/21 financial year, before the section 16 emergency allocation was made, the National Department of Health purchased AstraZeneca vaccine at a cost of R128 million without having received a specific allocation for this purpose. The department did this by identifying areas of saving/underspending in its existing budget, and was able to within budget rules, given that purchase of vaccines was seen as falling within the programme purpose of the Communicable and Non-communicable Diseases programme of the NDOH.

#### *How did spending procedures enable rapid disbursement of funds for the response?*

*Expenditure before budget is passed (section 29) of the PFMA:* The budget is usually tabled in February for Parliament's consideration. Processing it through Parliament and subsequent assent by the President takes several months and it is generally only around July that the budget laws are enacted. Section 29 allows expenditure within certain limitations and caps set as percentages of the previous year's allocations. This provision is routinely used to enable expenditure during the bridging period before, and was therefore used both in 2020/21 for the initial COVID-19 response and in 2021/22, for procurement of vaccines. This includes the transfer of funds to provinces (through conditional grants and provincial equitable share) before the passing of the national budget.

*Used of funds in emergency situations (section 16):* Towards the end of the 2020/21 financial year, section 16 of the PFMA was used to approve R1.1 billion payment for vaccines and R150 million to the Medical Research Council to carry out an implementation study, vaccinating close to 500,000 health workers. There was no opportunity for introducing a third adjustments budget given the time needed for this as there was only a month left for the financial year. Section 16, which authorises the Minister of Finance, to use funds from the National Revenue Fund to defray expenditure in emergency situations for which funds are provided for or cannot be for within current budget. Funds can be accessed by the department immediately after the finance minister signs this approval. Section 25 is the provincial equivalent of section 16 and authorisations are in these cases made by the Member of the Executive Council responsible for finance (i.e. a provincial equivalent to a finance minister).

#### *How has the robust reporting system enabled expenditure tracking?*

South Africa has well-established systems for reporting government expenditure, and did therefore not need to create specific systems for reporting of COVID-19 expenditure. Section 40 of the PFMA requires Accounting Officers to keep fully and proper records pertaining to the financial affairs of the departments. All expenditures and revenues are recorded on the Basic Accounting System (BAS) using a Standard Chart of Accounts (SCOA)<sup>17</sup>, which is a framework that provides for *uniform expenditure classifications* and comprises of codes for items used for budgeting, recording and reporting revenues and expenditures. This promotes transparency as it makes it possible to drill down to specific spending items within a given programme or project. Expenditure data can be extracted in close to *real-time* (one-day time lag), not only by line function departments themselves but also to the National Treasury and Provincial Treasuries. Routine expenditure reporting by all national and provincial

departments occurs through monthly submission of spending information through the *In-Year Monitoring (IYM)* tool. These submissions provide detail on spending by budget programme, economic classification, and funds earmarked for specific purposes either by Treasury or by Parliament. Treasuries do monthly feedback reports and engage departments on these and also present these to relevant *parliamentary committees* on a quarterly basis, in the presence of the departments under review.

Although no new financial systems were needed, National Treasury created additional categories and codes for COVID-19 in SCOA and on 7 May 2020 issued a classification circular and instructing all national and provincial departments to record COVID-19 expenditure using these codes. Specific categories for the vaccine programme were subsequently added. It was thus possible to draw COVID-19-spending data on a real-time basis and locate exactly where and how these funds were spent. In practice, there were some challenges in getting provinces to use this project code consistently and accurately, which limited the reliability of the expenditure reports produced and correcting this will continue to require ongoing engagements between National Treasury, NDOH and their provincial counterparts.

## Conclusions and lessons learnt

- A wide range of PFM mechanisms were used in the South African COVID-19 response. This included both routine budget mechanisms (such as virements and spending authorisation before budget legislation is passed) and mechanisms designed specifically for emergencies and disasters (such as section 16 emergency spending and the provincial disaster response grant).
- Different mechanisms were used for different purposes. The R21.5 billion health response (as part of R145 billion budget allocations including other areas including social protection measures) required a special adjustments budget, whereas the somewhat smaller interim and top-up allocations for vaccine purchases could be made by invoking clauses of the PFMA and Appropriation Act respectively.
- Mechanisms that allow for rapidly augmenting allocations in-year, are particularly valuable when funding needs are difficult to project, as was the case when budgeting for the COVID-19 vaccine rollout.
- Robust expenditure reporting systems and processes with additional categories for recording COVID-19 expenditure assisted to some extent in continuously evaluating budget allocations. However, inconsistent use of these categories in provincial departments has been a limiting factor.
- Relaxation of procurement rules through emergency provisions, while well-intended and may have been required to accelerate procurement of critical scarce goods and services, also carries risk of abuse and may have contributed to large scale corruption, particularly in procurement of PPE.
- The available mechanisms have generally been sufficient to fund the COVID-19 response. While there may be differing perspectives and opinions on whether the mechanisms were optimally used (e.g. timing of allocations, whether they were too small or too large or relied too heavily on reprioritisation etc.), the mechanisms themselves, and programme budgeting more broadly, have enabled rapid disbursement of funds, the implementation of a large special adjustments budget, and flexibility to augment budget allocations where required.

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