# 2019 MTBPS

## SUBMISSION TO THE SELECT AND STANDING COMMITTEES ON FINANCE

5 November 2019

**For further information, contact:**

SECTION27 | Daniel McLaren | mclaren@section27.org.za | 079 9101 453
Institute for Economic Justice | busi.sibeko@iej.org.za | 0659136881
Dullah Omar Institute | Samantha Waterhouse | swaterhouse@uwc.ac.za | 084 522 9646
Public Service Accountability Monitor | Zukiswa Kota | z.kota@ru.ac.za | 072 648 3398
Studies in Poverty and Inequality Institute | Isobel Frye | isobel@spii.org.za | 084 508 1271
Rural Health Advocacy Project | Russell Rensburg | russell@rhap.org.za | 076 309 4261
AIDC| Dick Forslund | dick@aidc.org.za | 082 895 7947
Equal Education | Sibabalwe Gcilitshana | sibabalwe@equaleducation.org.za
Children's Institute | Paula Proudlock | paula.proudlock@uct.ac.za | 083 412 4458

# Contents

# 1. Introduction

In its 2019 Medium Term Budget Policy Statement, National Treasury outlines that South Africa's GDP growth trend has continued to decline and attributes this to multiple factors, including policy uncertainty, electricity supply shocks, lower investment levels, inefficient State Owned Company investments and poor education outcomes. Frustratingly, most of the factors are endogenous and within the government's control to address. This includes the fact that declining public investment is also a cause of weak demand in the economy. It is imperative that the government acts decisively to address these challenges now, because of the serious impacts that they are having on all sectors of society.

In addition to our general approach to submissions, we have tried to provide an intersectional feminist analysis of the MTBPS. However, such analysis is hampered by the overall gender-blindness of planning, performance and budget data in the documents provided by The Treasury and in department documents. It is our hope that by raising questions related to this form of analysis we will inspire improved thinking across the state and importantly improved data collection and provision in future budgets. This is necessary so that we can begin to effect the changes to both budgets and programmes that will give real meaning to the concepts of equality and redistribution enshrined in the Constitution.

We would also like to bring to your attention that our submission approach has been deeply strained by the timelines. We have highlighted previously that the recent amendments made to the Money Bills Amendment Procedure and Related Matters Amendment Act have made it even more difficult for the public to participate. Finance committees are expected to report to the National Assembly or the National Council of Provinces on the proposed fiscal framework for the next three financial years within 15 days (reduced from 30 days) or as soon as reasonably possible after the medium term budget policy statement has been tabled. This means that the public has an even shorter timeframe within which to participate and itself has limited oversight capacity to analyse potential changes to the MTBPS. We do not consider the timelines from this MTBPS to be reasonable at all. The reduction in time for oversight of the medium-term fiscal frameworks, which are at the core of fiscal policy, directly contradicts the Constitutional requirement to 'encourage the public to participate in policy-making'.

**What the BJC means by 'intersectional feminist budgeting'**

Our analysis is 'non-binary' – we do not focus only on the categories 'women[sic]/girls' and 'men/boys' when undertaking 'gendered' analysis because this fails to recognises the spectrum of gender identifications or to understand how gender non-conforming people are affected across departments, programmes and budgets. We note a tendency in Government Frameworks to focus on 'gender' in terms of womxn who were born biologically female and continue to identify as womxn.[1] The BJC uses the spelling 'womxn' to denote our recognition of any person identifying as 'womxn' and in recognition of gender diversity.

Gendered analysis has generally relied on a limited notion of 'womxn's issues' such as gender-based violence, sexual and reproductive health, or womxn's representation etc. These are critical areas and must receive the attention they do, however a feminist analysis recognises the broader impacts of structural violence on womxn and gender diverse people, resulting not only from capitalist neo-liberal approaches but also from embedded patriarchy and heteronormativity and consider how these norms manifest in people's daily lives at all levels and across sectors (transport, water, minimum wage, industry). Are measures in place to substantively transform the deeply entrenched patriarchy and heteronormativity across our society that has maintained the discriminatory status quo thus far? Are

[1] For example the December 2018, government 'Framework on Gender-Responsive Planning, Budgeting, Monitoring, evaluation and Auditing.

womxn's and gender diverse people's contributions to the economy recognised? Does the substance of programmes, budgets and priorities address the evidence of womxn's and gender diverse people's lived experience, both in terms of access to appropriate services, but also if the decision making structures and processes incorporate them at all levels.

Our intersectional approach means that we recognise the different lived experiences of different womxn and groups of people. Relying on information on how the 'intersections' of race, class, gender identity, age, geographical location, disability, migrancy and so forth, impact on different people's lives. This assists in ensuring an understanding from a programmatic and budgetary perspective of what different people require from services and assists with identifying for the sake of substantive equality, which groups, subjected to the most serious levels of discrimination and exclusions, must be prioritised for interventions.

# PART ONE: AUSTERITY IS BAD FOR GROWTH, EMPLOYMENT, EQUITY AND SERVICE DELIVERY

## 2. Austerity is harming the economy and public services

The 2019 MTBPS proposed to move South Africa into deepened austerity. Since at least 2011, when an overall expenditure ceiling was introduced to the budget, the South African government has increasingly moved into an austerity framework for budgeting.[2] From this point, 'moderate austerity' was implemented even though, as then finance minister Pravin Gordhan acknowledged in July 2016, "South Africa cannot rely on austerity measures to reduce public debt and boost economic growth, as previously thought."[3] In 2018, Deputy President David Mabuza said that the state may have to implement "surgical and difficult austerity measures".[4] In its review of the South African government's performance of its human rights obligations in late 2018, the UN Committee on Economic, Social and Cultural Rights stated that it was "concerned that [South Africa] has introduced austerity measures to relieve the debt level".[5]

### 2.1 What is austerity?[6]

Austerity is defined as fiscal policy implemented by a state aimed at solving debt and growth problems during a period of economic stagnation. In an effort to "balance the budget", commonly implemented austerity policies by the state include: spending cuts, regressive tax increases, or a combination of both. This causes economic harm. The rationale for austerity is that savings (as a result of expenditure cuts) leads to investment, and high public sector borrowing "crowds out" such savings. Governments also implement austerity measures to demonstrate commitment to "fiscal discipline" in an effort to appease creditors and credit rating agencies. The implementation of austerity is indicated by, but not limited to:

- Regressive tax policies;
- Government spending which is not increasing in line with sectoral cost drivers or CPI;
- Reprioritisation of funds away from investments in the public sector;
- Cyclically adjusted deficit (government borrowing adjusted for cyclical variations) shrinks;

[2] See previous Budget Justice Coalition submissions
[3] Nkosi, R. 2016. Time for SA to rethink austerity policies https://www.fin24.com/Opinion/time-for-sa-to-rethink-austerity-policies-20161011
[4] Conje, J. 2018. Mabuza: 'Surgical and difficult austerity measures' may be necessary www.fin24.com/Economy/mabuza-surgical-and-difficult-austerity-measures-may-be-necessary-20180914-2
[5] A video was made about the government's appearance before the UN Committee, highlighting the subsequent findings of the Committee. To view, visit: https://twitter.com/IEJ_SA/status/1098522871582797829.
[6] Sibeko, B. (2019). The cost of austerity: Lessons for South Africa. Institute for Economic Justice Working Paper Series, No 2.

- Policies which fail to close the gap between a country's actual and potential GDP; and
- Tight monetary policy (i.e. high interest rates) and an overvalued exchange rate.

The choice of austerity is not merely a technical one, but reflects political choices. The debate over austerity is **far from purely academic as austerity has many devastating implications for people's lives, in particular low-income households.**

## 2.2 International experience of austerity[7]

Across a number of countries austerity has led to rising unemployment, falling incomes and increased inequality. In addition, **austerity has resoundingly failed to solve the problem it purportedly sought to address: rising debt levels.** The reality for most countries has been that "the interaction between the austerity measures and structural reforms generated a downward spiral of shrinking GDP and continued increases in sovereign debt".[8]

Some Conservative economists have argued that, as a result of austerity, the United Kingdom (UK) recovered quickly from the 2007/8 financial crisis, making the UK one of the fastest growing economies in the G7 by 2016. However, the others including the Resolution Foundation has found that the implementation of austerity after the financial crisis induced an unequal recovery. The top 1% of households (households with incomes of £275,000 or more) have fully recovered and seen their share of national income return to pre-2007 levels. In contrast, 99% of UK households now find it more difficult to make ends meet, as a result of cuts in social security programmes, social care services, job quality, wages, and pensions.[9]

This illustrates how **austerity has displaced the harm caused by the crisis onto the general public.** As is well known, the global financial crisis saw national economies create enormous amounts of money to bail out financial institutions facing collapse, often as a result of their own irresponsible practices, while shifting the burden of paying for the crisis onto ordinary citizens. Austerity exacerbated the crisis and,

> consequently, the ability of individuals to exercise their human rights, and that of States to fulfil their obligations to protect those rights, [was] diminished. This is particularly true for the most vulnerable and marginalised groups in society […] who suffer from decreasing access to work and social welfare programmes, and reduced affordability of food, housing, water, medical care and other basic necessities.[10]

**Austerity policies dismantled the mechanisms that "reduce inequality and enable equitable growth".[11]** When people needed the welfare and social protection systems the most, they were crumbling, as a result of fiscal cutbacks.[12] **This hurts womxn and other marginalised and excluded groups hardest as the "existing structural inequalities, including gender and ethnic inequalities, mean that poor women[sic] from marginalised groups have been disproportionately affected".**[13]

[7] Ibid.
[8] Engler, P. & Klein,M. 2017. "Austerity Measures Amplified Crisis in Spain, Portugal, and Italy," DIW Economic Bulletin, DIW Berlin, German Institute for Economic Research, vol. 7(8), pages 89-93. <https://ideas.repec.org/a/diw/diwdeb/2017-8-1.html>
[9] Resolution Foundation. 2017. The living standards audit 2017. https://www.resolutionfoundation.org/publications/the-living-standards-audit-2017/
[10] OHCR. 2017. Report on austerity measures and economic and social rights. https://www.ohchr.org/Documents/Issues/Development/RightsCrisis/E-2013-82_en.pdf
[11] Oxfam International, 2013. A Cautionary Tale. https://www.oxfam.org/en/research/cautionary-tale
[12] Gomes, V. A. B 2015. Office of the United Nations High Commissioner for Human Rights, 2013. Report on austerity measures and economic and social rights;. The Female Face of Austerity.
[13] Gomes, V. A. B 2015. Op cit

Womxn carry more of a burden in social provisioning and require more access to public services which austerity takes away.[14] In addition, womxn, who are more represented in the public sector, are displaced from their jobs as a result of austerity.[15] Austerity has meant that access and entitlement conditions are made more stringent and at the same time benefit amounts are reduced and social assistance protection is decreased.[16] Argentina's Center for Political Economy report shows "Argentine women[sic] have been more severely impacted by low-quality employment, budget cuts and poor execution of budgets, inflation, and poverty. [17]

In *The Body Economic*: *Why Austerity Kills*, Stuckler and Basu argue that **the price of austerity should be calculated in human lives.**[18] They illustrate how austerity can lead to public health crises. In a series of historical case studies stretching from 1930s America, to Russia and Indonesia in the 1990s, to present-day Greece, Britain, Spain, and the US, Stuckler and Basu reveal that government mismanagement of financial strife has resulted in a grim array of human tragedies, from suicides to HIV infections.[19] For instance, in Greece, cases of HIV infection leapt by 52% between January and May 2011 when the government cut its budget for a needle-exchange programme targeting drug addicts. Branas et al. conclude that "select austerity-related events in Greece corresponded to statistically significant increases for suicides.[20] Their health policy research paper shows that in October 2008, as Greece entered into a recession, suicides among men[sic] spiked by 13% and remained at a higher level in the months that followed. With a new round of austerity measures in June 2011, suicides increased by 36%.[21]

Across case studies, **where cuts in health budgets are implemented, increasing numbers of people are unable to access care**.[22] In Spain, for example, austerity has resulted in unbearably long waiting lists and forced patients to ration their medication to save costs".[23] In addition, Spain stripped undocumented migrants (estimated at some 873 000 people) of the right to public healthcare with only limited exceptions for children and womxn (this has subsequently been reinstated).[24]

**The social costs of austerity are enormous and clearly undermine rights realisation**. For example, following the implementation of austerity in the wake of the Eurozone crisis in Greece, cases of HIV infection leapt by 52% when the government cut its budget for a needle-exchange programme targeting drug addicts and suicides spiked by up to 36%. In Ireland, Portugal and Spain, unemployment rose significantly, in the United Kingdom wage growth has been stagnant for the majority while social services were slashed.

---

[14] Himmelweit, S. (2016). Op cit

[15] Himmelweit, S. (2016). 'Conclusion: Explaining Austerity and its Gender Impact', in H. Bargawi, G. Cozzi, and S. Himmelweit (eds.) *Economics and Austerity in Europe. Gendered Impacts and Sustainable Alternatives*. London: Routledge

[16] Gomes, V. A. B 2015. Op cit.

[17] CEPA. "Report: Argentine 'Women Among Most Affected by Austerity Policies'." News | teleSUR English. teleSUR, October 26, 2018. https://www.telesurenglish.net/news/Report-Argentine-Women-Among-Most-Affected-by-Austerity-Policies-20181026-0013.html.

[18] Stuckler, D, and Basu, S. 2014. *The Body Economic: Why Austerity Kills*. London: Penguin Books.

[19] Stuckler, D, and Basu, S. 2014 Op cit.

[20] Branas CC, Kastanaki AE, Michalodimitrakis M, et al The impact of economic austerity and prosperity events on suicide in Greece: a 30-year interrupted time-series analysis. BMJ *Open* 2015.
doi: 10.1136/bmjopen-2014-005619

[21] Ibid.

[22] McKee, M. Karanikolos, M. Belcher, P. and Stuckler, D. 2012. "Austerity: A Failed Experiment on the People of Europe." Clinical medicine (London, England). Royal College of Physicians. www.ncbi.nlm.nih.gov/pubmed/22930881.

[23] Amnesty International. 2018. "Spain: Cruel Austerity Measures Leave Patients Suffering." Amnesty International. Accessed September 19, 2019. https://www.amnesty.org/en/latest/news/2018/04/spain-cruel-austerity-measures-leave-patients-suffering/.

[24] Urtaran-Laresgoiti, Maider, Janire Fonseca Peso, and Roberto Nuño-Solinís. "Solidarity against Healthcare Access Restrictions on Undocumented Immigrants in Spain: The REDER Case Study." *International Journal for Equity in Health* 18, no. 1 (June 2019): 82. https://doi.org/10.1186/s12939-019-0971-9.

## 2.3 Indicators of austerity in SA

The period of the 5th democratic administration, from 2014 to 2019, was a difficult one for South Africa. The size of the economy per person fell consistently, poverty increased, and unemployment reached its highest rate since 2008.[25] At more than 50%, South Africa has one of the highest rates of youth unemployment in the world and we remain the world's most economically unequal country.[26]

Throughout this period, the Budget Justice Coalition provided this Committee with pro-poor economic and fiscal policy options to bring the country back towards a higher and more equitable growth path. Government dragged its feet on policy reform, state capture took hold and service delivery and government capacity has suffered as a result. Yet we have also shown that the National Treasury's implementation of regressive austerity policies has only served to drag economic growth down further and the debt-to-GDP ratio higher. We are not satisfied that this Committee nor Treasury has adequately grappled with or responded to the alternative proposals that the BJC and others have made.

Table 1 below provides an overview of the trends in revenue, expenditure ceilings and GDP since 2014/15 which we have continuously brought forward to the committee to support our assertions that there is a need for fiscal policy reform.

*Table 1: Real growth in revenue, expenditure ceiling, GDP and population, 2014/15 – 2018/19*

| Real annual growth | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | Average growth |
|---|---|---|---|---|---|---|
| **Revenue** | 2.8% | 5.6% | 0.5% | -1.1% | 1.8% | 1.9% |
| **Expenditure ceiling** | 1.3% | 1.6% | 1.0% | 0.9% | 1.9% | 1.3% |
| **GDP** | 1.9% | 0.6% | 0.8% | 1.3% | 0.6% | 1.0% |
| **Population** | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% |

Table 1 shows that despite the gutting of SARS capacity under the leadership of Tom Moyane and Jacob Zuma, with the exception of 2017/18, main budget revenue continued to grow in real terms and by an average of 1.9% per annum between 2014/15 and 2018/19. Despite this revenue growth, the expenditure ceiling only grew at an average of 1.3% per year. This demonstrates very clearly the government's policy of **prioritising the repayment of debt over investments in the economy and social programmes.**

The table also highlights the negative correlation between austerity and economic growth. As non-interest expenditure has slowed down to a crawl, so has GDP growth, averaging only 1.0% during this period. This is **well below the minimum rate of 1.5% required just to maintain existing per capita incomes**.

[25] StatsSA (2017) "Poverty Trends in South Africa".and www.moneyweb.co.za/news/south-africa/unemployment-rate-persists-near-15-year-high.
[26] https://citizen.co.za/news/south-africa/2025384/sa-has-highest-youth-unemployment-in-the-world/
and www.theguardian.com/inequality/datablog/2017/apr/26/inequality-index-where-are-the-worlds-most-unequal-countries.

Table 2 below shows that, since the 2017 MTBPS, R56 billion has been shaved off the expenditure ceiling, of which R31.2 billion is proposed for the next financial year (2020/21). This is R56 billion less than departments should have had available to spend on service delivery.

The **expenditure ceiling** provides a useful depiction of actual budgets for departments and public entities. The technical definition of what is included in the expenditure ceiling is provided in Annexure D of the MTBPS. In short, it consists of non-interest spending excluding financial support for SOEs and other payments that are financed by dedicated revenue sources rather than the main appropriated budget. This makes the expenditure ceiling a good gauge of the total amount of funds that are available to government departments and entities to spend on their programmes, since this is the essential non-interest expenditure we want to see protected from austerity.

*Table 2: Reductions to the expenditure ceiling for national, provincial and local government departments since the 2017 MTBPS*[27]

| '000,000 (Millions) | 2018/19 | 2019/20 | 2020/21 | Total cuts |
|---:|---:|---:|---:|---:|
| **2017 MTBPS** | R1,316,553 | R1,420,408 | R1,524,222 | |
| **2019 MTBPS** | R1,307,235 | R1,404,675 | R1,493,029 | |
| **Difference** | **-R9,318** | **-R15,733** | **-R31,193** | **-R56,244** |

As a result of the low growth rate, the debt to GDP ratio has continued to rise, as Table 3 illustrates.

*Table 3: Gross loan debt and debt-service costs as a percentage of GDP, 2014/15 – 2018/19*

| Percentage of GDP | Adjusted | Medium-term estimates | | |
|---|---:|---:|---:|---:|
| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
| **Gross loan debt** | 60.8% | 64.9% | 68.5% | 71.3% |
| **Debt-service costs** | 3.9% | 4.2% | 4.5% | 4.8% |

The strangulation of our economy by high interest rates, low government expenditure growth, corruption and poor execution by government departments, is putting us on course for a lost decade of negative per capita (i.e. per person) growth. Data from the IMF, presented in Table 4, shows that we have fallen far behind the per capita growth rates of our peers throughout the world.

[27] Table 3.2 of the MTBPS.

*Table 4: Real per capita growth in SA and among peers [28]*

| End of decade level (Purchasing power parity, 2011 US$) | 1990s | 2000s | 2010s | 2020S |
|---|---|---|---|---|
| **Sub-Saharan Africa** | 2,510 | 3,213 | 3,686 | 3,925 |
| ***% change*** | | 28% | 15% | 6% |
| **South Africa** | **9,465** | **11,867** | **12,109** | **12,201** |
| *% change* | | ***25%*** | ***2%*** | ***1%*** |
| **Emerging market and developing economies** | 5,195 | 8,000 | 11,464 | 13,667 |
| *% change* | | 54% | 43% | 19% |
| **Advanced economies** | 35,793 | 40,121 | 46,448 | 49,367 |
| *% change* | | 12% | 16% | 6% |

This stagnation has translated into job losses on an unprecedented scale. There are now more that 10 million unemployed people. This is the highest number that StatsSA has ever recorded. Women[sic] continue to be more likely to be unemployed than men[sic] demonstrating the failures of measures to address this gendered inequality in employment, as Table 5 demonstrates.

*Table 5: Employment trends, 2015 – 2019[29]*

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| **No. of people unemployed (millions)** | 8.4 | 8.9 | 9.3 | 9.6 | 10.2 |
| **Unemployment rate (expanded)** | 34.8% | 36.1% | 36.5% | 37.0% | 38.4% |

[28] IMF forecast data provided by the National Treasury at Online data annexure, MTBPS 2019 - Chapter 2, Available at: www.treasury.gov.za/documents/mtbps/2019/mtbps/MTBPS%202019%20-%20Chapter%202.xlsx.
[29] StatsSA Quarterly Labour Force Survey, 2019Q3 Trends.

| | | | | | |
|---|---|---|---|---|---|
| **Unemployment rate for womxn** | 39.0% | 40.2% | 40.3% | 41.0% | 41.9% |
| **Unemployment rate for men** | 31.1% | 32.6% | 33.2% | 33.5% | 35.3% |
| **Unemployment rate (narrow)[30]** | 25.3% | 26.7% | 27.5% | 27.1% | 28.6% |

Having 41.9% of womxn and 35.3% of men out of work is not only a violation of their right to decent work, but represents a huge missed opportunity for expanding economic production and realising the potential of our country. The unemployment trends are a result of a combination of factors including weak macroeconomic policy, the deindustrialisation of the South African economy, poor education and skills development, anaemic economic growth and austerity policies. Alternatives to another lost decade of unemployment for one in three workers were presented at the 2018 Jobs Summit in Johannesburg, alongside proposals for macro-economic reform.[31]

### *Unpaid labour*

The time spent on "womxn and girls' work' within families and communities (ensuring there's water, cooked food, light, that homework is done, cleaning, safe transport for children to school, providing care to children, elderly or sick family members, providing the necessary support to members of the family with disabilities, participating in community development initiatives etc) is generally treated as invisible to 'the economy', undervalued in society and unpaid. **The unpaid labour performed disproportionately by womxn is not reflected in the MTBPS** in terms of its impact on womxn's time, health and resources, nor its value to the economy. There's no indication of an understanding of how cuts in budgets to departments, provinces and local government could exacerbate this additional burden on womxn, nor how these cuts will inhibit the implementation of services that should be in place to mitigate against this. Finally, no measures are suggested to ensure that the cuts do not have this predictable negative impact on womxn.

Womxn and gender diverse people are disproportionately represented in insecure and informal employment,[32] and government's plans for job creation tend to perpetuate the status quo of these groups being employed in low status, low paying, or insecure employment (for example, in the Expanded Public Works Programme or as Community Health Workers). Increasing unemployment and income insecurity is linked to increased levels of exploitation of people in precarious forms of labour (such as in informal trading, domestic work, sex work, and farm labour precarious for all and especially so for womxn farm workers), which also offer no social protection. No indication is given of how womxn and gender diverse people in these contexts will be protected nor what is in place to increase the ratio of these groups in formal, secure, and senior employment.

These questions apply not only to public sector employees, but also to the private sector. The failure to effectively regulate the private sector, such as through the Employment Equity Act, remains problematic. Incentives are not sufficient to shift the norms in the private sector in terms of gendered representation. StatsSA indicates that in July 2018, only 32% of managers in South Africa were women [sic], only 24% of SOEs were headed by womxn, and only one of the top 40 JSE listed companies has

[30] This excludes people who want to work but have given up looking. It is often referred to as the 'official' rate in South Africa, even though the ILO and increasing numbers of countries use the expanded definition (some technical differences aside) as the 'official'.

[31] Available at: www.dropbox.com/s/c40ht9ki68sfybm/IEJ%20-%20Jobs%20Summit%20Policy%20Briefs%20compilation%20-%20Final.pdf?dl=0

[32] Statistics South Africa. 2018. Quarterly Labour Survey, Quarter 3: 2018. Statistical Release P0211 available at http://www.statssa.gov.za/publications/P0211/P02113rdQuarter2018.pdf (accessed 7 February 2019)

a woman[sic] CEO. In 2016 only 39% of municipalities with a sitting mayor were women[sic].[33] The Commission on Employment Equity reports indicate that in terms of the private sector, white people continue to dominate in top management in the private sector at 71,1%, and 67,4% of top management in the private sector are men[sic].

## 2.4 Impacts of austerity in SA

The extent of the impacts of applying austerity is yet to be fully documented but we already see that austerity is negatively impacting on the realisation of socio-economic rights. Here we give examples of the devastating impact of austerity on health and education in South Africa.

### 2.4.1 On economic output

South Africa has had a number of economic policy strategies through the Reconstruction and Development Programme (RDP), Growth, Employment and Redistribution (GEAR), the Accelerated and Shared Growth Initiative for South Africa (AsgiSA), the New Growth Path (NGP), and the National Development Plan (NDP); recently the National Treasury has also released the *Draft: Economic Transformation, Inclusive Growth and Competitiveness* document.

South African fiscal policy has been characterised by attempts to achieve stabilisation, liberalisation, privatisation, and rationalisation - known as neoliberalism. The paradigm has been that a “stable” macroeconomic environment – low inflation, floating exchange rates, liberalised capital markets, lightly regulated financial sector, high real interest rates, and low fiscal deficits – will lead to growth and investment. Within this framework it is the role of microeconomic policy to achieve job creation, irrespective or whether such macroeconomic policies are growth and employment retarding. These strategies have prioritised achieving growth first with issues such as redistribution seen as secondary and/or residual. Such policies have failed to deliver on the pressing social needs, increased inequality, reinforced unemployment, and are in turn jeopardizing durable economic expansion.

Macroeconomic policy in South Africa has failed to advance social justice, promote equitable economic development that realises socio-economic rights, and ensure a thriving, democratic, environmentally sustainable, and inclusive economy that places the needs of the majority at its heart. Austerity has only sought to strengthen the neoliberal agenda.

The argument against austerity is simple: **austerity is self-defeating during recessionary times.** During economic recessions, there is shrinking private-sector expenditure. Cutting expenditure and poor chosen tax hikes (such as on regressive taxes like VAT), can further depresses economic activity by taking demand out of the economy. Because debt levels are measured as a ratio of debt to GDP, if measures to tackle debt lead to or exacerbate low economic growth, then debt relative to the (shrinking) GDP will go up, not down. But austerity has much wider impacts than putting a damper on economic growth.

Duma Gqubule has argued, **it was expansionary fiscal and monetary policies that led to growth and job creation between 2003 and 2008.** In the absence of these macroeconomic policies and in the presence of austerity, South Africa has been unable to maximise its available resources for the realisation of human rights. Article 2 of the International Covenant on Economic Social and Cultural Rights (ICESCR) treaty - which South Africa is a signatory to- states that government should use the “maximum available resources” to “realise progressively” and “without discrimination” the rights enshrined in the Covenant. The general consensus is that the realisation of human rights is impossible

[33] Statistics South Africa. 2018. *Quarterly Labour Survey, Quarter 3: 2018. Statistical Release P0211* available at http://www.statssa.gov.za/publications/P0211/P02113rdQuarter2018.pdf (accessed 7 February 2019)

without fiscal policies, including tax measures that guarantee adequate resources to address inequalities.

Austerity can also result in regression in access to rights. **The Constitution, as well as the ICESCR, obliges the South African government to respect, protect and fulfil socio-economic rights.** Both also require the progressive realisation of socio-economic rights over time, and entail the obligation of non-regression. Furthermore, the Maximum Available Resources obligation of the ICESCR requires states to demonstrate that they have utilised all of their available resources to fulfil socio-economic rights.

South Africa faces a perfect storm of tax revenue collection shortfalls, a shift towards greater regressivity in the tax mix, and weakened capacity within SARS, all in the context of weak economic growth and falling investor confidence. Revenue collection has fallen short of budget targets over the past five fiscal years. In 2018/19 SARS collected R1.287 trillion which was R14.6 billion (1.1%) short of the revised estimate of R1.302 trillion. The collected revenue is R57.4 billion (4%) lower than the 2019 Budget estimate of R1.345 trillion.[34] SARS attributes the short fall to poor economic performance and higher refund payments, National Treasury lists “administrative challenges at SARS, and increased tax avoidance and evasion” as additional reasons for these shortfalls.[35]

The South African tax structure, while progressive, is insufficiently so. The context of tax has been that of declining Personal Income Tax (PIT) and Corporate Income Tax (CIT). The increase in the VAT rate from 14 to 15% as of April 2018, represents a clear retrogressive austerity measure. Yet, South Africa offers a number of PIT tax breaks that only benefit higher-income households. While South Africa has made considerable progress in eradicating formal gender-discrimination in its tax system, tax is still not a gender-neutral policy and the blanket application of tax rates and structures has ignored the gender implications for tax. Findings from Budlender *et al*. show that despite the removal of explicit discrimination there are still some areas of bias in direct and indirect taxes along employment status, number of earners in a household, gender of household head and other household characteristics.[36] This is particularly concerning considering that approximately 2.9 million people were pushed into poverty between 2011 and 2015, and that poverty is higher for womxn, and for black South Africans.

### 2.4.2 Impact of austerity on Vote 14: Basic Education

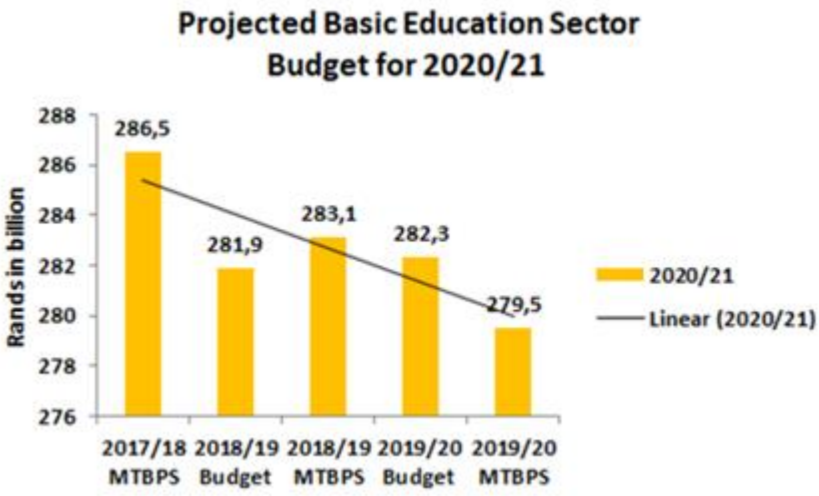
The effects of a stagnant economy and austerity affect the provision of key services such as education and health care, and ultimately the full realisation of these rights. The table below outlines how allocations to the basic education sector are set to increase slowly in *nominal* terms, over the next three years. However, when we take inflation into account, it is clear that the total sectoral allocation – that is, the provincial and national education budgets – are growing at too slow a pace, with a mere 0.8% real growth anticipated in 2020/21.

| | **2018/19** | **2019/20** | **2020/21** | **2021/22** | **2022/23** |
|---|---|---|---|---|---|
| Budget (R in billions) | **Outcome** | **Revised** | **Medium Term Estimates** | | |
| **Basic education (nominal)** | 246.1 | 262.8 | 279.5 | 300.1 | 315.7 |

[34] Shier, J. 2010. Op cit
[35] National Treasury of the Republic of South Africa, 2018. “Budget Review,” pg. 39.
[36] Republic of South Africa. SARS announces preliminary revenue outcome for 2018/19 financial year https://www.gov.za/speeches/preliminary-revenue-outcome-31-mar-2019-0000

| | | | | | |
|---|---|---|---|---|---|
| *Nominal annual % change* | | 6.8% | 6.4% | 7.4% | 5.2% |
| **Basic education (real)** | 258,9 | 262.8 | 264.9 | 269.9 | 274.6 |
| *Real annual % change* | | 1.5% | 0.8% | 1.9% | 1.7% |

Projections for allocations to basic education in the 2020/21 financial year have seen a pattern of downward revisions. Based on current projections, we are likely to be spending R7 billion less on




education in the 2020/21 financial year, than what our plans reflected in 2017.

*Source: 2017 - 2019 MTBPS and 2018 - 2019 Budget Reviews (National Treasury Documents)*

Taking into consideration the stagnation of the basic education sectoral budget and that the cost of providing education services has increased, it is extremely concerning that, provincial education departments (PEDs) will be expected to make further cuts to key basic education programmes over the next three years.[37] In his 2018/19 budget speech, former Finance Minister Malusi Gigaba, announced reductions to two school infrastructure grants – the Education Infrastructure Grant (EIG) and the School Infrastructure Backlogs Grant (SIBG). These cuts amounted to R7 billion over the Medium Term Expenditure Framework (MTEF). The 2020/21 financial year is the final year over which these reductions will be implemented and while the education system is still reeling from that decision, more cuts are expected over the new MTEF. Minister Mboweni has announced that all conditional grants, except the early childhood development grant and the grant for learners with profound intellectual disabilities, will be further reduced.[38]

According to a Department of Basic Education (DBE) presentation to Parliament in October 2019, allocations to almost all provinces will see declines in the upcoming financial year, including provinces with major infrastructure backlogs such as the Eastern Cape and Kwazulu-Natal:

[37] Medium Term Budget Policy Statement. 2019. *Chapter Four: Expenditure Priorities*. Pg, 40. Available: http://www.treasury.gov.za/documents/mtbps/2019/mtbps/FullMTBPS.pdf
[38] 2019 Medium Term Budget Policy Statement

| R'000 | 2019/20 Allocations | 2020/21 Estimates |
|---|---|---|
| **Eastern Cape** | 1 585 532 | 1 564 208 |
| **Free State** | 833 485 | 722 425 |
| **Gauteng** | 1 474 715 | 1 440 169 |
| **KwaZulu-Natal** | 2 187 162 | 2 013 405 |
| **Limpopo** | 1 050 160 | 1 175 467 |
| **Mpumalanga** | 731 792 | 819 111 |
| **Northern Cape** | 639 817 | 505 649 |
| **North West** | 902 484 | 1 010 169 |
| **Western Cape** | 1 109 331 | 1 031 186 |
| **Unallocated** | | 1 184 844 |

*Source: Department of Basic Education presentation to Parliament's Portfolio Committee on Basic Education, 29 October 2019*

Furthermore, an **analysis by education economist Nic Spaull, shows that South Africa's spending per learner has gradually decreased since 2010**. In 2010 we spent R17,822 on average per learner. This decreased to R16,435 in 2017, and is projected to drop further to R15,963 by 2019 (all in 2017 rand).[39] These reductions to education budgets, which have a domino effect, continue to compromise the right of learners, especially poor black learners in rural areas, to access quality education.

The cuts are likely to exacerbate the additional barriers to girls education (family responsibilities, lower rate of teacher attention, menstruation, violent and unsafe school environments) and education for learners with disabilities (schools not equipped to teach children with different barriers, distance to inclusive or special schools, violence in schools) who are enrolled, but out of school at higher rates than boys who do not experience the same degree of barriers to learning. This budget does not allow for the necessary strategies between the departments of basic education, health, transport and social development that are required to address these significant failures to realising the right to education for the most marginalised children. Decisions to prioritise bailouts to State-owned entities (SOEs) over education allocations, sends a strong message about the 6th administration's priorities. We call on the government to rank learners as highly as they do other obligations and ensure the provision of quality basic education in all public schools.

## 2.4.3 Impact of austerity on Vote 16: Health

Austerity budgeting has particularly negative impacts on health. Spending on health care in South Africa is already highly unequal, with a similar amount spent on private services for 20% of the population as

[39] Spaull, N., Basic education thrown under the bus — and it shows up in test results, Business Day, 16 April 2018. https://www.businesslive.co.za/bd/opinion/2018-04-16-basic-education-thrown-under-the-bus–and-it-shows-up-in-test-results/

the amount that is spent on public health for 80% of people.[40] This inequality is maintained in part by medical aid subsidies (tax breaks), which allow people earning incomes to access private medical care. This represents an obscene subsidisation of private systems for the middle class and elites - not least during a period of economic stagnation - at the expense of the majority of users of state services.

It is crucial to note that this **inequality is being entrenched by austerity measures**. The 2019 MTBPS proposes average annual nominal growth of only 7.0% spending on health. When population growth of 1.4%, average estimated (CPI) inflation of 4.7%, above inflation wage settlements and high medical price inflation are taken into account, this annual rate of increase is far too low.[41] When one considers further that there are estimated to be 40 000 vacancies in the public health sector that need to be filled, urgent health infrastructure challenges and widespread shortages of medical equipment – not to mention the funds that are needed to begin building NHI – one realises that austerity budgeting will not relieve but instead will deepen the pressure on our public health system.

**Cuts to health sector budgets have many obvious impacts on the delivery of health care to womxn, transgender, gender diverse, and intersex people.** These include disproportionate HIV infection rates; inadequate maternal and child health services; reduced access to hormones, contraception and gender-affirming care; and less prevention and early intervention of cervical cancer are but a few examples.

Another impact of budget cuts on health is on the employment conditions of doctors, nurses, specialists and other health personnel. In recent years, tens of thousands of public health posts have been vacant.[42] This is resulting in **critical staff shortages** and hampering the expansion of health professionals necessary to improve levels of care and prepare the country for the transition to NHI.

Community Health Workers, the majority of whom are womxn, have experienced the brunt of health budget shortfalls and a lack of political prioritisation by working without decent wages or employment benefits. We are concerned that neither the MTBPS nor the adjusted Health budget makes mention of the 2019 Budget commitment to spend R1 billion on the implementation of the minimum wage for Community Health Workers, and will be taking this question to the Appropriations Committee.

An additional impact of cuts, frequently missed, is that womxn and girls generally carry the burden of providing care and health support in families and homes. Research has shown that young womxn and elderly womxn who head households, adversely bear the 'costs and the shocks' of HIV in South Africa.[43] This impacts on womxn's employment (needing to take time off work – informal or insecure employed womxn are particularly vulnerable to losing employment and/or income). In addition to adult womxn, research indicates that girls, including primary school going girls, are required in resource-poor families to take time out of school in order to care for sick family members.

Declining quality of care as a result of budget cuts, governance failures, and staff and equipment shortages has led to a **rapid rise in medico-legal claims** against the state in recent years. Here, austerity shoots the state directly in the foot, with in year savings translating into long term liabilities. The 2019 MTBPS states that **medico-legal claims have grown from R28.6 billion in March 2015 to R99 billion in 2018/19**. In many provinces, these claims (and their associated legal defence costs) now equate to **more than half the annual provincial health budget**.[44]

---

[40] 4.1% of GDP is spent on public healthcare, while 4.4% is spent on private healthcare. Department of Planning, Monitoring and Evaluation, 2017. "Final Impact Assessment (Phase 2): White Paper on National Health Insurance."
[41] https://econex.co.za/unpacking-health-inflation-in-south-africa/.
[42] Russell Rensburg 'What to do about South Africa's unemployed doctors' *Bhekisisa* 21 Feb 2019. Available at: https://bhekisisa.org/article/2019-02-20-budget-speech-2019-unemployed-doctors-health-spending-austerity .
[43] du Toit and Neves. 2007. In Hickey S & du Toit A. 2007. *Adverse incorporation, social exclusion and chronic poverty*. Chronic Poverty Research Center Working paper 81. Institute for Deve lopment Policy and Management, University of Manchester, Programme for Land and Agrarian Studies, University of the Western Cape. P19.
[44] National Treasury 2019 Budget Review.

## 2.4.4 Impact of austerity on Vote 17: Social Development

The Department of Social Development is responsible for rolling out the government's Constitutional obligation to provide universal access to social security, and undertakes a range of programmes aimed at reducing poverty. The BJC is concerned about cuts of 93 million, being taken out from Social Development, to fund the government priority area of work against gender-based violence. Specifically, 60 million is being taken from the South African Social Security Agency (SASSA) and 33 million is being taken from a transfer to HIV/AIDS organisations. While we are in full support the funding of work against gender-based violence, to remove funding from these critical areas - which will disproportionately negatively affect womxn, transgender, gender diverse, and intersex people - in order to fund a priority area aimed at the same group, is contradictory and egregious. The implications of cuts to these areas shows a lack of concern for the most vulnerable in a way that violates constitutional and international obligations of non-regression in relation to the realisation of socio-economic rights.

Despite the social fabric of the country being strained by post-traumatic stress, particularly in womxn who have been subjected to gender-based violence and on children subjected to abuse, the number of unemployed social workers and auxiliary social workers has increased. From 2013, Provincial Departments of Social Development have been unable to absorb social work graduates into the system due to a lack of funding. By the end of January 2019, a total of 3 969 social work graduates, who benefited from the social work scholarship programme, were still unemployed. The bursary scheme in the social worker scholarship programme has now also been terminated, leading to R70 million in underspent funds.

Despite the constitutional guarantee, there is no provision of access to social assistance to able bodied poor people between the ages of 18 and 59. In the face of rampant income poverty and unemployment, where 25.2% of the population live below the Food Poverty Line, this is a severe failing of the state. The United Nations Committee on Economic Social and Cultural Rights recommended on 12 October 2018, that South Africa investigate the feasibility of a Basic Income Grant (BIG) for all, a recommendation that the BJC supports. A BIG paid to all (but clawed back from those who do not need it through the tax system) would address the necessity of extending social security coverage to those between 18 and 59 years old.

The values of social assistance grants continue to fall short of the amount that would enable any person in South Africa to enjoy their right to dignity, contained in the Constitution. Recent research has identified a Decent Standard of Living of R7 236 per person per month in 2019 prices. The 2019 Child Support Grant (CSG) constituted just 6% of this standard, while the Old Age and Disability grant constitutes 24% of this value. The BJC is concerned that in the MTBPS, Minister Mboweni has announced that all conditional grants, except the *early childhood development grant* and the *grant for learners with profound intellectual disabilities*, will be reduced.

Evidence indicates high return on investment across society and the lifetime of spending on early life such as through **Early Childhood Development** (ECD). Spending on ECD services and programmes can also have direct impacts on the time spent by womxn and girls on child care in the family. The increased allocations to ECD evident in the MTBPS (at p38) are thus positive, however it is concerning that this is financed through funds reprioritized from SASSA and raises questions regarding the underspending in that area.

In addition to the obligations on the state in regard to social security, the BJC asserts a reframing of **social grants as necessary economic stimulus** and recommends more fully integrating the welfare system into South Africa's economic recovery plans. Increases to social grants will increase the spending power of over 17 million people. This money is most likely to be spent on food, basic services and transport. The money will therefore flow back into the economy and stimulate growth. Failure to progressively realise social security as quickly as possible will ensure that economic participation from by people without alternative incomes remains too low.

With government seemingly tying itself into long term recessionary economic dynamics, the BJC demands a coherent roadmap towards the comprehensive enjoyment of the universal right to social security. We also wish to know what appropriate mitigatory measures are being taken while social development funds are reduced to ensure that the most vulnerable, including womxn, people with disabilities, children, transgender, gender-diverse and intersex people, are not affected.

### *Impacts of austerity on Community Development*

Cuts to and pressures on community development related funds, at all levels of government affects womxn both generally and also in very specific ways. These specifics include access to water, electricity, safe toilets, and safe transport amongst others. We note that P38 of the MTBPS includes sanitation, toilets, transport with an emphasis on the priority of getting accessible transport to poor and working class people - which we support, however this demonstrates the gender-blindness of the planning and budgeting – there is no mention of the urgent need for programmes and budgets to ensure safe transport (trains, busses, taxis) for womxn, school children, or people with disabilities. Likewise the profound vulnerability of womxn and girls who are subject to violence while using community toilets is not noted. While access to safe, clean toilets affects everybody, the additional impacts of gender-based violence in this area necessitates prioritization and commitment to ensure that this is not cut.

## 2.4.5 Impact of austerity on Vote 27: Environmental affairs

It is noted that whereas the Department of Environmental Affairs' Green Fund received an allocation of R111m for the 2019/20 financial year, R50m of this has been declared as unspent funds.[45] The Fund was established *to support the transition to a low carbon, resource efficient and climate resilient development path delivering high impact economic, environmental and social benefits,* with the Department having appointed the Development Bank of Southern Africa (DBSA) as the project's implementing agent.[46] The explanation offered for the surrender of the funds is *slow progress in the financing of green initiatives and projects.*[47] It should be ascertained whether the Department, DBSA or a combination thereof is responsible for the spending failure, and, in a transparent manner, due accountability action should be effected for it.

The Green Fund initiative falls under the auspices of the Department's Programme 6, which is dedicated to implementing Expanded Public Works and green economy projects in the environmental sector.[48] The Green Fund has clear merit, but on the other hand strong reservations have to be expressed regarding the fact that at R4 085 469 000, Programme 6's allocation accounts for 54% of the Department's budget.[49] In the first instance the environmental benefits of the Programme as a whole are secondary to its socio-economic spin-offs, but more crucially, a consequence of this budgetary configuration is that the Department's core functions, which emanate from its various legal mandates, attract less than half of the organisation's budget, which itself comprises a **mere 0.8% of the total budget for the national tier of government**.[50]

These mandates span functional areas such as environmental impact assessment, enforcement and compliance, biodiversity conservation, ocean and coastal regulation and chemicals and waste management. Serial governance failures within these domains are equitable with lapses in everyone's Constitutional right to have the environment protected through legislative measures.[51] Illustrating the

[45] *Adjusted Estimates of National Expenditure 2019, Vote 27,* National Treasury, p. 250.
[46] https://www.environment.gov.za/projectsprogrammes/greenfund
[47] *Adjusted Estimates of National Expenditure 2019, Vote 27,* National Treasury, p. 250.
[48] *Estimates of National Expenditure 2019, Vote 27,* National Treasury, p. 22.
[49] Deduced from *Adjusted Estimates of National Expenditure 2019, Vote 27,* National Treasury, pp. 247 & 250.
[50] Deduced from *Adjusted Estimates of National Expenditure 2019,* National Treasury, Table 2, p. v.
[51] *The Constitution of the Republic of South Africa,* 1996, section 24.

disjuncture between budgets and the fulfilment of mandates, while environmental crime abounds in South Africa, only 1% of the Department’s budget is assigned to the law enforcement function.[52] Consequently it is urged that budgeting be re-orientated so that going forward it reflects **alignment with non-negotiable Departmental mandates** as a primary point of departure.

### 2.4.6 Impacts of austerity Vote 26: Eskom and other SOEs

The Budget Justice Coalition notes that Treasury is providing medium-term support to Eskom to secure energy supply and to honour the state's contractual obligations in the form of a bail out of R59 billion to ensure that Eskom repays its loans as the loan debt matures, with R26 billion being applied in the remainder of this year and R33 billion in the 2020/2021 financial year. By far the biggest adjustment in the Adjustments Budget this year was the R26 billion for Eskom to service its debt obligations.

While we agree that solutions need to be found to the country's energy supply challenges and that South Africa needs to **transition to a cleaner energy future**, for the sake of current and future generations, we are concerned that attendant with the transition will be job losses in the mining sector as coal mines are decommissioned. South Africans are already distressed due to rising costs of living and unemployment. It needs to be a well-managed transition. To mitigate the job loss impacts, we recommend that the Finance Committees consider engaging with the Fiscal and Financial Commission and/or the Parliamentary Budget Office to request that they examine the Medium-Term budget to identify existing allocations and underspending that could be applied to **reskilling mine workers and to boost other sectors** in the economies of Provinces hardest hit by job losses in the mining sector.

We remain concerned about issues of corruption and mismanagement that persist at Eskom and other State Owned Entities. At the same time as Eskom needed assistance in order to service its debt obligations, South African Airways received a R5.5 billion bail-out, SABC a R3.2 billion bail-out, Denel a R1.8 billion bail-out and South African Express, a R300 million bail out. The money for these bail outs had to be found by making use of funds from the contingency reserve, provisional allocations, and underspending. In other words, **Treasury should have taken from government's rainy day fund and from underspending in frontline service delivery departments to bail out State Owned Entities** that have taken loans in order to make arguably inefficient investments and which have wasted money through corruption. Alternatively, the state as a debtor (Eskom) should speak to the state as a creditor and utilise the accumulated and annual surpluses in the Government Employees Pension Fund (GEPF) and the Unemployment Insurance Fund (UIF), to capitalise Eskom.

A top-up of the R87 billion loan from the GEPF to Eskom (March 2018), at a zero percent interest rate can free up the resources required for spending on health, education and social grants - without putting the state pensions at risk. GEPF is running a surplus of close to R50 billion per year after pensions and benefits are paid. As for the UIF, it has accumulated an investment portfolio of close to R160 billion managed by the Public Investment Corporation (PIC), and it continues to run with an annual surplus of close to R10 billion. Both these funds can provide additional assistance to Eskom and other endangered SOEs in order to avoid using the national revenue fund, or “tax revenue” to put it bluntly, for the purpose of debt relief.

We are concerned by the paucity of accountability mechanisms to ensure Eskom’s compliance with the preconditions for bailouts and loan guarantees. The poor are already bearing the burden of mismanagement at SOEs and would be hardest hit by Eskom’s collapse. As the Finance Committees will agree, the corruption and mismanagement cannot continue, as there simply is no fiscal space for more bailouts.

[52] Deduced from *Estimates of National Expenditure 2019, Vote 27,* National Treasury, Table 27.11, p. 13 and *Adjusted Estimates of National Expenditure 2019, Vote 27,* National Treasury, p. 248.

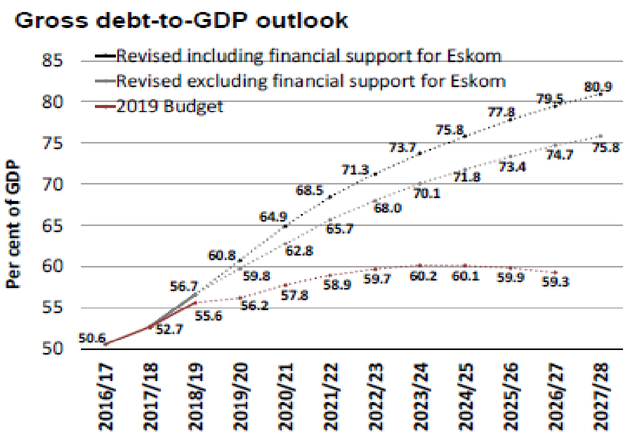
We recommend that due to the extent of the fiscal risks that State Owned Entities pose, **the Select and Standing Committees on Finance undertake oversight visits to the State Owned Entities posing the greatest amount of risk.** We recommend oversight visits to Eskom, SABC, SAA, Denel and SANRAL to determine whether these State Owned Entities are taking sufficient measures to better manage their finances, including tighter management of their procurement functions.

What is particularly worrying is that contingent liabilities arising out of loan guarantees to State Owned Entities have grown drastically and so too has a trend of contingent liability risks realizing in requests for bail outs. In 2019/20, **loan guarantees that Treasury has provided stand at R552 billion.**


Source: National Treasury February 2019. Table 11: Net loan debt, provisions and contingent liabilities

By far the greatest proportion of loan guarantees are to Eskom. In February 2019/20, Treasury's information tabled with the budget showed that R306,8 billion of Eskom's loan debt is guaranteed by Treasury. The risk of Eskom not being able to service this debt is a risk that we have seen materializing when we've seen bail outs.

**The prioritisation of debt repayments through bailouts to State Owned Entities must not crowd out social spending.** In this MTBPS we did not see Treasury going as far as doing a debt take over at Eskom. If Treasury did do a debt take over at Eskom, the graph below gives a sense of how the public sector debt-to-GDP would be much worse.




Source: National Treasury 2019 MTBPS.

**We are concerned that SOE bailouts are impacting on service delivery through austerity in the form of budget cuts, yet there is no real plan yet for how debt will be managed for SOEs.** We therefore recommend that the committees request that Treasury and the Department of Public Enterprises present on plans to manage Eskom's debt, taking our submissions into account. Treasury must also provide the committees with full disclosure of pre-conditions given to any State-Owned Entities that obtain special appropriations / bail outs and regularly report to Parliament on the compliance of State-Owned Entities with the pre-conditions. The Collaborative Africa Budget Reform Initiative (CABRI) has done research on managing contingent liabilities. We recommend that the Finance Committees consider inviting CABRI to present on measures that can be taken to better manage the risks that contingent liabilities present.

It is important that stability be brought to the financial management of State Owned Entities, so that they stop diverting funds that could be spent on service delivery to pay off debts incurred while making poor choices, particularly on large infrastructure projects that are not assessed rigorously enough. There has been a **serious lack of transparency and accountability in energy sector procurement.** We note that the Draft Public Procurement Bill is currently sitting with cabinet and think that its finalisation will go some way to helping government to have a more transparent procurement process. We welcome that interventions to improve the quality of infrastructure planning, including the Budget Facility for Infrastructure, are beginning to show results.

We are concerned that government will not learn quickly enough from the mistakes made in the energy sector in the past and will commit more money to risky, wasteful energy infrastructure projects that do not materialise. Government's master plan for energy, **the Integrated Resource Plan (IRP) 2019**, announced this month had import hydroelectricity from the Grand Inga project in the Democratic Republic of Congo and nuclear power from modular reactors included, for example.

The Cabinet approved IRP acknowledges that electricity from the Grand Inga project is not a least cost option and that it was forced on the plan. The authors of the IRP seem dubious about the likelihood of the Grand Inga project materialising and list the risks. A significant impediment to the Grand Inga project is that the power from the Grand Inga must be transmitted across the DRC, Zambia, Zimbabwe/Botswana into South Africa. It has not been possible to conclude agreements with the transit countries. The IRP lists the main risks associated with the project as the potential for delays in the construction of both the power plants and the grid to evacuate the power, a cost risk in that the assumptions used may change as the project development is finalised and a risk of security of supply due to the power line traversing multiple countries. The Grand Inga project entails extensive risks to the extent that the World Bank has withdrawn its financing commitment from the project. At a time where the plan indicates that coal mines will be decommissioned, with attendant job loss implications, **Grand Inga does not contribute to job creation in South Africa.** And yet, Grand Inga is still included in government's energy plan.

When the decision was taken in 2010 to no longer invest in the Pebble Bed Modular Reactor project after ten years was spent on its development, it had cost a total of R9.244 billion.[53] Billions of Rands have already been wasted to develop questionable energy projects such as this, due to the fact that the project was well under way before its feasibility had been or could be demonstrated.

To prevent a repeat of past costly failures, it is imperative that **all large infrastructure projects including the Grand Inga and nuclear modular reactors be properly appraise**d by the Budget Facility for Infrastructure. We recommend that Parliament request that National Treasury present on the project applications that have been made to the Budget Facility for Infrastructure and specifically request clarity on whether the Grand Inga Project has been properly appraised.

[53] Speech by Minister of Public Enterprises. Available at: https://web.archive.org/web/20130921060457/http://www.info.gov.za/speech/DynamicAction?pageid=461&sid=13029&tid=18561

## 2.4.7 On energy

In the Adjustments Budget, we note that **R250 million has been declared unspent on Eskom's integrated National Electrification Programme**. Mid-way through the year, the target for electricity connections to households has been adjusted downwards from 195 000 connections to 181 500 connections due to the budget reduction of R250 million. This means that 13 500 less households will be electrified, disproportionately adding to womxn's burden. Performance of 91 896 additional houses electrified with grid electrification had been achieved in the first half of the year. Slow performance on the electrification of households with non-grid electrification, such as solar panels, was apparent in that only 1 364 out of a planned 20 000 households had only been electrified. Households that are not yet electrified, are typically in rural areas and among the poorest households, these households are predominantly 'Women Headed Households'.[54] **The losers in the decision to declare R250 million as underspending are therefore 13 500 of South Africa's poorest households that will not be electrified this year.**

Issues in the energy sector are undoubtedly contributing to the austerity measures which are proposed in the 2019 MTBPS. Electricity supply shocks are constraining economic development by hampering businesses from expanding and interfering with their existing operations, in some cases businesses have shut their doors. This is resulting in job losses when we can ill-afford them. When businesses shut down, they no longer contribute to the tax revenue that they were contributing and their employees who were contributing personal income tax seek Unemployment Insurance benefits. With lower revenue due to sluggish growth, the budget deficit becomes wider. When businesses decide not to expand their operations because there is insufficient electricity supply to meet their needs that is a forgone opportunity in the form of jobs that could have been created and tax revenue that could have been generated.

These supply shocks also impact at household level especially poor households, again with womxn, who are more likely to shoulder the responsibility of 'household spending' being most affected, in addition it is womxn who must undertake the additional time and work to ensure that homes have light and food is cooked.

Tariff increases are also causing the cost of electricity to impact at a household level. Households are strained with rising costs of living. Particularly with the VAT rate increase, fuel price increases and the cost of food going up, there is less to go around and consequently household consumption is declining. When households buy less goods, this in turn impacts on tax revenue such as VAT.

The extent to which Gender Based Violence is a challenge for South Africa has come into sharp relief. **During load shedding, the safety of womxn, children, and gender diverse people, is further endangered when previously lit areas are dark or security systems which rely on electricity do not work.**

## 2.4.8 Other impacts of austerity on womxn

The restructuring of the Department of 'Women'[sic] to the 'Department of Women[sic], Youth and Persons with Disabilities' still fails to directly address the needs of transgender, gender diverse, gender non-conforming and intersex people. There is no explicit indicators or budgeting for this group. This, taken with the worsening economic situation, means that lack of access for this group to critical areas such as health and education are likely to worsen. We will make further submissions to the Appropriations committee relating to this department.

[54] Chijioke O. Nwosu and Catherine Ndinda. 2018. Female household headship and poverty in South Africa: an employment-based analysis. ERSA working paper 761. August 2018

**Links between children's rights and womxn.**

Effective spending on children's rights – grants, education, child health, nutrition, children with disabilities, and ECD all impact directly on the roles that womxn and girls generally fulfil in families and communities. Cuts to budgets and failures in services to children violate the rights of the child directly and also impact seriously on womxn, as here again, it is womxn who tend to pick up the additional burdens of either providing the 'service' directly or face additional demands on their time (in some instances considerable) in order to seek out the necessary services, thus again limiting the time available for 'productive' economic activity. These additional costs to womxn are not counted in the budget. The increased stress on womxn of ensuring these needs are met has further impacts on womxn's physical, emotional and psychological health.

## 2.4.9 Impact of austerity on vote 5: Home Affairs

Over the 3 year period, there is a proposed reduction in expenditure to Home Affairs of -0.3%. With reduced capacity at Home Affairs we are concerned about the likelihood of continued weak performance and even potential reduction in birth registrations – especially for very young children living in rural areas, and for the 1 million unregistered children attending public schools who are in need of 'late' birth registrations,[55] which tend to be lengthy and more costly processes. If birth registration is not adequately funded, there will continue to be reduced access to the Child Support Grant for infants, orphans and abandoned children living with relatives which are the recipients who most need it.

We also anticipate that this might disproportionally and detrimentally affect womxn, children, transgender, gender diverse and intersex people. With reduced capacity we are unlikely to address problems of processing sex description alternations, which severely hinders access to jobs, educational opportunities, credit, financial aid, housing, shelters, and medical care. The potential lack of family recognition for this vulnerable group also means limited access to social security. The urgency of addressing the recognition of gender identity in minors, asylum-seekers, and refugees is also likely to be severely hampered.

## 2.4.10 Impact of austerity on vote 39: Rural development and land reform

Social and economic inequalities are amplified in former homelands. In addition to higher levels of poverty and despite two decades of government policy for 'rural development', people living in the former homelands continue to face poorer health, sub-standard education, insecure land tenure, persistent under development, weak or non-existent infrastructure and services, unequal distribution of resources and limited access to economic opportunities.[56] The proposed cuts to provincial and local budgets will exacerbate this situation.

Womxn in these areas, in addition to carrying the greater burden of child care and care for the elderly as well as the burden of ensuring household subsistence needs are met, are particularly excluded from 'economic opportunity, land and power'.[57] This is also likely to be the case for gender diverse and non-conforming people. The Commission on Gender Equality indicates that **90% of land-reform beneficiaries are men**, demonstrating the persistent inequalities between men and women[sic] in

[55] DBE Supplementary Affidavit in CCL & Phakamisa v Minister of DBE and Others 2019

[56] Neves David. 2017. *Reconsidering rural development: Using livelihood analysis to examine rural development in the former homelands of South Africa*. Institute for Poverty Land and Agrarian Studies Research Report no. 54, University of the Western Cape. P ix.

[57] Neves David. 2017. *Reconsidering rural development: Using livelihood abnalysis to examine rural development in the former homelands of South Africa*. Institute for Poverty Land and Agrarian Studies Research Report no. 54, University of the Western Cape. P5

entitlement to land and property.[58] In addition to issues of land tenure, rural womxn's ongoing experiences of food insecurity, poverty and failures in access to justice linked to gender-based violence are even more pronounced than for womxn in urban areas. Despite this there's no indication of how the MTBPS intends to ensure that these conditions are addressed rather than worsened by the proposed budget reductions.

### 2.4.11 Impact of austerity on Gender Based Violence and Femicide

The recent appreciation for the scale of the issue of gender based violence and femicide in South Africa has finally resulted in strong statements of intent and initiatives by the President. **These must translate into action.** The levels of GBV that have persisted and deepened over the past two decades at the same time that access to justice and services for survivors has worsened. In his speech on 18 September President Ramaphosa indicated that Cabinet had resolved to direct R1.1 billion in "additional funding" in this financial year to the comprehensive response to gender-based violence. In the Question and Answer session in Parliament on 31 October he indicated that a further R500 million had been allocated bringing the total allocation to R1.6 Billion.

The Presidential Emergency Action Plan includes five areas of intervention: 1) Prevent gender-based violence; 2) Strengthen the criminal justice system; 3) Enhance the legal and policy framework; 4) ensure adequate care, support and healing for victims of violence; and 5) measures to improve the economic power of womxn in South Africa.

Although the President indicated that this plan would be achieved with 'additional' funding, **a contradictory approach is taken of appropriating the funds from current budget allocations with very few adjustments being made**. In the economists lock up with the National Treasury on 30 October, when asked about GBV allocations, Treasury indicated that R1.4 billion is money already allocated in the budget. The Treasury representatives indicated that there is a need to look at what departments are already doing and find efficiencies, indicating that they had engaged with between 8-10 departments in order to establish what measures those departments will take to ensure that the resources they have, are spent well towards the plan.

Noting that according to this input R1.4 billion is not new money, and that there are not R1.6 billion in adjustments to the budget for combating GBV, can the President claim that this year's budget has been reprioritised to address this 'National Emergency'? Further, what are the measures that will ensure that inefficiencies and inequities in spending are addressed?

The MTBPS states that this 'priority area' will be funded over the next three years through adding funds to the provincial equitable share, but at the same time the MTBPS outlines **the reduction of funds to the PES by R7.3 billion.** Another critical element of ensuring that the funds (newly allocated or existing) are better spent is to provide us with an indication of what direction is being given to provinces and municipalities (which are already cash strapped and over-stretched) regarding spending on GBV and in respect of where they should make cuts in other services in order to allocate to GBVF. The current pressures on these budgets require direction and this direction should be clearly articulated in the MTBPS.

An example of this concern is with the cuts in compensation budgets from the SAPS, NPA, Justice, Health, Social Development and at provincial and municipal levels, the emergency plan will succeed or fail based on the number and quality of people who implement it, but no indication is given that this

[58] Bornman S, Budlender D, Clarke Y, Manoek S, van der Westhuizen C & Watson J. 2013. *The State of the Nation, Government Priorities and Women in South Africa.* Women's Legal Centre. pp 12, 56

critical element of the strategy to combat GBV - good people to do the work - is understood or safeguarded.[59]

The clarity of the numbers offered (1.1, and then 1.6 billion) indicates that the breakdown of these global amounts should be known, yet neither the MTBPS nor the AENE provide a consolidated picture of how this 1.6 billion is derived.[60] The hidden figures bely the lack of budget priority ascribed to this so called political priority area. In order to enable public scrutiny and engagement with the budgets and measures to improve spending associated with the plan we require consolidated (not spread across many different tables, hidden within other line items) information on the elements of the emergency plan. This must provide information on what amounts are allocated at which sphere of government and in which departments and line items. Upon current reading it is difficult to come to any other conclusion than that **hardly any additional resources have been allocated to this plan in either the adjusted budget or in the medium term,** further where we do see adjustments, these have been taken from other critical services budgets for the same group of people targeted for the GBV response**.** This is unacceptable.

### 2.4.12 Despite these impacts, the 2019 MTBPS proposes a deepening of austerity

The 6th democratic administration has an opportunity to change course from an austerity and credit ratings agencies driven agenda, to one that is focused on delivering on the Constitutional promises that were made to **everyone** in 1996: ensuring substantive equality and the enjoyment of basic rights by all.

Yet, despite the severe trends of rising unemployment, poverty and inequality during the 5th administration, and global waves of protest signalling warning, the 2019 MTBPS proposes a deepening of austerity.

As Table 2 above showed, MTBPS 2019 proposes to reduce the expenditure ceiling by R31.2 billion in 2020/21. Table 6 shows other key indicators of the austerity fiscal framework proposed by the Treasury in the mini-Budget speech.

[59] There is evidence that investing in skilled and experienced staff for specialized policing and prosecutions had a big positive impact on access to justice over a decade ago, unfortunately those programmes were regressed and eventually replaced by initiatives that focused more on 'things' - not people, reversing the gains made then and making the situation that we face today inevitable.

[60] On our initial reading, the AENE provides information on only just under 100 million of the funds

*Table 7: MTBPS projections and proposals for growth in revenue, expenditure ceiling, debt service costs, gross loan debt, GDP and StatsSA projected population growth, 2019/20 – 2022/23*

| Real annual growth | Adjusted | Medium-term estimates | | | Average growth |
|---|---|---|---|---|---|
| | 2019/20 | 2020/21 | 2021/22 | 2022/23 | |
| **Revenue** | 1.9% | 0.4% | 2.1% | 1.8% | 1.6% |
| **Expenditure ceiling** | 2.7% | 1.7% | 1.7% | 0.4% | 1.6% |
| **Gross loan debt** | 8.6% | 8.5% | 7.2% | 5.9% | 7.5% |
| **GDP** | 0.9% | 1.2% | 1.6% | 1.8% | 1.4% |
| **Population** | 1.4% | 1.4% | 1.4% | 1.4% | 1.4% |

Table 7 shows that MTBPS 2019 proposes to reduce the real annual growth in gross loan debt from 8.6% in the current financial year, to 5.9% by 2022/23. This is premised upon **taking more funds out of the expenditure ceiling so that they can be used to pay off debt and achieve a primary budget balance by 2022/23**. This includes reducing growth in non-interest spending to 0.4% by 2022/23. However, the MTBPS states on page 3 that "Achieving the fiscal target requires large additional adjustments exceeding R150 billion in total over the medium term."

We believe that adjustments (which will of necessity involve further reductions in social spending) of this nature would be extremely damaging for public services and for the economy as a whole. Taking this quantum of money out of the economy at a time when it needs a boost is likely to lead to a further downturn in growth, not the medium-term pick up that the Treasury is optimistically forecasting. It is trite to re-iterate that the NDP Vision 2030 was premised upon an annual growth range of 4% - 6%.

Evidence of the misdirection of this approach is that the Treasury's optimistic growth estimates, these measures will not bring gross loan debt or debt service costs down as a percentage of GDP.

*Table 7: Gross loan debt and debt service costs as a percentage of GDP, 2019/20 – 2022/23*

| Percentage of GDP | Adjusted | Medium-term estimates | | |
|---|---|---|---|---|
| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
| **Gross loan debt** | 60.8% | 64.9% | 68.5% | 71.3% |
| **Debt-service costs** | 3.9% | 4.2% | 4.5% | 4.8% |

# PART TWO: ALTERNATIVES TO AUSTERITY

We as the Budget Justice Coalition have a continued interest in ensuring a collaborative approach towards a prosperous and feminist South Africa. It is crucial that alternative options are considered. Below we propose recommendations for turning changing the status quo, as well as put forward questions to help drive solutions.

## 3.1 Alternatives to austerity: feminist budgeting

The President's emergency action plan for GBV and Femicide includes that "All government departments will be expected to adhere to gender-responsive planning, budgeting, monitoring and evaluation, improve collection and analysis of data to monitor our GBV programmes." Yet, **this MTBPS as with many other strategic documents, remains gender-blind.**

For a start, the situational analyses undertaken by departments, including the Treasury, and by government agencies such as StatsSA **must integrate questions of the ways that womxn and gender-diverse people are affected in all sectors**. This must take a non-binary approach – thus avoid limiting 'gender' to questions of men[sic] or women[sic].

Gender responsive budgeting and planning must be **intersectional in its approach**. In other words, different aspects of social or political identities need to be simultaneously considered. For example, a gendered question may be asked, such as: 'how is womxn's access to housing affected, or how is womxn's control of property affected in our society'. But that question must then be taken further, to ensure that there's an understanding of housing for migrant womxn; housing for womxn with disabilities, or womxn caring for people with disabilities; housing for womxn in urban informal settlements or deep rural areas; and so forth. An intersectional approach therefore tries to comprehensively consider the circumstances of vulnerable groups of people.

This is important because programme development must rely on the evidence-base relating to the causal and contributory factors behind the situation. On issues of GBV for example, there has been a tendency to implement popular 'quick fix' approaches that are not evidence-based and have therefore had little to no impact on the rates on GBV. An intersectional approach, with its more sensitive and responsive evidence-base, leads to better and more effective programme development.

All government departments and agencies **must be required to provide disaggregated data,** by gender (in its non-binary diversity), race, class, levels of poverty, disability, and age; in relation to programme implementation and in relation to service delivery, and in budget allocations and expenditure.

## 3.2 Alternatives to austerity: breaking out of the macro-economic straight-jacket

Despite Minister Tito Mboweni's emphasis on changing the status quo in his MTBPS, it appears we have entered into an era of accelerated implementation of the status quo of austerity. **We need stimulus not austerity.**

There is a need for innovative approaches to help South Africa avoid a fiscal trap which sees a downward spiral of mutually reinforcing economic stagnation, low revenues, and spending cutbacks. At the same time, **South Africa needs to put people's needs, the promotion of equality and the realisation of rights, as key fiscal policy objectives.** This is not a choice – it is a constitutional obligation.

In this context we propose six principles for a fiscal plan for South Africa:

1. **It is stimulus not austerity that is needed to get the wheels of the South African economy turning:** A stimulus package which reprioritises expenditure, and introduces additional spending into the economy must be considered alongside any prudent areas within the current spending plans in which savings can be made without unduly damaging the economy. A stimulus package should target those sectors with large multipliers and/or provide essential social services. It should aim to expand productive activity and crowd-in private sector investment.
2. **Stimulus and growth must not be considered independently from equity and sustainability:** Stimulus policies targeted at boosting economic growth must take cognisance of how rising inequality, negative social outcomes and environmental destruction have been the unaccounted costs of GDP growth, and how the nature of that growth must be front and centre. A feminist lens must be applied to policy.
3. **SOE Debt must be addressed logically in a medium-term framework** (see below for further details)
4. **Progressive taxation must raise additional revenue** (see below for further details)
5. **Additional resources must be "crowded in" without an excessive reliance on the private sector:** Additional resources can be used to plug fiscal gaps; in particular, through Development Finance Institutions (DFIs).
6. **Fiscal policy must promote long-term structural transformation:** fiscal policy should be designed in a manner that supports structural transformation from state-led investment into the real economy i.e. a re-industrialisation programme

While treasury insists that growth will not be sufficient to move the country out of the current predicament, it is also important to note that the debt-to-GDP ratio compares a country's sovereign debt to its total economic output for the year. Expressed as a percentage, the ratio is used to gauge a country's ability to repay its debt. The measurement is therefore a function of GDP. Higher GDP growth indicates that a country is able to pay interest on its debt without refinancing or adversely impacting its economic growth. We need an innovative economic strategy that deviates from the neoliberal status quo to grow the economy and therefore reduce the debt-to-GDP-ratio. **We are not convinced that the draft economic strategy put forward by treasury will be able to achieve the principles outlined above,** nor the economic growth levels needed to achieve economic development that transforms the lives of the majority and realises human rights.

When research shows that countries that have expanded opportunities for womxn and girls in education and work have achieved greater prosperity and social development, we are also concerned that the version of the economic strategy released on the 30th of October **only mentions womxn in reference to the tourism sector.** This is tokenism and a lazy way of including womxn into the economic strategy. **Alternatives to austerity: taxes and revenue**

### *High level overview of the SA tax system*

A progressive, tax system, is a tax system that requires high-income earners to contribute more to the fiscus than their share of the national income, while requiring a lower contribution from low income earners by comparison to their share of the national income. In a context of massive income inequality, that tax system can be one mechanism to redistribute resources to the poor and thereby combat growing income inequality in South Africa.

Currently, the main sources of tax revenue in the South African fiscus are the Personal Income Tax (PIT) accounting for 39% of the national revenue, the Value Added Tax (VAT) accounting for 25% of total revenue, and the Corporate Income Tax (CIT) contributing 16% to tax revenue, alongside a range of smaller taxes such as a few taxes on properties or the existence of alternative forms of indirect taxation such as the fuel levy (6%) and excise duties (3%).

### *Indirect taxes and its disproportionate burden on the poor*

When looking at indirect taxation (VAT, Excise tax, Fuel levy and other indirect taxes), the South African tax system performs poorly. The top 10% (10th decile) contribute towards only 56.9% of all indirect taxes, almost at the same level as their share of the national income (56.7%). At the same time those under the PIT thresholds, considered to be too poor to pay income tax (the bottom 50% - decile 1 to 5), are contributing as much as 5% of total indirect tax contributions whereas their share of disposable income is only of 4.8% nationally. The first decile (10% poorest South Africans) are even contributing to 3.4% of the excise tax whereas their disposable income represents only 0.5% of national disposable income. Even with the inclusion of VAT-zero-rated items and VAT exempt services the indirect tax system is not progressive.

#### *Global Corporate Tax Race to the Bottom*

There have also been multiple corporate tax breaks offered to corporations since 1994. Aggressively decreasing its rate from 50% in 1994 to 28% today. The decline of the Corporate Income Tax rate over the past 25 years has been disastrous - depriving the South African fiscus from accessing key financial resources.

Basically the idea was simple. By reducing its corporate tax rate, South Africa was expected to become comparatively more attractive to foreign investors.

If from an individual country perspective this makes sense (reduced tax rate means less tax revenue and financial resources, but this is compensated by a growing corporate tax base linked to new investments), from a global perspective, this fed a worldwide tax war - and the global corporate tax race to the bottom. This led countries to sacrifice critical tax revenue that could boost their economies and redistribute income to the poor. It is important that the South African government makes a commitment to restore South Africa's statutory corporate income tax rate to early 2000s levels. This will serve to dramatically bolster the South African tax base.

#### *End Tax Breaks for the Rich*

To further strengthen the progressivity of the tax mix, another area needs to be investigated: the potential additional revenue that could be raised by reforming the tax credit and deduction schemes offered on Personal Income Tax. Currently classified as tax expenditures, these tax credits are de facto non-collected taxes that hamper the national budget from precious revenue resources.

Currently two major sets of deductions exist: the retirement fund contribution deductions, and the medical tax credit. During the 2016-17 budget year, these two schemes respectively led to the non-collection of R72.9 billion and R27.1 billion. Amounting to a sum of R100 billion, the lost tax revenue represented 8.7% of the gross tax revenue, 2,3% of South Africa's GDP or almost two-thirds of the national budget deficit. This is not an insignificant amount.

#### *Tax the Rich: The missing High Net worth Individuals (HNWIs)*

High net worth individuals - those whose investable property totals between R7 million and R70 million a year. According to the 2010 Knight Frank Wealth Report, there were 96 000 HNWIs in South Africa. In 2016, SARS HNWI unit couldn't locate more than 30 000 tax dodgers, if these were located SARS could have raised an additional R100 billion.

#### *Increase the tax revenue ceiling*

Treasury should publically revise the tax-pegging regime established by GEAR in 1996. It stipulates that tax revenue as a percentage of GDP should be around 25%. At any given level of expenditure, a government must borrow what it doesn't have in income. A policy that limits tax revenue's share of GDP, increases the need for government to borrow more. Given the need for fiscal stimulus a break from tax revenue being pegged at 25% of GDP, increasing it to 32%.

### *Gendered impacts of SA's tax system*

Beyond the large costs of tax breaks for high earning individuals, and before examining their legitimacy, these particular schemes need to be investigated to understand their impact in entrenching inequality. The Tax Statistics of 2018 published by the National Treasury and SARS show that since the main beneficiaries of such schemes are high-income earners (taxable income above R500 000), these deductions disproportionately benefit men. Indeed, 16.8% of taxpayers benefit from 37.3% of tax deductions given for retirement fund contributions. This represents R68,1 billion given to these high-income earners.

Not only is this reinforcing inequality between rich and poor South Africans, but this also entrenches gender inequality. According to the same document, the percentage of taxpayers who are womxn in this category of high income earners is only 30.1%. This means these tax deductions should not only be granted to the rich as it has been done in the past, but they should also be criticized for what they are: instruments that entrench a multiplicity of inequality along gender, race and class lines in South Africa.

### *Illicit Financial Flows, base erosion and profit shifting*

It is extremely difficult to come to one concise estimate of illicit financial flows out of South Africa due to their illegal nature. However, a number of estimates have been produced recently that help us analyse the losses for South Africa. Some of our estimates appear in Tax and Wage Evasion, A South African Guide compiled by the Alternative Information and Development Centre. Here are a few telling figures.

According to the African Union high level panel on illicit financial flows (Mbeki Panel), 4% of the South African GDP was lost every year on average between 1970 and 2008, this represents over the period US81.8bn (R1145 billion). In today's terms, this trend of 4% of GDP would mean R216.5 billion for the 2019/20 budget year.

In terms of tax losses, it is difficult to evaluate the cost of illicit financial flows due to the different types of taxes which could have been levied on these monies. According to the OECD, on a global level, countries lose between 4% and 10% of their Corporate Income Tax revenues. For South Africa this would mean between R9.2 and R23 billion lost revenue.

However, this doesn't account for tax evasion practiced by individuals and tax avoidance schemes used by multinational to 'legally' bypass South African tax laws. It also doesn't take into account the ripple effect these losses have on the economy in general under what the AIDC call wage evasion (See Tax and Wage Evasion - A South African Guide). In other words, illicit financial flows have a massive impact in eroding the South African tax base, both in the long and short term. This in turn has led the South African government to reverse the progressivity of the South African tax system by increasing indirect taxation in 2018, and to a growing pile of public debt which future generations will have to deal with.

### *Revenue Undercollection and SARS capacity*

It is expected that gross tax revenue will fall short of 2019 budget estimates by R52,2 billion in 2019/20, R84 billion in 2020/21 and R 114,7 billion in 2021/22.

Under tax collection is probably related to multiple factors including (but not limited to):

- Under capacity with more than 968 vacancies of which 600 are "critical"
- Lack of confidence in the revenue collector
- Growth, and consumption being revised downwards

To remedy this government intends to make up the shortfall through reductions to baseline spending. This is the wrong approach. Government should bolster taxes through a fiscal and social stimulus, and increased taxes on the rich including high net worth individuals and corporate income taxes. A major positive in line with restoring SARS capacity is the commitment by the finance minister to increase spending to SARS by R1 billion. This is more than a 10% increase and should go a long way in increasing SARS capacity.

*Transparency*

In order to re-establish trust and confidence in our tax system, a number of options are possible to make sure tax transparency become the rule and not the exception. Not only will it rule out risks of corruption, but it will prevent any complacency from tax authorities, and build the path for tighter oversight of corporation's tax avoidance schemes.

All the following options to impose tax transparency rest on one fundamental assumption: in the face of the tax authority's softness on tax evasion, tax avoidance and corruption, strengthening its internal oversight mechanisms won't be enough. The risk of a political clique alongside a powerful business elite slowly imposing and deploying its own people into tax authorities is too high. Indeed, this occurrence has been referred to as the 'revolving door syndrome' which sees previous executive directors in companies going on to serve at key financial government institutions.

## 3.3 Alternatives to austerity: public debt

While reducing debt-to-GDP and debt service payments is an acceptable goal there is little evidence to sustain the proposition that, at approximately 55.6% in the current fiscal year, South Africa has unsustainable levels of government borrowing. There is also much evidence that debt reduction through austerity does massive economic harm.

- **First, cut wasteful expenditure.** Corruption and state capture has placed a massive burden on the fiscus and severely undermined both expenditure and revenue raising. Corruption and mismanagement of resources has further exacerbated the effects of austerity. (see more on corruption below)
- **Second, make limited cuts to expenditure.** Given the evidence noted above we do not situated full-blown austerity as a viable policy route. However, there may be spheres of government spending that can be reduced without economic or social harm. This requires further research, but will most likely be moderate in size.
- **Third, accept that South Africa will have, for the medium term, significantly higher levels of debt.** This would entail setting the debt target much higher, e.g. at 70% of GDP, and announcing this. This will stop the regular increases of projected debt levels which undermine market confidence.
- **Fourth, manage SOE debt**. (see below)

## 3.4 Alternatives to austerity: SOEs

While Eskom remains the biggest threat to the economy, we need to consider the structures, functions and performances of SOEs in a more comprehensive manner. Eskom's predicament is the perfect opportunity to reflect on South Africa's developmental state capabilities. For an SOE reform strategy, we

- Require that National Treasury present to the Finance Committees on the project applications that have been made to the Budget Facility for Infrastructure and specifically request clarity on whether the Grand Inga Project has been properly appraised.

- Undertake oversight visits to Eskom, SABC, SAA, Denel and SANRAL to determine whether these State Owned Entities are taking sufficient measures to better manage their finances including tighter management of their procurement functions.
- Ensure that all State Owned Entities (particularly Eskom due to the extent of the risk) that require loan guarantees from Treasury disclose the full details of all loan agreements that it enters into.
- Request that Treasury provide full disclosure of pre-conditions given to any State-Owned Entities that obtain special appropriations / bail-outs and regularly reports to Parliament on the compliance of State-Owned Entities with the pre-conditions.
- Request that Treasury and the Department of Public Enterprises present on plans to manage Eskom's debt.
- Request Treasury to present on how it is performing its oversight function to ensure that fiscal risks entailed in contingent liabilities do not materialise and to highlight where State Owned Entities are non-compliant with Treasury's requests or are failing to implement turnaround plans.
- Engage the Parliamentary Budget Office and the Fiscal and Financial Commission to ask if they can identify existing allocations and areas of underspending that can be applied to reskilling and supporting mine workers and to boosting other sectors in the economies of Provinces hardest hit by job losses in the mining sector.
- Ensure that responses to the country's environmental crises are adequately met with financial and human resource capacity by ensuring strategic coherence between the departments of Environmental Affairs as well as Agriculture, Forestry and Fisheries Agenda 2030 and the National Development Plan commitments
- Request an investigation into financial mismanagement at NECSA.
- Consider inviting CABRI to present on the measures that can be taken to better manage the risks that contingent liabilities present.

## 3.5 Alternatives to austerity: dealing with corruption

Corruption and governance failures are leading to extreme levels of unauthorized, irregular, fruitless and wasteful expenditure totalling Billions of Rand. It is a major concern to see no sufficient attempt to address this, such as implementing sanctions on officials that are found to have acted illegally.

As a result:

- Corruption continues to be a major threat to government's ability to ensure the progressive realisation of people's constitutional rights. It is the government's obligation to ensure that resources made available are neither being misused nor being used ineffectively and inefficiently

- In 2017, research by the Department of Economic Development found that corruption costs South Africa no less than **R27 billion per year, while 76,000 jobs which could have been created are being lost through corruption**.[61] The 2013 Corruption Perception Index showed that South Africa dropped 34 places since 2001, with the decline of 17 places occurring in just five years of President Jacob Zuma's presidential administration.[62] In 2018 South Africa dropped a further two places to 73 out of 180, with a score of 43 out of 100.[63]

[61] BusinessTech, 2017. "Corruption costs SA GDP at least R27 billion annually, and 76 000 jobs," BusinessTech, September 1, 2017.
[62] Corruption Watch, 2014. "Why is corruption getting worse in South Africa" at https://bit.ly/2gbAl5A.
[63] Transparency International, 2019. "Corruption Perceptions Index 2018", also see "Corruption Perceptions Index 2017" for comparison.

- Qualified and adverse audits against government departments, as well as public entities such as state-owned enterprises (SOEs) are on the rise.[64] The most recent Auditor General's report found that nationally in 2018/19:[65]

    - R61.4 billion of public funds were spent irregularly in the 2018/19 financial year. Irregular expenditure is expenditure that is not in accordance with the requirements of law, particularly the PFMA (Public Finance Management Act of 1999), often related to procurement. This represents a 23% increase from last year, which itself set a new record.
    - Departments also recorded R1.4 billion of wasteful expenditure. Unlike irregular expenditure, fruitless and wasteful expenditure could – and should – have been avoided. It includes interest on late payments to service providers, which remains endemic, and litigation against the state.
    - The Western Cape has by far the largest proportion of departments with clean audits.
    - The report also found that 9% of auditees were now in a vulnerable financial position. This means they may soon lack the finances necessary to continue their operations, up from 8% last year.

We call on Parliament to hold Ministers, MECs, and high-ranking officials in departments with audit findings responsible for their performance. These officials must start implementing the law.

In 2017/18, the Auditor General said:

> Various role players have been slow in implementing our recommendations and in certain instances even blatantly disregarded our recommendations. As a result, there is limited improvement in accountability for government spending and the risks we have been highlighting for a number of years are starting to materialise.[66]

If the 'New Dawn' is to succeed, the current state of affairs where political patronage and cadre deployment trumps accountability and performance must end.

Public sector corruption is reliant upon and exacerbated by corruption in the private sector, which is also widespread. High profile law firms, consultancies and public relations agencies, and auditors, have all been implicated in the country's biggest corruption scandals, the most notorious examples involving the Gupta family, Steinhoff and BOSASA. The consolidation of political power among a network of economic elites, commonly referred to as "state capture," has allowed for the "repurposing" of state institutions at all levels—central, provincial and municipal—to become vehicles of enrichment rather than service delivery.[67]

**We would like to know what new measures Treasury plans to take in the medium-term to ensure the accountability of corrupt government officials and private actors that facilitated state capture yet thousands of civil servants face the risk of early retirement.**

[64] 28% of auditees do not respond to the calls for data by the Office of the Auditor General. Only 99 (25%) of the auditees managed to produce quality financial statements and performance reports and to comply with key legislation, thereby receiving a clean audit. This is compared to 2014-15 figures of 121 auditees with clean audits.
[65] Auditor General of South Africa, 2019. "Consolidated General Report on National and Provincial Audit Outcomes 2018/19". Available at: audit results.
[66] Auditor General of South Africa, 2018. "Consolidated General Report on National and Provincial Audit Outcomes 2017/18."
[67] Public Affairs Research Institute, 2017. "Betrayal of the Promise: how South Africa is being stolen;" See also, Office of the Public Protector, 2016. "The State of Capture: a report of the Public Protector."

## 3.6 Alternatives to austerity: a social stimulus

The goal of every government should be full employment. Since the inception of democracy we have struggled to address the youth unemployment problem. (STATSA CENSUS 96) The most recent labour market survey saw unemployment growing further with youth unemployment when adjusted to include discouraged work seekers rising to close to 70%. Conventionally thinking suggests that growth in unemployment can be addressed through economic growth with the argument being that as the demand increases new jobs will be created thus expanding employment. Sadly, even during periods of economic growth, employment growth has been concentrated amongst higher skilled groups with relative declines in lower skilled groups. (Leibbrandt 2008).

In the delivery of his speech the minister invoked the 2 Corinthians 9 verse 6, which states that those who sow bountifully will reap bountifully. This is contrary to his MTBPS which will precipitate the exact opposite. Read appreciatively it could also suggest an alternative approach to state investment in human capital. Looking at the expenditure side despite broad cuts articulated elsewhere in this submission the government continues to allocate the lion's share of revenue to health and education. In the case of health we continue to see near inflation increases which when adjusted for inflation and population growth are actually in decline.

In its worth considering that as much we need to grow to transform we also have to transform to grow. Transformation is not limited to changing the demographic profiles in our institutions but extends to transforming the institutional arrangements we use to deliver services. The planned reforms to the health system under the NHI bill is such an opportunity. The bill proposes a radical reorganisation of publicly funded health services that will see the consolidation of the health expenditure within a centralised fund which in turn will provide funding to decentralized implementation units at the subdistrict level creating opportunities for better management of resources and improved accountability to communities. Central to the success of the bill is ensuring that those seeking healthcare do so at the appropriate level care starting at the primary healthcare level accessing higher levels of care through a designated referral pathway. The linkages between good health and inclusive economic growth is well documented but these advances will take some time to realise. A more immediate opportunity may be the investments required to improve the public sector health delivery platform as we transition to a fully implemented NHI by 2016. To do so effectively we need a clear plan to address the much documented crisis in public healthcare. Reflecting on the impact of the health system shocks on health system resilience following the pandemic response or conflict related displacement researchers identified three strategic inputs that if sufficiently addressed would contribute to health system resilience, (Health Policy and Planning 2018). These included Human Resources for Health or Health Workforce, Health Management Information Systems and Health Financing.

### *Health workforce*

South Africa ranks amongst the top 5 countries when considering health worker to population density in respect of physicians, nurses and midwives. However when considering that close to 40% of healthcare workers work outside the public sector that services around 80% of the population and up to 95% in rural and underserved areas it is not surprising that while health outcomes most notably life expectancy have improved overall service delivery remains weak. In the most recent district health barometer it is reported that while health expenditure per capita has increased a deeper analysis that the increase is driven largely by decreases in health visits which has declined from a high of 3,5 visits per year to just over 2 visits annually. It is suggested that the decline may have been driven by the governments CCMD program but in the absence of evidence to support the more compelling reason could be a weak service delivery with over 3 million fewer visits amongst the adolescent group. (DHB 2017/18) A further signal of weak delivery capacity is the performance against target in the flagship HIV AIDS program where the target of having over 5.8 million people on treatment was missed by spectacular 1 million people with only 4,8 million initiated. (MTBPS 2019) In preparation for the development of the national human resources for health strategy researchers for the health system trust analysed the age composition of the public health workforce. While the vast majority of health workers in the system where between the ages of 30 -49 in the case of nurses over 40% are currently approaching retirement.

There is clearly an opportunity to expand employment within the public health sector particularly community health workers which presents an opportunity for unemployed youth particularly young womxn who are overrepresented amongst the unemployed. However, the expansion of the CHW cadre must be supported by a re-imagining of training curriculum that must support the professionalization of this cadre as well supporting a clear career progression so that they don't remain community health workers for life.

*Health Management Information System*

An important function of good management is understanding what needs to be done. In the context of wide scale system decline there are demands for increased investments from all sectors of the health system. Attempts to address challenges through targeted allocations are curtailed somewhat by the absence of reliable management information. An example of this is a reliable publicly available case mix data. Put differently as we the public or even public representatives we have limited information on what is happening in our health facilities. How long are patients spending in our clinics and hospitals, why are they coming, why do they bypass clinics to access services at hospitals, is there overuse of services and underutilisation by others. In order to improve health care services where there is an overall decline in resources a better understanding of health system production is needed. Addressing the dearth of management data presents an opportunity to build capacity among youth in an emerging growth area of data science. Given the extensive footprint of public funded health facilities, investments in improving management data can create pathways to employment for youth in both urban and rural areas.

*Health Financing*

South Africa invest a significant portion of its revenue on health. The funding formula for health has largely stayed the same with the bulk of funding transferred to provinces through a combination of equitable share allocations and block grants. As discussed budgets have kept in line with inflation which does offer much space for realigning budget allocations with the goal of transitioning to a universal health system. A notable opportunity to align health expenditure in support of inclusive growth may be in prioritising the health sector infrastructure investments in areas where the greatest impact can be had in both improved health access as well significant stimulus to the rural and township economies.

## 3.7 Alternatives to austerity: a sustainable public sector wage bill for a capable state

Reducing the public sector wage bill has also been a central tenet of austerity in South Africa – the number of government employees has been cut from 923 646 in 2013 to 888 204 in 2017.[68] Monthly payrolls in 2018 showed an average of about 16 000 fewer employees than in the corresponding months of 2015.[69] In Tito Mboweni's budget speech he said the public sector wage bill "took more than 35 percent of consolidated public spending, [and] was not sustainable."[70] Salaries for public servants have

[68] National Treasury Budget Review 2018

[69] Naidoo, P. & Mbatha, A. 2019. South Africa to seek budget spending cuts as debt climbs. https://www.fin24.com/Economy/South-Africa/south-africa-to-seek-budget-spending-cuts-as-debt-climbs-20190822

[70] Nation Treasury Budget Review 2019

been growing at rates higher than inflation and account for 35% of expenditure in 2017, up from 32.9% in 2007.[4]

Following the new public-service wage agreement negotiated in 2018, provincial governments were required to absorb the increases within their existing compensation ceilings, which means that they had to internalise the unbudgeted compensation costs. Provincial departments already spend approximately 65% of their expenditure on wages and National Treasury arbitrary ceilings for compensation budgets exacerbate existing staff shortages particularly in health and education.[5] National Treasury plans further cuts to the public sector wage bill over the MTEF, incentivising civil servants to exit by offering them early retirement packages.

In the context of austerity, where spending on infrastructure and social services is being cut, further pressure is put on public servants, whose salaries make up a growing share of the budget and who are targeted as the source of these expenditure cuts. It should also be remembered that spending by public sector employees plays an essential role in sustaining domestic economic demand and large family networks reliant on limited wage earners.

Proponents of cutting the public sector wage bill remain mum on the cost of service delivery capacity for the realisation of human rights. For instance, In May 2018, the Treatment Action Campaign reported that 38,217 posts in health were not filled.[71] The National Treasury has asked departments to prepare proposals on how to reduce expenditure as it seeks to cut the budget by 5% in 2020/21, and then by 6% and 7% in the following two years. [72] Cuts to spending on services and social security have a disproportionate gender impact because womxn rely more on these services.

The MTBPS itself notes that wage growth in the private sector currently stands way below inflation at only 2.1% (page 19), while we know that jobs are being haemorrhaged in the private sector at an alarming rate. Cutting the public sector wage bill will therefore only add to the sinking feeling for workers, who are struggling to find work in the private sector, where wages and hence living standards for workers are already being eroded.

Our recommendations for the public sector wage bill are as follows:

- **First, frontline services must be protected and advanced.** While the wage bill may take up the largest share of government spending (by economic classification), this is perfectly normal, and its share has only gone up marginally because of cuts to capital and goods and services spending. There cannot be shortages of frontline service delivery workers, and large numbers of unfilled posts or vacancies, as well as on-going measures to freeze or cut back on posts.
- **Second, decomposing the wage structures and identifying where the wage bill gets spent.** It is not about the size of the wage bill, but rather the distribution of wages, there is room to reduce costs while making wages more equal and reducing unnecessary layers of bureaucracy.
- **Third, the role of government as a provider of employment in the presence of high unemployment must be reviewed**. In the context of the high levels of unemployment, the government could play a potentially critically role as an "employer of last resort" as part of the above mentioned stimulus package. This could take the form, for example, of a jobs guarantee scheme.
- **Fourth**, enable departments to make better use of performance management options. Underperforming staff can exit the system, whereas those contributing skills and initiative should be advanced.
- **Lastly, the early retirement plan needs to be reviewed.** This option could have detrimental impacts for departments of health, which already face difficulty hiring and retaining specialists

[71] Treatment Action Campaign. 2018. State of Health. https://tac.org.za/category/news/health-system-strengthening/
[72] Magubane K. 2019Retirement helping to ease public wage burden, says Mboweni

and other specialist and experienced staff. For example, in 2018 **48%** of registered nurses are over **50** years old, only **5%** are **under 30.**

# 3. Conclusion

This submission has shown that further reductions to the expenditure ceiling have **exacerbated inequality** and social distress, created heavier burdens for womxn and hurt economic growth. People on low incomes rely on public services the most and pay a greater share of their income in VAT and transport costs, which have increased in recent years. In holding the Treasury to account for these regressive policies and the whole of government for its poor performance, Parliament must be cognisant of its Constitutional and international human rights obligations. These include ensuring the maximum available resources are raised and allocated in an equitable way to ensure redress and the progressive realisation of socio-economic rights.

The 2019 MTBPS proposes the opposite: cuts to pro-poor spending and a regression in service delivery.

As a result of the government's role in and failure to address the multiple social and economic crises, surveys are showing that citizens' trust in Parliament and in government is at a low point for the democratic era. Trust in government as a whole has been severely eroded and according to one annual survey, reached a low of 14% in 2018.[73] A survey by the Foundation for Human Rights on attitudes to democracy and human rights found worryingly that **half of the population no longer believes that democracy is the appropriate system of government for South African** and populist voices are taking the ascendency.[74]

We urge the Committee to consider the steps proposed in this submission to take us towards a higher and more equitable growth path.

[73] www.timeslive.co.za/news/south-africa/2019-01-29-turn-to-populism-by-fed-up-citizens-could-reverse-democracy-sipho-pityana/
[74] Foundation for Human Rights 'SEJA Baseline Survey Report' 2018. Available at: http://pmg-assets.s3-website-eu-west-1.amazonaws.com/SEJA_Report.pdf.