



SUBMISSION TO COMMITTEE ON COOPERATIVE GOVERNMENT AND TRADITIONAL AFFAIRS

IN RESPONSE TO THE CALL TO CONTACT PARLIAMENTARY COMMITTEES AND MEMBERS OF PARLIAMENT ABOUT GOVERNMENT'S COVID-19 ACTIONS AND RESPONSE

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INTRODUCTION

The Budget Justice Coalition (BJC) makes this submission in response to Parliament's Call to provide Parliamentary Committees with on the ground feedback and expert information. We write to the Committees on Appropriations and Finance regarding the aspect of the call that invites written input on what measures would help citizens and the economy to recover, where to appropriate funding, what legislative fixes are needed and how we can be better prepared for future disasters. We also raise considerations of oversight in respect of emergency procurement.

President Ramaphosa has indicated that the emergence of the COVID-19 pandemic has catapulted South Africa into uncharted territory, calling on the state to craft social compacts of a novel nature. Public resource management decisions to accommodate the costs of relevant disaster responses need to be made quickly. This challenges the principles and constitutional requirements for public engagement on issues of public finances and limits the scope for public engagement on these far-reaching decisions. Clear monitoring and reporting mechanisms must be established to ensure that budget and planning decisions taken to mitigate the impacts of COVID-19 are not only effective but time-bound.

Access to sufficient food and relief from economic hardship are fundamental rights entrenched in the South African Constitution alongside the right to access healthcare services. And yet, the economic measures put in place by the government so far are punitive to the poor and working class in South Africa, based less on the rights of all people – including women, children and foreign nationals – and more protective of business interests. As a result, these groups face exclusion, hunger and destitution. BJC makes a number of proposals to remedy this.

Access to basic services such as water and electricity has also been brought sharply into focus not only as an area of deep societal inequality - but because unequal access exacerbates the precariousness of underserved communities. UN-Water, for instance, warns that in South Africa people living in rural areas have the lowest access to handwashing facilities in their homes. In 2017, the UN's indicators on access to water (SDG 6) illustrated that less than 50% of the national population had basic hand washing facilities at home.¹

Evidence is mounting that millions of people are suffering as a result of a loss of income and the restrictions placed on the informal market by the lockdown regulations. This threatens to undermine the initial progress made in the public health response to the disaster.

Given the likelihood of ongoing restrictions on work and movement for the remainder of the year at least, the BJC believes the state can and must do more to prioritise its available resources to support the health care needs, incomes, livelihoods and access to food for everyone.

¹ UN Water defines a basic hand washing facility as one that has both soap and water. Facilities may be fixed or mobile and include a sink with tap water, buckets with taps, jugs or basins. Soap includes bar soap, liquid soap or powder detergent.

THE ECONOMIC RELIEF PACKAGE

At R500 billion, approximately 10% of GDP², the total size of the economic relief package is significant. The BJC is however concerned about how much new money is actually being provided, where it is coming from and who it will benefit.

R130 billion is to come from budget reprioritisation. While we accept that some money will be saved as a result of the lockdown, such as travel and accommodation costs. Expenditure on infrastructure, for example, should not be saved as unspent funds, but rather reallocated once the lockdown is over in order to help stimulate the economy. To-date, no clear indication has been given about which line items will be targeted for savings. In the past, BJC has raised concerns³ around declines in per capita expenditure on health, education and housing. While it recognises that some projects will be halted as a result of COVID-19, many of these can be postponed to the next budget year. The return to an austerity budget promised by the National Treasury after COVID-19 will only deepen the economic and social destruction exacerbated by the virus – when a massive stimulus will instead be needed.

BJC understands that almost R100 billion is being sought from international finance institutions: the IMF⁴, World Bank and New Development Bank. Historically, finance from the IMF and World Bank has come with huge costs, including requirements to cut future spending, that have negatively impacted many countries in the Global South. BJC thus demands transparency on the conditions the government may be exposing future generations of South Africans to by taking money from these institutions. The BJC calls on the government to reject finance that comes with conditions which impact our sovereign policy discretion and are anti-poor, and to focus on domestic resource mobilisation instead.

The BJC raises questions about the R200 billion of finance guarantees to support businesses. As the Treasury is guaranteeing these loans, they could end up having implications for future expenditure. If there are many defaults on the loans, the cost will be absorbed by the public purse. As a contingent liability, the loans can and should be absorbed by the South African Reserve

²<http://www.thepresidency.gov.za/speeches/statement-president-cyril-ramaphosa-further-economic-and-social-measures-response-COVID-19>

³ Budget Justice Coalition submission to Finance Committees. Available at:

<https://budgetjusticesa.org/assets/downloads/Budget-Justice-Coalition-5-year-Review-Submission-to-Finance-Committees.pdf>

⁴ AIDC notes that the BJC calls for increased transparency in relation to loans from international creditors. While increased transparency is important, the AIDC does not agree with this formulation. Instead in the unfolding context we think that it is more economically and politically beneficial to demand the cancellation of debt repayments and to prioritise the mobilisation of domestic finances at concessionary interest rates. This should be the priority. If there are still insufficient financial resources at our disposal for urgent and medium term measures only then should loan from international creditors be explored. It is imperative and non-negotiable that these are with no conditions and are in the form of grants and not loans. In the context where tax revenues will fall dramatically, South Africa should first seek to liberate pools of domestic finances before further indebting itself (in spite of the fact that we do not see rising debt as a problem in itself).

Bank instead. Relief for businesses should not come at the expense of realising and protecting human rights in the future.

Tax relief for businesses does not necessarily translate into the payment of wages or the retention of workers. The BJC also wants a clear commitment that job retention is a condition of the finance guarantees and the R70 billion in tax relief for businesses. Any business that is registered or shifts a portion of its profits into tax havens should not receive any taxpayer support.

The National Treasury's worst case COVID-19 scenario estimates that up to 7 million jobs could be on the line. Despite this, only 17% of the funds announced – R88 billion – are budgeted for direct cash transfers via social grants and UIF payments to the poor and working class. The need far outstrips the allocation of these funds. As yet - limited information has been provided on the R100 billion allocated to job protection and creation - despite increased threats of job losses. We call for transparency on these measures.

Government must undertake a developmental quid pro quo for taxpayer funded business support, just like a private investor would demand, but in this case, to implement inclusive economic reforms for the public good. This could, for example, be in the form of a five year development programmes to employ more workers, to equalise wages for men and women, to procure more from local small businesses, and to scale up implementation of BB-BEE.

The BJC further appeals for clarity as to where and how the R4.5 billion estimated cost of the military deployment fits into this package.

RECOMMENDATIONS FOR WHERE TO APPROPRIATE FUNDING

Address rising levels of hunger

The Budget Justice Coalition contends that the total budget allocated for social grants is not adequate. At least 55% of South Africa's population (30 million people) live below the Stats SA poverty line of R1 267 per person per month (in 2020 Rands) and yet the R50 billion allocated for the social grant component of the disaster relief package represents only a tenth of the total economic relief package of R500 billion.

⁵ Daily Maverick. April 2020. The pandemic's economic devastation has created a rare opportunity for a new deal in South Africa. Available at: <https://www.dailymaverick.co.za/opinionista/2020-04-29-the-pandemics-economic-devastation-has-created-a-rare-opportunity-for-a-new-deal-in-south-africa/>

Prior to COVID-19, Oxfam-SA⁶ put the number of people in South Africa who regularly experience hunger and malnutrition at 13 million. The largest survey since the lockdown began, conducted by the Human Sciences Research Council⁷ with almost 20 000 respondents, found that almost a quarter (24%) had no money to buy food. More than half of residents in informal settlements and townships have run out of money for food. This equates to around 15 million people in South Africa right now who are experiencing hunger.

Research shows⁸ that poor households start going short on food in the middle of the month and these shortages are worsened during the lockdown. The inordinate delay of almost six weeks from the start of the lockdown on 26 March to the actual topping up of the child support grant by R300 on 06 May has contributed to endemic hunger amongst South Africa's most vulnerable communities. The situation was not responded to with sufficient urgency and proposals⁹ to #TopUpTheGrants in mid-April were ignored.

The social relief package is insufficient, inequitable and punitive to women and children. On 21 April 2020, the President announced that child support grant (CSG) beneficiaries will receive an extra R300 in May and from June to October they would receive an additional R500 each month. But subsequent briefings by SASSA, the Minister of Social Development and the Minister of Finance, indicate that although all CSGs will be increased by R300 in May, from June the R500 increase attached to the CSG is a single increase for the caregiver (the recipient of the money) rather than the child (the beneficiary for whom the money is intended). This backtracking on the President's promises to children saves the state R13 billion, yet combined with the closure of school feeding programmes, and restrictions on caregivers' eligibility for the COVID 19 grant and food parcels, plunges families with children into destitution. On this, the following points should be considered:

- Given the increases that have now been announced for all the other grants, modelled estimates show that if the CSG increase is attached to the caregiver rather than each child, this will leave 2 million more people below the food poverty line than would be the case if the increase were attached to every child.
- The relief package does not acknowledge or cater for the fact that, in addition to job losses and rising food costs, around 10 million children have since mid-March lost their daily main meals due to the closure of schools, the National School Nutrition Programme, and ECD feeding schemes.
- The 7.1 million caregivers who receive CSGs on behalf of children have been excluded from accessing the new R350 COVID-19 grant. The majority of these caregivers (around 6 million) were unemployed or working in the informal sector prior to lockdown.

⁶ Oxfam. Hidden hunger in South Africa. Available at: https://www-cdn.oxfam.org/s3fs-public/file_attachments/hidden_hunger_in_south_africa_0.pdf

⁷ <http://www.hsrc.ac.za/en/news/media-and-covid19/hsrc-study-on-covid19>

⁸ https://pmbejd.org.za/wp-content/uploads/2020/04/Food-and-Coronavirus_Research-Paper-28042020.pdf

⁹ <https://theconversation.com/south-africa-can-and-should-top-up-child-support-grants-to-avoid-a-humanitarian-crisis-135222>

- In addition, the government's roll out of emergency food parcels to date has been far too small to meet the vast need created by the nationwide lockdown. The 250 000 distributed parcels that the President announced on 21 April is a small fraction of what is needed when around 15 million people may be experiencing hunger.

There must be public engagement on both the rationale for targeting and the eligibility criteria for the COVID-19 grant, and consideration given to replacing it with a universal grant to ensure that everyone who needs it gets it.

The allocation for the special COVID-19 grant is approximately R20 billion over six months, but it does not extend to the majority of people in need. The special COVID-19 grant is intended for unemployed individuals who do not have access to a social grant or UIF payment. Calculations by SALDRU show that there are approximately 15 million people who could qualify for the grant.

It has become clear over the past week that the plan is to reduce the number to be reached by additional targeting mechanisms, such as applying some kind of income threshold, so that only 8 million people are reached. Recent reports¹⁰ indicate that banking details, proof of residence and identity documents will be required, thereby excluding the millions who are unbanked or who do not have proof of residence due to living in informal settlements or rural areas where addresses are not available. Furthermore, the administrative and cost implications of this targeted approach are likely higher than a universal approach.

The decision to implement a targeted COVID-19 grant has been taken without sufficient transparency or explanations. The BJC is of the view that a universal grant would be a more equitable and feasible mechanism to implement than this limited COVID-19 grant. However as this appears to be fait accompli at this time, the BJC calls for the rationale for targeting and for the eligibility criteria to be scrutinised through a public engagement process to ensure that these measures are evidence-based, equitable, reasonable, and possible to implement successfully.

Recouping a universal grant from the upper deciles through tax instruments would be an easier and more equitable exercise and will lead to less exclusion of the lower deciles than a narrow targeting approach.

The amount of the proposed COVID-19 grant, at R350 per month, is even lower than the CSG, less than a third of the value of StatsSA's upper bound poverty line (R 1267 in March 2020 Rands). The rationale for restricting the amount to R350/person needs to be subject to a public engagement process.

Funding of Gender-based Violence response and prevention

Gender-based Violence prevalence is extremely high in South Africa. In previous submissions,

¹⁰ <https://www.iol.co.za/news/politics/heres-what-you-need-to-access-the-r350-covid-19-social-relief-grant-47345931>

the Budget Justice Coalition has questioned the lack of transparency about where most of the R1.6 billion reprioritization to Gender-Based Violence in 2019 was located in the national budget. These answers have not yet been provided.

Gender-Based Violence was a pre-existing crisis in South Africa when the COVID-19 pandemic began to buffet South Africa. Notwithstanding the serious problems reported by women regarding accessing the Gender-Based Violence hotline, the number of calls to the hotline¹¹ illustrates that GBV is exacerbated by the conditions of the lockdown. In lockdown, women in relationships with violent partners, and children of violent parents find themselves in constant proximity of their abusers with little opportunity to escape their presence. To call a hotline, a service provider or the police requires airtime and privacy, both in extremely short supply for most South Africans. The stressors experienced by people in lockdown circumstances increase the risks of violence and the limits on movement have created circumstances in which violence can continue to escalate as people are not able to go to a friend or family member, or work that would bring reprieve.

The National Strategic Plan on Gender-based Violence has recently been released but the financing plan is not yet provided. If this plan is not adequately and reliably funded it will not be worth the paper that it is written on and the status quo of the past 25 years will remain unchanged. The BJC stresses that the funds that were previously reprioritized to address Gender-Based Violence must not be prioritized away to COVID-19. Financing GBV responses at this time must recognise that funds need to be released to services in communities that women are most likely to be able to access in the context of lockdown - services situated where women and children are able to get to considering restrictions on movement and considering the barriers to privacy needed to call for help from the home. The quality of statistics and data available about Gender-Based Violence also urgently needs to be improved because funding decisions need to be made on the basis of reliable official statistics.

Make provision for a special health budget

In February 2020, the BJC made a submission following the tabling of the national budget, noting that R4 billion had been cut from health funding and that we continue to see near-inflation increases which, when adjusted for inflation and population growth are actually in decline.

Reflecting on the impact of the health system shocks on health system resilience following a pandemic response or conflict related displacement, researchers identified three strategic inputs that if sufficiently addressed would contribute to health system resilience¹². These included Human Resources for Health or Health Workforce, Health Management Information Systems and Health Financing.

¹¹ ENCA. April 2020. Cele urges SA to report abuse as GBV calls top 2,230. Available at: <https://www.enca.com/news/police-minister-encourages-sa-report-abuse>

¹² Health Policy and Planning 2018

The health sector is faced with critical shortages of human resources for health. We call on the committees to request the Department of Health to make information available about its personnel numbers and vacancies and engage the National Treasury to work on a special health budget which includes provision for these key vacancies to be filled. This special health budget can be tabled when the redone special adjusted budget is tabled.

We note that as the pandemic unfolds, further funding is likely to be required for:

- Personal protective equipment (PPE) for medical professionals and community healthcare workers.
- Hiring more medical professionals (including epidemiologists, virologists, doctors, nurses, medical data specialists etc)
- Supporting universities and higher education institutes to enable medical professionals in their final year to complete their training and graduate.
- Research funding
- Provision of psychosocial support
- More teams that are equipped to do sanitizing
- Provision of transport to access medical treatment
- Improvements to health IT systems and internet connectivity at health facilities

It is essential that providing for these expenses is not at the expense of other medical equipment and services. There is already anecdotal evidence of instances where people who have serious medical conditions are battling to access medical treatment.

Electrify households without electricity

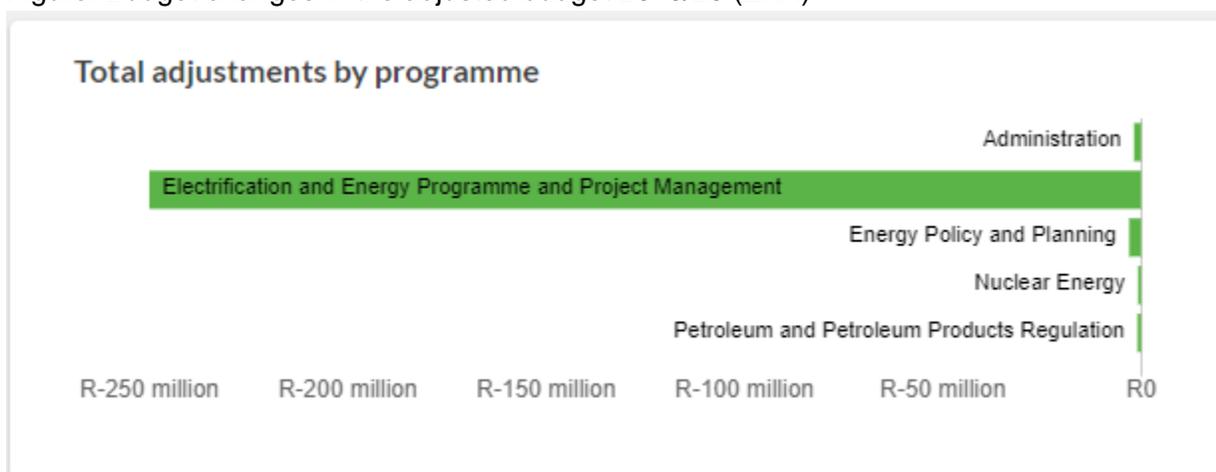
Having no electricity cuts people off from access to information, which is largely via mobile phones or radios.

On 01 May 2020, News24 reported an instance of where due to lockdown regulations, which prevented the collecting of wood, a household was forced to use plastic bottles to make fires¹³. This implication of lockdown regulations poses a challenge that is not only bad for people's health at a time when improved immunity is needed to be resistant to the virus, but is also unnecessary if the households were to be electrified.

In 2019/20 R250million rand was returned to the fiscus from the Electrification and Energy Programme. This is by far the greatest proportion of the R256.5million declared underspending of the Department of Energy (now Department of Mineral Resources and Energy) for 2019/20.

¹³ News24. May 2020. Article: Lockdown: banned from collecting wood forced to use plastic bottles to make fires. Available at: <https://www.news24.com/SouthAfrica/News/lockdown-banned-from-collecting-wood-forced-to-use-plastic-bottles-to-make-fires-20200501>

Figure: Budget changes in the adjusted budget 2019/20 (ZAR)



Source: Vulekamali

These funds could have been used to support households that are not electrified with non-grid tied technologies such as solar panels and solar geysers. This solution is particularly relevant for rural areas. We advocate that instead of holding back on spending from the electrification and energy programme, the Department should be doing their utmost to ensure that households without electricity are electrified urgently. If money from this programme will again be underspent in 2020/21, at the very least it can be shifted to the municipal sphere to temporarily support additional provision of Free Basic Services such as Free Basic Water and Free Basic Electricity.

In March 2020, it was revealed in response to a Parliamentary question that no solar water heaters had been installed in 2019 (none were installed in 2017 or 2018 either), and that 86,856 solar water heaters (out of a total of 87,206) were in storage, at a staggering cost to the taxpayer of R8,187,956 a month. A Business Day article notes that the tender for the supply of these solar water heaters was issued on 12 January 2016, with supply agreements to be signed on 29 February 2016. If it is assumed that the 87,000 solar water heaters were delivered by the end of 2019, this means these heaters have been in storage for at least three years¹⁴. As lockdown is gradually lifted, these solar water geysers should be installed.

Recommendations for where to appropriate funding

The BJC recommends that:

1. The budget for the social grant component of the relief package should be increased in recognition of the size of the population in need.
2. The CSG increase of R500 should be attached to each child grant paid.

¹⁴ <https://www.businesslive.co.za/bd/opinion/2020-03-15-gwede-mantashes-answers-over-solar-heaters-highlights-gross-state-incompetence/>

3. Unemployed caregivers, who are in receipt of a CSG for their children's basic needs, should not be excluded from the COVID-19 unemployment grant.
4. The assumptions, projections, and eligibility criteria for the COVID-19 unemployment grant (including the income threshold being applied) should be made public so that there can be informed engagement prior to the regulations being finalised.
5. Cabinet urgently considers a universal income grant instead of a very narrowly targeted COVID-19 unemployment grant, which is likely to create inequality, confusion and conflict and to cost more. SARS should be used to recoup the grant from the upper deciles.
6. Informal food traders must have greater freedom to trade, with or without a permit.
7. Food parcel distribution must be ramped up, requirements for beneficiaries to produce SA ID's abandoned, and community-based organisations allowed to distribute food relief without a permit. However, this should be viewed as a stopgap measure; sustainable food security for all should be the goal.
8. Adequately fund Gender-Based Violence response and prevention.
9. Engage the National Treasury to work on a special health budget which includes budget provision for key vacancies in the health sector to be filled.
10. Budget allocations be made to temporarily support additional provision of free basic services such as Free Basic Water and Free Basic Electricity.

LEGISLATIVE FIXES AND AREAS OF ENQUIRY

Review the Equitable Share Formula

The Constitution provides that each sphere of government (national, provincial and local) receives an equitable share of revenue raised nationally. This enables the different spheres to provide basic services and perform the functions allocated to it.

Here's how the 2020 budget has been divided between the different spheres of government:

“Over the medium-term expenditure framework period (next three years), after budgeting for debt-service costs, the contingency reserve and provisional allocations, 48.2 percent of national raised funds are allocated to national government, 43 percent to provinces and 8.8 per cent to local government. The share allocated to national government was somewhat larger than in 2019/20, mainly as a result of increased transfers to state owned companies”.

The equitable share is divided vertically and then horizontally. The vertical division is a choice based on policy priorities and is not done using a formula to divide the funds between the spheres of government. The so-called vertical division is done with reference to Section 214 of the Constitution and in consultation with the Fiscal and Financial Commission and provincial

governments. The horizontal equitable share formula is worked out using population statistics from Statistics South Africa and other official data.

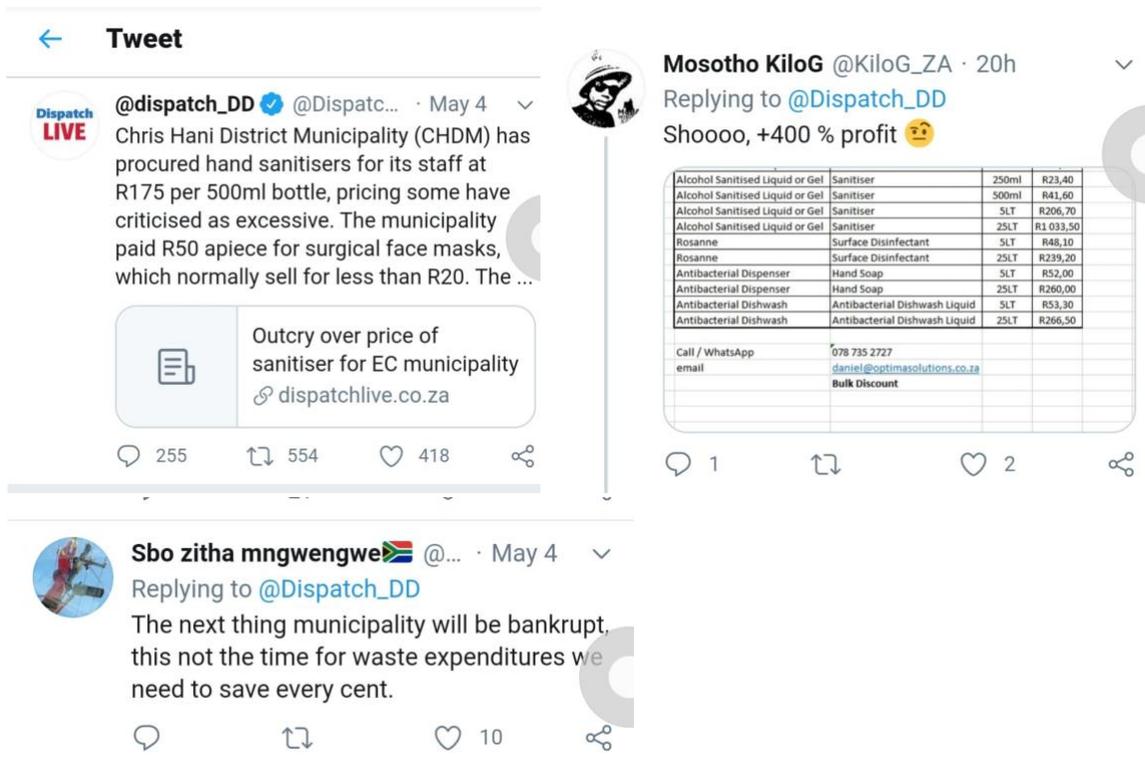
We note that the COVID-19 Fiscal Response package includes R20 billion to municipalities. The revenue sources of municipalities are derived largely from selling electricity and water. However, both of these revenue sources are currently under severe pressure, which looks set to continue in the foreseeable future. We recommend that the Fiscal and Financial Commission be requested to undertake a study which investigates revenue sources for local government. It may be necessary to consider providing municipalities with a somewhat increased proportion of the equitable share.

Bolster Municipal Financial Oversight

In addition to the measures above - municipal oversight in general requires significant bolstering. As we indicate below - announcements of the deployment of the Auditor-General staff to oversee expenditure related to emergency provisioning are encouraging. However, we urge the Committees on Appropriations, Finance and Cooperative Governance to consider recommendations that would create long-term systemic strengthening of municipal financial management systems.

A recent incident in which an Eastern Cape Municipality is reported to have paid excessively inflated prices for hand sanitiser and surgical masks for municipal staff illustrates the inherent risks to emergency appropriations.¹⁵ Public reactions to this via social media are instructive; ranging from observations that the Premier of the Province cannot undertake oversight 'alone' (and requires wider stakeholder support), to estimates of the total mark-up (400% by one anecdotal account) and outcries about wasteful spending municipalities can ill-afford. While forensic audits may expose implicated officials and private services provider; the BJC calls on Committees to encourage system reform that altogether avoids such misuse of public funds.

¹⁵ Full media article, 4 May 2020 via Daily Dispatch available here: https://www.dispatchlive.co.za/news/2020-05-04-outcry-over-price-of-sanitiser-for-ec-municipality/?utm_term=Autofeed&utm_medium=Social&utm_source=Twitter#Echobox=1588565310



Above: social media reactions to reports of Chris Hani District Municipality's procurement of inflated hand sanitiser

Broaden opportunities for participation in the budget process

On 30 April 2020, the International Budget Partnership (IBP) released the outcomes of the 2019 Open Budget Survey (OBS). The OBS is a biennial survey and is the world's only independent measure of fiscal openness. The survey assesses 117 countries on the transparency of their budgets, measuring the expanse and timeliness of budget information that they make public. It also examines the practices of the government's executive, the legislature, and the Auditor-General. Countries are scored between 0 and 100 and ranked on the Open Budget Index (OBI).¹⁶ The most recent results indicate that while South Africa's transparency scores were the highest of all countries (at 87 out of 100), public participation in budget processes continues to be dismal at 24 out of 100. Ensuring meaningful public participation is a fundamental component of developing responsive, rights-based fiscal tools.

Researchers attribute a sharp global increase of public interest in transparency, participation, and accountability in fiscal decision-making to shifts from "closed, *authoritarian political regimes to... ones characterised by policy contestation, separation of powers, political party competition, an organized civil society, an engaged citizenry, and an active media*".¹⁷ The BJC contends that

¹⁶ The OBS applies 109 equally weighted indicators to measure transparency. These indicators assess the availability of eight key budget documents. This includes determining whether these are accessible online, in a timely fashion and the extent of their comprehensiveness and usefulness.

¹⁷ Khagram, S., De Renzio, P. and Fung, A. 2016. Overview and Synthesis: The Political Economy

similar trends are (anecdotally) evident in South Africa and bode well for strengthening the capacity of state institutions.

The previous OBS warned that there was a need for South Africa to safeguard its hard-won transparency status following post-apartheid budget reforms. This, the OBS contends could be achieved by ensuring that the integrity of institutions such as the South African Reserve Bank (SARB), the National Treasury and South African Revenue Services (SARS) are protected and bolstered. The lack of transparency and disclosure by some governments of their financial risks is cited as a contributing factor in many countries' fiscal crises, highlighting the importance of openness.

The BJC urges committees of Parliament and provincial legislatures to proactively foster public participation in the development, implementation and evaluation of fiscal policy. It is also imperative for the National Treasury and SARB to proactively disclose financial risks emerging from the current health crisis. Public input must be sought at all stages of the budget process - not only at the approval stages when - arguably - decisions are near-final.

This is particularly pertinent under conditions such as appropriations towards COVID-19 and other disaster conditions and applies to opportunities within budget (re)formulation, expenditure and auditing. Notably - there are currently no formal opportunities for South Africans to inform the audit process despite this connecting to various important service delivery issues.

We urge the Committees to engage the Office of the Auditor-General on measures to establish formal mechanisms for the public to assist in the development of its audit program and to contribute to relevant audit investigations.

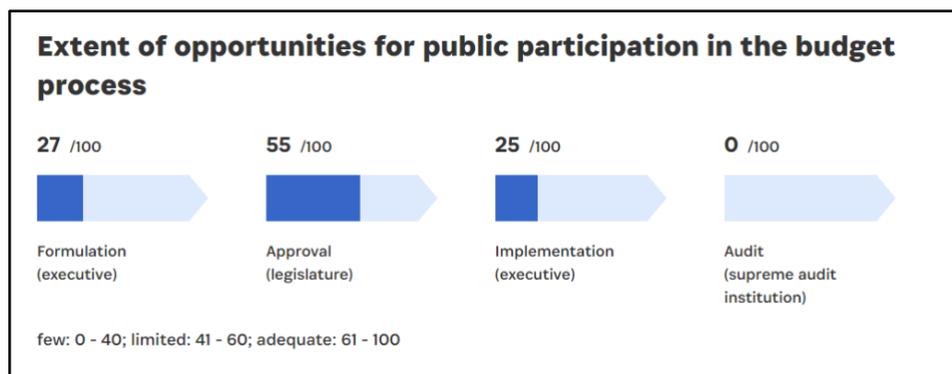


Figure: the OBS 2019 underscores overall lack of formal opportunities for public participation in the budget process

The BJC reasserts Minister Mboweni's MTBPS 2019 remarks in which he signalled Treasury's recognition of the need to bolster state capacity;

"The state can use its budget better...Where possible, given budgetary constraints, government is shifting resources to areas that urgently need to strengthen capacity. ...the National Prosecuting Authority receives an additional R1.3 billion, and the South African

of Fiscal Transparency, Participation, and Accountability around the World, The Brookings Institution

Revenue Service receives an additional R1 billion for the next two years. These funding shifts will bolster efforts to combat corruption and improve revenue collection.... National Treasury has reviewed the procurement regulatory framework and developed a Public Procurement Bill"

While much has changed since the MTBPS, the capacity of these institutions to fulfil their mandate and respond to highly dynamic socio-economic contexts is as imperative as ever. Strong public institutions are needed to steer South Africa out of this period of crisis towards longer term sustainable development.

Committees must therefore influence active engagement by the executive of vulnerable and underrepresented communities, directly or through civil society groupings. The OBS recommends that this should include providing feedback on how public inputs collected during pre-budget consultations and budget implementation are implemented by the government.

Each of these are more than mere 'nice-to-haves' but are vital for (re) building trust between the state and public.

DISASTER PREPAREDNESS

The COVID-19 declared national disaster is not the only disaster that some areas are faced with. Prior to this, there were provinces and municipalities where drought had been declared a disaster. Some areas are therefore faced with a double disaster. The experiences of how budgeting and procurement were handled during drought circumstances are in some measure instructive of what improvements can be made to ensure better disaster preparedness. At this juncture, while an eye on the future is important, we are currently gripped by disasters and therefore our recommendations are not only applicable to the future, but also to current disaster circumstances.

We extract three examples from Auditor General reports to illustrate disaster-related issues that the Auditor General has previously flagged:

MFMA Report 2017-18¹⁸: City of Cape Town – Cape Flats aquifer project: *This project with a total value of R247 million, which was partly funded by the urban settlements development grant, related to the construction of aquifers (including drilling and the provision of steel tanks and treatment equipment) to provide a continued water source to residents of the province as a result of the drought crisis. Significant delays occurred and infrastructure work planned for completion by June 2018 had still not been completed by year-end. In addition, bid specifications did not specify the minimum threshold for local content and production as required by the Preferential Procurement Regulations, resulting in irregular expenditure of R8 million."*

Inadequate infrastructure to match the needs of the extent of the population, underfunded services and poor maintenance can stifle disaster response. The example above highlights how when a variety of departments fail to plan and future planning falls through the cracks of

¹⁸ Auditor General South Africa. 2019. MFMA Report. Available at: <https://www.agsa.co.za/Portals/0/Reports/MFMA/2019.06.25/MFMA2017-18%20-%20Section%205%20-%20Status%20of%20metros.pdf>

intergovernmental relations, a disaster like a drought can necessitate emergency projects that arguably should have been executed in a systematic manner much earlier. Trying to expedite capital projects does not always result in a project that is delivered faster than in normal circumstances. When corners are cut in haste, projects undertaken during disaster circumstances can result in irregular expenditure. In a time of disaster, a country's disaster readiness is put to the test. Failures to plan, budget and implement become more acutely apparent during times of disaster. This applies to both the instances of disasters induced by drought and COVID-19. The handling of the drought has left some communities under-prepared for the COVID-19 pandemic because of lack of access to adequate water. Frequent hand washing is recommended to curtail the spread of the virus, but how does one do so when lockdown restrictions prohibit movement and water sources are far from the home or water restrictions are being applied?

2017-18 Public Finance Management Act (PFMA) Report¹⁹: Limpopo: *"The overall IT audit outcomes in the province regressed, particularly with regard to IT governance, while user access management, security management and IT continuity remained unchanged. The departments had challenges with vacancies in their IT directorates, which resulted in existing policies not being fully implemented and regularly reviewed and monitored. In addition, the Baud and Logis systems were implemented without adequate user account management processes. The provincial treasury is yet to finalise the user account management policies for implementation at all departments. Furthermore, a few departments did not participate in the testing of the disaster recovery plan by the State Information Technology Agency."*

During the COVID-19 pandemic, the availability of credible information via government websites and of swift responses from government officials has proven key to responding to the need to curb the spreading of the virus. Without reliable internet access, functional government IT systems and infrastructure, officials are restricted in their ability to be responsive. The extract above highlights how failure to manage IT services can impact on departments' disaster preparedness.

2016-17 PFMA Report²⁰: *The Department of Water and Sanitation appointed an implementing agent, as instructed by a ministerial directive, on a multi-year infrastructure project. The latter then proceeded to award a contract of R94 million without following proper procurement processes, stating the reason for the deviation as an emergency due to the unavailability of water and the drought experienced. However, subsequent to the initial emergency being addressed, this basis of emergency procurement continued to be utilised as a reason to add additional multi-year infrastructure projects, increasing the related projects to current expenditure of R2,2 billion, with future additional commitments of R10,8 billion. Had the additional projects been appropriately planned for, the emergency basis would not have been used to deviate from procurement processes*

¹⁹ Auditor General South Africa. 2018. PFMA Report. Available at: <https://www.agsa.co.za/Portals/0/Reports/PFMA/201718/GR/Section%204%20-%20Provincial%20overviews.pdf>

²⁰ Auditor General South Africa. 2017. PFMA Report. Available at: <https://www.agsa.co.za/Portals/0/Reports/PFMA/201617/GR/AG%20PFMA%202017%20Web%20SMALL.pdf>

The example above is use of inappropriate discretion and pertains to deviations from prescribed procurement processes. It is imperative that deviations be monitored closely.

OVERSIGHT OF EMERGENCY PROCUREMENT AT A TIME OF COVID-19 PANDEMIC

Transparency and Oversight Requirements on Sources Of Money For COVID-19

The BJC acknowledges the magnitude of the costs of the pandemic and the realistic fact that 'mistakes will be made' resulting from inevitable blind spots as decisions are taken during the crisis. We acknowledge, too, the existence of multiple diverse interests that necessitates active engagement from all sectors, and in particular, those usually excluded from or silenced in public finance decision-making spaces. It is therefore our intention to contribute to the legislatures' role in addressing the complex questions that this national state of disaster has raised. Below we focus specifically on questions of public finance decisions that are affected by the National Disaster. By highlighting questions (with no answers per se) on financial oversight and the processing of related money bills, we hope to provoke both short term and long-term discussion about financial oversight in times of crisis. We focus in particular on the legislation pertaining to appropriations in times of national disaster.

The following are sources of funds that legally require legislation and oversight by the legislatures prior to decisions being taken:

- The national contingency reserve fund.
- The Disaster Management Fund; allocations already proposed to provincial and municipal disaster relief conditional grants for the financial year, contained in the Department of Cooperative Government and Traditional Affairs budget.
- Emergency, unforeseeable, and unavoidable expenditure; provided for in Sections 16 and 25 of the PFMA and Section 29 of the MFMA.
- Reallocation; shifting of budget allocations in the existing budgets of departments, including potentially moving allocations between different line items in a department's budget and virements from one department to another which will be reflected in the adjusted budget in October.

It is not immediately clear if the Emergency Housing conditional grant allocations to provinces and municipalities held by the Department of Human Settlements will be utilised for COVID-19 disaster relief. This is worth determining in order to have a comprehensive picture of the national response. Contingency and disaster relief allocations were made prior to the COVID-19 scenario and have in previous years been drawn on for other contingency or disaster-related spending. There is no assurance that the funds allocated will not be required for other contingencies and or disasters in addition to COVID-19 national disaster.

In addition, for the 2020/21 financial year, all of the measures described above must still be finalised by Parliament, in the mean-time government is legally limited to spending 45 percent of what was allocated to these in 2019/20. Given that emergency expenditure is limited to two per cent of the 'approved annual budget' but the annual budget is not yet approved, this raises the question of if that

amounts to two percent of the 45 percent being available to spend from 1 April until the budget is approved.

The fact that the Appropriations and Division of Revenue Bills are yet to be finalised (as at 5 May 2020) means that additional allocations may still be made in these for the 2020/21 financial year, and if that is the case will not be reflected as 'adjustments' to the budget mid-way through the year. In a recent statement, Minister Mboweni committed to announcing detailed budget adjustments in due course. What are the implications for public input into the reprioritization decisions? We acknowledge the National Treasury's early establishment of an email account to which members of the public were invited to make suggestions on COVID-19 related budgeting. However, in the absence of feedback on the outcome or publication of the inputs - it is difficult to assess this.

- Tax measures. current measures put in place by the Treasury relate to tax relief, however it is possible that measures to increase wealth taxes could be applied. We have already seen the means by which the Parliamentary requirements for legislation have been bypassed to enable the quick implementation of measures. Treasury was transparent to the public, but the call for public comment is unworkable and probably moot.

Sources that have oversight requirements but not a pre-requirement for legislation

- UIF. The UIF, a public entity, is subject to oversight through the Ministry of Labour, Treasury and Parliament. The UIF Act gives the Minister significant decision-making power in relation to the Board (S48(1)c and 48(2)(b)) and assigns a strong role to the DG (s58). In respect of the decision regarding use of surplus funds, Section 10 indicates that the Minister makes decisions regarding how surplus funds are utilised after consulting with the board.

Sources that do not legally require legislation or oversight by the legislatures prior to decisions being taken:

- Donor money – the Solidarity Response Fund. This Fund was launched with R150 million donated by the state. It is privately managed and 'independent'. Information on the governance of the Fund is mainly found through press articles which indicate that the fund is registered as a Public Benefit Company. The website states that the Fund will operate 'with the highest principles of corporate governance and through an independent Board', it states that activities will be 'reported in a transparent manner'.

Although the Chair of the Fund, Gloria Serobe, was announced by the President, it is unclear in what capacity this was done, what role government will play in terms of the Fund, if at all, and further it is not clear where the R150 million of government funds used to seed the Fund was drawn from.

In an interview on 30 March 2020 the Fund's chairperson indicated that they hoped to appoint Board members in the following week. It is noted that the board is now appointed. Of some concern is her assurance in that interview that she is not worried about the question of governance or corruption because of the calibre and integrity of the individuals who will be appointed. Regardless of the personal integrity of individuals appointed to any board, checks and balances against corruption must be in place.

Nor is there yet, full transparency on the donations that have been received. Budget Justice Coalition does note some news releases providing high-level information. However, transparency at this time remains weak. The speed with which the Fund registered, opened bank accounts and created platforms for donations is commendable, however it belies the question of why the mechanisms for transparency, at least on donations received, have not moved at a similar speed. By 07 April the Chair of the Fund is reported as stating that the current commitments of funding have not had 'any conditions or strings attached.'

- Other donations. The billions donated to the COVID-19 efforts through other private donors do not fall within the scope of democratic transparency and oversight.
- Borrowing/Loans. Information on what checks and balances are required with regard to securing loans from structures such as the IMF is extremely difficult to find. The PFMA centralises decision-making on borrowing money at national level in the Minister of Finance (s66(2)(a)). Despite the deep impact on the public of decisions of this nature, the rules are extremely opaque and the requirements for transparency profoundly low. While the public may access overall figures and projections relating to foreign loans through the documents from Treasury and its reporting to Parliament, they don't provide detail beyond the overall figures. Information available on the Reserve Bank website is hard to find and unintelligible to most of us.

Given the extent of impacts that these decisions on borrowing have on the public, despite the limited requirements for transparency and engagement, the government should be urged to increase its communications with the public regarding considerations of the questions of foreign loans and bailouts. This should include disclosure to the public of any conditions associated with such loans prior to committing to them.

In addition, the South African government has received significant amounts of Personal Protective Equipment (PPE) donations from various institutions and governments, including a R1 billion donation from Naspers South Africa and the Chinese government. The Budget Justice Coalition welcomes these generous interventions, but demands transparency in distribution processes, in particular to hospitals and municipalities to curb double spend. Unfortunately, as indicated already in the document, corruption in procurement has already taken place over this period and if there is no clarity on how donated equipment is distributed, there is room for more corruption.

We further call on Committees to strengthen their own oversight by making use of - and troubleshooting existing budget data platforms. National Treasury, the recently established supply chain unit through Imperial Health Services (IHS), the Office of the Chief Procurement Officer and provincial treasuries must, whenever possible, publish real-time allocation, spending and contracting data using open platforms such as [Municipal Money](#), [VulekaMali](#) and government e-tender sites. Evidence from pre-coronavirus open spending initiatives such as Italy's OpenCoesione portal that tracked the EU funds, have shown how transparency combined with Open Government Partnership arrangements can empower citizens to provide real time monitoring of funds emergency contexts. The OGP recommends - and we concur - that processes to reallocate budgets must be transparent. This can be achieved through Treasury publishing the public finance reallocations on the VulekaMali Portal in machine-readable formats.

Oversight by Supreme Audit Institutions

We note that the Auditor-General has offered to send a team of experts to support government departments and municipalities to safeguard the overall R500 billion fiscal response budget from theft²¹. We welcome this suggestion and urge Parliament to support it. We also highlight further actions which Parliament should consider supporting.

The INTOSAI Development Initiative (IDI) and a range of partners prepared a paper entitled '[Accountability in a Time of Crisis](#)'.²² We highlight the key recommendations emerging from the IDI paper, which collates findings and provides examples from epidemic and disaster related audits, including the Ebola-crisis in Sierra Leone and Liberia. The paper specifically offers lessons learned and actions that Supreme Audit Institutions (SAIs) and development partners can take to mitigate the risks posed by COVID-19 in a developing country context.

The following lessons emerged from the Ebola-audit reports²³:

- Public expenditure laws should be clear on the use of public funds during an emergency situation. Unclear laws give room for non-compliance to for instance procurement procedures.
- If governments and donors are not clear on the role SAIs should play in auditing emergency aid, it gives room for misunderstandings and thereby higher risk for money not being controlled and loopholes for fraud and corruption.
- SAIs should be empowered and mandated to audit all funds provided to government in an emergency situation, given their overall responsibility for the national accounts.
- The laws governing functions of a SAI, should be broad enough to enable the SAI carry out any audit it deems necessary when the need arises.
- Strong national leadership is critical during a crisis, and the SAIs can add significant value by checking how operative the crisis management function is, whether there is a robust crisis management plan and relevant communication strategy, and the effectiveness of the systems and strategies.
- Strong crisis-related governance structures are critical to enable sound financial management. The SAI can add value by advising governments on required structures, such as a disaster management unit.

²¹ https://www.timeslive.co.za/sunday-times/news/2020-04-26-auditor-general-kimi-makwetu-keeps-close-eye-on-COVID-19-crisis-cash/?utm_medium=Social&utm_source=Twitter#Echobox=1587874163

²² Available Online: <https://www.idi.no/en/COVID-19-paper>

²³ INTOSAI Development Initiative (IDI), the Audit Service Sierra Leone (ASSL), the General Auditing Commission of Liberia (GAC) and the African Organisation of French-speaking Supreme Audit Institutions (CREFIAF). 2020. Accountability in a time of crisis. Available at: <https://www.idi.no/en/COVID-19-paper>

Food retailers need to provide COVID-19 relief, not exploit the disaster

The BJC also recommends the monitoring of business and private actors during this time. Poor access to food may be exacerbated by the unscrupulous behaviour of the big four food retailers, Shoprite/Checkers, Pick 'n Pay, Spar and Woolworths. Rather than contributing to ensuring access to affordable, nutritious food during the COVID-19 crisis, evidence is emerging that these retail giants are continuing to increase the price of food staples relied on by low-income families.

A Food Price Barometer report published on 28 April by the Pietermaritzburg Economic Justice and Dignity Group²⁴ finds that a monthly basket of basic staple foods has increased by R253, from R3 221 on 02 March before the onset of the COVID-19 crisis, to R3 474 on 23 April. This represents a 7.8% increase at a time when millions of families are having to provide more meals at home, but on reduced household incomes.

This is especially problematic when informal traders are still not on the streets to offer more affordable alternatives, and the major retailers are positioning themselves²⁵ to exploit the financial distress experienced by existing spaza shops by opening their own spazas in townships.

COVID-19 RESPONSE MUST BE BASED ON HUMAN RIGHTS

The concept of an economy that is fair and equitable, respecting people's dignity, is simple. This has been enshrined in the Constitution and in international human rights instruments ratified by South Africa post-1994 at the United Nations and the African Union.

In the context of a global pandemic, investments in the human rights to safe housing, water and sanitation, nutritious food, education, quality, free health services and income security are more crucial than ever. South Africa is in a state of disaster (not emergency) and therefore the Constitution still applies in its entirety.

The promotion, protection and realisation of human rights cannot be simply implied in the economic responses outlined by the government but must be explicitly addressed. The government is obligated to take measures to prevent, or at least to mitigate against, the human rights impacts of COVID-19, and to ensure that everyone's rights are protected, with particular consideration for marginalised and vulnerable populations, including foreign nationals residing and working in South Africa.

South Africa's COVID-19 responses should provide impetus for the long-term mobilisation of resources and capacity toward the fulfilment of all socio-economic rights, to further the spirit of the South African constitution.

²⁴ Pietermaritzburg Economic Justice and Dignity. April 2020. Available at: <https://pmbejd.org.za/index.php/2020/04/27/covid-19-food-prices-continue-to-spike-women-are-getting-increasingly-concerned/>

²⁵ Power987. April 2020. Available at: <https://power987.co.za/news/listen-shoprite-pick-n-pay-roll-out-spaza-shops-in-townships/>

SUMMARY OF RECOMMENDATIONS

Our recommendations are summarized as follows:

- Ensure transparency on the conditions the government may be exposing future generations of South Africans to by taking money from multilateral lending institutions. The BJC calls on the government to reject finance that comes with conditions which impact our sovereign policy discretion and are anti-poor, and to focus on domestic resource mobilisation instead.
- The budget for the social grant component of the relief package should be increased in recognition of the size of the population in need.
- The CSG increase of R500 should be attached to each child grant paid.
- Unemployed caregivers, who are in receipt of a CSG for their children's basic needs, should not be excluded from the COVID-19 unemployment grant.
- The assumptions, projections, and eligibility criteria for the COVID-19 unemployment grant (including the income threshold being applied) should be made public so that there can be informed engagement, prior to the regulations being finalised.
- Cabinet urgently considers a universal income grant instead of a very narrowly targeted COVID-19 unemployment grant, which is likely to create inequality, confusion and conflict and to cost more. SARS should be used to recoup the grant from the upper deciles.
- Informal food traders must have greater freedom to trade, with or without a permit.
- Food parcel distribution must be ramped up, requirements for beneficiaries to produce SA ID's abandoned, and community-based organisations allowed to distribute food relief without a permit.
- Adequately fund Gender-Based Violence response and prevention.
- Support the Auditor General's offer to send experts from the AG's office to safeguard the emergency COVID budget.
- Publish spending and procurement data on public platforms such as VulekaMali, realtime and in accessible formats.
- Transparency regarding all donated PPE in order to avoid double-spending.
- Fiscal and Financial Commission be requested to undertake a study which investigates revenue sources for local government.
- Engage the National Treasury to work on a special health budget which includes budget provision for key vacancies in the health sector to be filled.
- Ensure efforts to enhance public participation in all stages of the budget process including during declared disasters.
- Reform the national procurement system to entrench transparency, citizen participation and monitoring throughout the contracting cycle.

CONCLUSION

We affirm that the South African government needs to ensure that people's needs, the promotion of equality and the realisation of rights are key fiscal policy objectives. This is not a choice, it is a constitutional obligation. We urge the Committees to consider the recommendations proposed in this submission to secure a COVID-19 response that affirms people's Constitutional and Human Rights.

SUBMISSION ENDORSED BY:

The following organisations endorse this submission:

1. Children's Institute, UCT
2. The Public Service Accountability Monitor, Rhodes University (PSAM)
3. Rural Health Advocacy Project (RHAP)
4. Southern African Faith Communities' Environment Institute (SAFCEI)
5. Institute of Economic Justice (EJ)
6. Women and Democracy Institute, Dullah Omar Institute

ABOUT THE BUDGET JUSTICE COALITION

Civil society organisations who are part of the Budget Justice Coalition include: the Alternative Information and Development Centre (AIDC), the Children's Institute at UCT (CI), Corruption Watch (CW), the Dullah Omar Institute at UWC (DOI), Equal Education (EE), Equal Education Law Centre (EELC), the Institute for Economic Justice (IEJ), OxfamSA, Pietermaritzburg Economic Justice and Dignity Group (PMEJD), the Public Service Accountability Monitor (PSAM), the Rural Health Advocacy Project (RHAP), SECTION27, and the Treatment Action Campaign (TAC).

The purpose of the Budget Justice Coalition is to collaboratively build people's understanding of and participation in South Africa's planning and budgeting processes – placing power in the hands of the people to ensure that the state advances social, economic and environmental justice, to meet people's needs and wellbeing in a developmental, equitable and redistributive way in accordance with the Constitution.