BUDGET JUSTICE COALITION SUBMISSION TO THE SELECT AND STANDING COMMITTEES ON FINANCE ON THE 2023/24 BUDGET

28 February 2023

About the BJC

This submission has been developed collaboratively by members of the Budget Justice Coalition (BJC). The purpose of the BJC 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 accordance with the Constitution.

The organisations who make up the BJC are: Alternative Information and Development Centre (AIDC), the Children's Institute at UCT (CI), Corruption Watch (CW), Equal Education (EE), Equal Education Law Centre (EELC), the Institute for Economic Justice (IEJ), Oxfam SA, Pietermaritzburg Economic Justice and Dignity Group (PMEJD), the Public Service Accountability Monitor (PSAM), the Rural Health Advocacy Project (RHAP), SECTION27, Ilifa Labantwana, Treatment Action Campaign, Centre for Child Law, 350.org, Open Secrets, Social Policy Institute, Public Affairs Research Institute, Amandla.mobi, Black Sash as well as friends of the coalition.

For further information, contact BJC Organiser:
Bonus Ndlovu | budgetjusticesa@gmail.com | 074 283 0187

TABLE OF CONTENTS

Introduction

The Budget Justice Coalition (BJC) is disappointed by the tabling of another austerity fiscal framework and budget that prioritises debt reduction over investments in state capability and human rights. The severe -7.6% cut in per capita[1] non-interest expenditure in 2023/24, following a -1.0% real reduction in 2022/23, will result in the erosion of many public services that are essential for the transformation of our society based and the violation of human rights.

We question the government's obsession with achieving a self-imposed primary budget surplus, first promised by former Finance Minister Tito Mboweni to a conference of Goldman Sachs investment managers in 2020. The novel accounting approach to Eskom's debt relief is another signal of the harmful esteem that government has for this goal. A primary budget surplus is achieved when revenue exceeds spending and the difference is channelled to paying down debt. Since the 1970s, this has been the gold standard for IMF imposed austerity measures around the globe, with the institution's own evidence directly linking such extreme austerity targets to long term negative consequences on the economy, rising inequality and ailing public services. Elsewhere, evidence abounds that such austerity measures result directly in multiple human rights violations against people on low incomes and in particular against women and children.

By taking revenue out of our economy and channelling it to debt repayments, the primary budget surplus target will slow down our recovery from the Covid-19 pandemic, which increased unemployment to 40% by the expanded definition and crippled informal and formal businesses alike. Women and women headed households are the most affected by austerity, since it shifts the burden of care from the state to the household where women do the vast majority of care work, and erodes access to services which women rely upon.

What South Africa needed to hear was a set of macroeconomic policy instruments suited to addressing our developmental needs while at the same time supporting efforts to tackle the impacts of climate change. This is because macroeconomic fiscal policies have significant implications for equality, gender equality, the well-being of South Africa's people and the environment.

This submission sets out the following recommendations:

[1] I.e., per person.

Summary of recommendations

The fiscal space created by revenue overruns should be used to protect essential public services from funding cuts. This means allowing at least CPI inflation link and population / service user growth based increases to funding for core services. This can be compatible with a medium-term fiscal consolidation path if there is the political will to make it so.

Eskom Debt Relief: The BJC proposes that the government makes use of the Government Employee Pension Fund (GEPF) accumulated reserves to resolve Eskom's debt crisis. Furthermore, we caution against the imposition of conditionalities on Eskom without meaningful public consultation.

Tax Proposals: We recommend that the government reverses tax relief to high income earners (all those with an annual income of more than R500 000 per annum), and stipulate a plan and timeline to introduce a progressive net wealth tax.

Illicit financial flows, base erosion and profit shifting: BJC calls for effective controls to limit the amount of capital outflows.

Gender Responsive Budgeting: The BJC notes some progress made on Gender Responsive Budgeting (GRB) and welcomes promises to complete the development of GRB guidelines. The coalition proposes a civil society consultation on the guidelines being developed by government for GRB. We request clearer information on the **Gender Responsive Budgeting (GRB)** roadmap and calls for National Treasury and Cabinet to commit to a GRB process that ensures that womxn, with diverse perspectives, and with lived-experience of different contexts, are centred in the process of developing goals, and debating priorities. Gender responsive budgeting should not be limited to budget allocations and priorities, it must be applied to all public-finance decisions, such as those relating to 'fiscal-consolidation'/austerity, borrowing, and taxation.

Public Procurement: The BJC proposes the timeous adoption of the Public Procurement Bill, taking public comments into consideration. We recognise that it could take some time to complete further public consultations, and urge National Treasury to commit to much greater transparency as an immediate action.

Health: The coalition is concerned about the erosion of the health care system through budget cuts particularly at a time when the country is still recovering from the effects of the Covid-19 pandemic. We call for an increase in allocations to healthcare to CPI inflation plus 2.2% for service user growth.

Education: The BJC reiterates its call for basic education funding to increase in line with CPI inflation plus 1.4% for projected learner enrolment growth.

Social Protection: Increase R350 to the food poverty line to account for food price inflation of the past three years. BJC calls for the SRD to be extended beyond 2024 and the implementation of a universal basic income grant (UBIG).

Fiscal Policy

Fiscal Framework

> *Government continues on a path of fiscal consolidation (austerity) even though it confesses that the “fiscal position has improved” with almost R100 billion in additional revenue collected, compared to 2022 estimates.*

The South African economy is buckling under the weight of the Eskom crisis, record unemployment levels, high crime rates, mismanaged institutions and corruption. To "balance the books" the Government has been pursuing a policy of 'fiscal consolidation" (austerity). The policy of fiscal consolidation being pursued seeks to ensure (1) a threshold (ceiling) on public expenditure, (2) targeted debt levels to ensure fiscal sustainability (debt-to-GDP ratio), and (3) to do so within an "optimal" pace (timeframe). For example, some commentators thought the Minister would table a budget that saw gross debt rising to 80% of GDP in 2024/25. Instead, Treasury proposed to have gross debt rising to 72.2% in 2024/25 from 71.1% in 2022/23. This means that Treasury could have tabled a very different fiscal framework to provide greater fiscal space for public services and cash transfers while simultaneously addressing debt servicing obligations sustainably.

Given the possibility of alternatives, the response to the budget tabled before Parliament should be to debate if this is the best fiscal framework for South Africa. The budget tabled dramatically cuts spending on public services despite other available fiscal policy options. For example, one of the losers this year is healthcare which is being cut by -6.5% in real terms in 2023/24, in addition to a number of other major cuts, implemented toward achieving a primary budget surplus. The cut in spending to the Main Budget (leaving aside debt service costs which are rising) will be R85.4 billion in real terms compared to the 2022 budget. Over the medium term, consolidated non-interest spending declines by more than 1% in real terms on average, for each year over the three years.

> *This is another austerity budget since it cuts funding for public services in order to achieve a primary budget surplus*

BJC describes the government’s fiscal policy over the past decade, and continued in this budget, as austerity, because non-interest expenditure per head of population declines in real terms year after year after year.

Table 1: Macro-fiscal indicators demonstrate deep cuts to non-interest expenditure since 2021/22, continuing over the next three years

	Outcome				Revised Estimate		Estimate				2023 MTEF average annual change
	2020/21		2021/22		2022/23		2023/24		2023/25		
	R billion	Annual change	R billion	Annual change	R million	Annual change	R million	Annual change	R million	Annual change	
Revenue	R1,526	-11.0%	R1,751	14.8%	R1,767	1.0%	R1,829	3.5%	R1,849	1.1%	**2.3%**
Non-interest expenditure	R1,831	3.8%	R1,817	-0.7%	R1,809	-0.5%	R1,693	-6.4%	R1,689	-0.3%	**-2.5%**
Non-interest expenditure per capita	*R30,709*	*2.3%*	*R30,137*	*-1.9%*	*R29,850*	*-1.0%*	*R27,579*	*-7.6%*	*R27,156*	*-1.5%*	***-3.8%***
Debt-service costs	R252	9.0%	R282	12.0%	R307	8.9%	R318	3.5%	R323	1.6%	**3.2%**
Gross loan debt	R4,260	15.8%	R4,500	5.6%	R4,727	5.1%	R4,725	-0.1%	R4,828	2.2%	**1.6%**

Source: National Treasury Budget Review Statistical Annexure Tables 6, 7 & 10 and W1 (for the population data). The nominal amounts from the Budget Review have been converted to constant 2022/23 Rands using annual CPI inflation.

Table 1 shows that while the “hippos’ mouth” of a steep decline in revenue and a moderate rise in non-interest expenditure led to debt service costs and gross loan debt soaring in 2020/21, as was the case in all countries of the world as a result of the Covid-19 pandemic, the government has followed it’s moderately expansionary immediate Covid-19 response with a sustained period of severe fiscal austerity.

Revenue collections have exceeded projections since 2021/22, despite the socio-economic turmoil caused by the pandemic, state capture and the energy crisis. Yet, government has doggedly stuck to its goal of reducing debt service costs, which grow at only 3.2% in real terms over the MTEF, significantly lower than in the pandemic period, while not relaxing it’s austere approach to spending.

In the coming 2023/24 financial year, gross loan debt is actually reduced in real terms, the first time this has happened since the GEAR policies of the early 2000s. Unlike that period, the economy is not expected to grow in per capita terms over the MTEF, in part because of fiscal austerity. As a result of this, and the decision not to raise taxes on wealthier South Africans, non-interest expenditure is sacrificed to meet the governments debt reduction goals.

The scale of the proposed cuts to non-interest expenditure in the coming 2023/24 financial year are astounding given the extremely high levels of poverty, energy insecurity and unemployment that households and (particularly small) businesses are facing, alongside rising input costs due to food and energy price inflation, and the rising cost of doing business in and with South Africa, caused by the ongoing endemic corruption, and the grey listing of South African by the Financial Action Task Force.

A slower pace of fiscal consolidation is possible and necessary to protect human rights

The 1996 Constitution of South Africa guarantees <u>everyone</u> with fundamental rights and freedoms, including rights to basic and higher education, health care services, food, water, a healthy environment, labour rights and rights of access to housing and land. Children have priority rights to education, shelter, nutrition and basic health services.

<u>The severe cuts to non-interest expenditure will result in a regression in the enjoyment of rights by the majority of people in South Africa.</u>

According to the Institute for Economic Justice, real cuts to spending over the MTEF - i.e. the difference between the cost of adjusting these budgets for inflation to protect the value of the service being provided, and the actual budget allocated over the MTEF, amount to hundreds of billions of Rands:

Sector	Decrease over the medium term
Health	↓ R47 billion
Basic Education	↓ R39 billion
Social Protection	↓ R37 billion
General Public Services	↓ R12 billion
Industrialisation and Exports	↓ R5 billion
Job Creation and Labour Affairs	↓ R1 billion

Source: Institute for Economic Justice, Statement on the 2023 Budget

When considering the pace of consolidation, the Government could have opted to utilise the revenue overruns to or targeted tax increases to slow the pace of consolidation. Instead, under an expenditure-based consolidation policy path, Government has chosen to continue reducing the fiscal space for public spending this year and for the next two years. Choices on how to raise and allocate spending impact the kinds of public services delivered. In sum, the fiscal consolidation path relies on no changes to revenue-raising (tax policy), cuts in spending on public servants particularly teachers and health care workers (cut by 3.3% and 7.8% in real terms), goods and services (e.g., textbooks, medicines), capital (maintenance and infrastructure) and social grants.

In addition, women, who do the vast majority of both unpaid care work in households and low-paid care work in public services, bear the brunt of austerity measures, especially public sector funding cuts. When public services are underfunded there is a triple disadvantage for women, who disproportionately lose access to services, lose opportunities for decent work and take on the rising burden of unpaid care work. Budget 2023's fiscal consolidation measures will have a devastating effect on women's rights and gender equality.

Lastly, despite a reported "improved fiscal position" (National Treasury, Budget Review) in the main budget and primary balance due partly to the almost R100 billion in added gross revenue collection when compared to 2022 estimates, there is concern over the growing lack of credibility in the fiscal framework. This is due mainly to changes in the accounting approach of support to Eskom, policy uncertainty around the public sector wage bill and the SRD grant, all calling into question the expenditure path set out in Budget 2023.

WHAT IS AUSTERITY?

Austerity policies typically involve a mix of public budget cuts; freezes to public sector wage bills which results in a reduction of public servants due to dismissals and early retirements, and failing to fill vacant posts; regressive consumption taxation increases (e.g. VAT) along with the lowering of progressive taxes on income, wealth and inheritance; pension and social security reforms; labour market reforms or 'flexibilization' (reductions in labour rights, including the right to unionise and to collective bargaining); reducing or eliminating subsidies; and the privatisation of public assets, including through strengthening public-private partnerships (PPPs), as well as through disinvesting from or selling State-owned enterprises, <u>all with the express aim of reducing decreasing public deficits and paying down debts</u>. In an austerity fiscal framework, cuts to spending are generally always prioritised over efforts to raise more revenue, and in respect to tax policy the advice tends to be regressive, focusing on value-added tax (VAT), and avoiding increases in direct taxes on incomes, profits, dividends, wealth etc. There are usually compensatory efforts to help the poorest, through narrowly targeted social protection schemes, but these rarely reach the majority of those who need them.

The budget continues to prioritise accumulated wealth and middle class incomes over the rights of the vast majority

The cuts to essential government expenditure set out above are made despite the Treasury itself recognising that the country's "fiscal position has improved". Additional tax revenue of R94 billion was collected in 2022/23 compared to the 2022 Budget estimates. The severe cuts to expenditure could therefore have been avoided. It would seem however that the rights of the majority count less than the rights of those who already have decent work, incomes and accumulated wealth. Why do we say this?

While fiscal space of basic education, health care, the R350 grant and many other social services is significantly reduced (albeit with some exceptions), government has chosen to implement tax relief and subsidies to higher income households. Some of the clearest examples of who government is prioritising in the budget are provided below:

Table 2: who is government prioritising in the budget?

	Lower income households	**Higher income households**
Personal income	- Most social grants increased with CPI inflation. - R350 lifeline grant is cut in real terms for the third year in a row, reducing its value to approximately R290.	- Personal income tax relief provided by adjusting the brackets in line with CPI inflation - No increase to personal income tax
Wealth	- Low-middle income households *may* benefit from the 10% increase to the tax-free portion of transfer duty	- Will definitely benefit from the 10% increase in the tax free portion of transfer duty - Will benefit from a 10% increase in the tax-free

		lump sum available at retirement. - No increases to any wealth and income from wealth taxes
Energy insecurity and unaffordability	- No assistance to install solar or other forms of backup power to cope with loadshedding. - Some relief in fuel prices thanks to the freezing of the fuel levy	- 25% tax rebate up to R15 000 for the installation of solar panels - Businesses receive a 125% solar rebate with no cap
Access to quality health care	- Will be significantly reduced by the -6.4% cut to government health care spending in 2023/24 and continued fiscal cuts in the medium-term	- Access remains the same that to an increase to the medical aid subsidy in line with CPI inflation
Access to quality basic education	- Will be significantly reduced by the -4.0% cut to consolidated spending in 2023/24, which includes a cut to the school subsidy, directly affecting the quality of education provided at all public schools, and especially no-fee schools	

While raising taxes during a constrained economic environment of low growth and high interest rates might not yield significant income in the short term, increasing the progressivity of South Africa's tax system is necessary to implement a fiscally sustainable poverty and inequality reduction programme over the medium-long term, and more redistribution from high incomes and accumulated wealth is necessary to achieve a more balanced society.

It has become increasingly clear to the BJC that the priority of the government is rather to reduce the incomes and quality of life of the vast majority of poor and working class South African's, by cutting funding for public services, than levying additional tax burdens on the better off, which could be used to protect public services from budget cuts.

Alternatives to austerity-based debt management

Eskom debt relief

The 2023 Budget proposes to provide Eskom with debt relief amounting to R254 billion over the next three years. Almost everyone acknowledges that Eskom needs to be relieved of some of its financial burden to allow it the financial space to fix the fleet, undertake maintenance and to invest in new capacity. Nevertheless, an opportunity was missed in the budget. A more equitable and sustainable alternative is to use the R45 billion surplus of the Government Employees Pension Fund (GEPF) in 2021/22, which is in line with the average of a surplus of R50 billion each year. Given that the GEPF has more than R2,3 trillion in accumulated reserves, a lot more could have been done. Shifting the debt liability from the fiscus to the GEPF would free up resources needed to increase spending in key areas – not least health care and education. Moreover, there are a number of critical issues with government's proposals:

Eskom's debt relief is accompanied with unacceptable conditionalities aimed at re-assuring investors that the liberalisation of the energy market will proceed. This includes establishing a competitive electricity market and the enabling of greater private-sector participation in the development of the transmission network.

Critically, the proposed debt relief will prevent Eskom from building renewable energy generative capacity until the end of the loan period. Further, all Eskom's revenue derived from the sale of non-core assets must be used to service its debt and can't be used to invest in maintenance or new generative capacity. Another concerning condition is that the National Treasury, without any consultation, has appointed an international consortium, and Eskom is required to implement the operational recommendations emanating from this independent assessment. This will include a determination of which plants can be resuscitated to original equipment manufacturers' standards, following which Eskom must concession out all these power stations to the private sector.

Then there is another fundamental problem. The government itself recognizes that debt relief is insufficient to ameliorate Eskom's financial challenges – when it points out that "National Treasury recognises that debt relief alone will not return the utility to financial sustainability" and that without the 18,7% and 12,7% tariff increases in 2023/24 and 2024/25, the debt relief is unsustainable. This highlights the untenability of Eskom's finance model. The consequence of this is that the utility is dependent on selling electricity to raise revenue in order to recover its costs, with additional profit and market-rate debt being used to fund new projects. These costs do not simply include expenses that would be marked as such on an income sheet — they also include a profit margin. As a result of South Africa being among the most unequal countries in the world, most people are unable to afford rising tariffs. Combined with declining sales volumes of 1% on average each year due to more consumers going off-grid, there are major constraints on Eskom's ability to raise sufficient revenue. Growing debt-service costs, following loans often denominated in foreign currency, add strain to Eskom's financial position. Until adequate resources are directed to Eskom it will continue to need bailouts and significant tariff increases.

BJC's tax proposals for Budget 2023

Taxes should be seen as a contribution to society and the common good. A progressive and fair tax system is fundamental to building vital public services and an equal economy. Under-taxation of wealth, be it from individuals or corporations, reinforces inequality. Treasury has kept the overall tax policy mix skewed to indirect taxes, namely VAT. In 2018,VAT was increased from 14 to 15% making its share of the tax mix 26.3%. At the same time, corporate income tax (CIT) fell from 50% in 1990 to 27% in 2022. Our current tax policies need to be reformed by integrating taxation on wealth, increasing the CIT and ensuring a progressive tax on personal income, capital gains, estate duty (tax on inheritance).

Personal income tax

The 2023/24 budget makes no proposals to increase the overall tax revenue. Instead, it provides tax relief to middle to high income earners - forfeiting R14,9 billion in potential tax revenue. A person with a taxable income above R1,5 million gains over R20 000 per year. This continues a trend that has been unfolding over the past twenty years - where personal income tax brackets have been raised faster than inflation. As a result, more income has been falling into lower tax brackets and the average effective personal income tax rate dropped from 33.8% in 1995 to 20.2% in 2020. If the government simply had left personal income taxation at the same rate as it was between 1995-2000, only adjusting tax brackets upwards at the rate of inflation, it would have had over R160 billion more in tax revenue from PIT in 2020 alone – close to 40% more in personal income tax (PIT) revenue.

Wealth tax

It is well known that South Africa has world-leading levels of economic inequality, with a Gini coefficient for income distribution of between 0.63 and 0.7. Wealth is even more unequally distributed with a Gini coefficient of 0.95. Estimates indicate that the wealthiest

1% of the population own half of all wealth, while the top decile owns at least 90–95%, leaving little for the vast majority of the population. Chatterjee et al (2020) estimate that 3,500 people (0.01% of the adult population) have amassed more monetary wealth than the poorest 32 million South Africans together – the equivalent of 15% of aggregate national wealth. The richest 10% of the population owns more than 85% of the household wealth, and the wealthiest 1% of the population have become even wealthier since 1994. There are compelling reasons for the implementation of a wealth tax in South Africa, to redistribute wealth from the very rich.

Implementing a relatively small net progressive wealth tax of between 3% and 7% on the top 1% (356,000 adults), with just under a third of the wealthy avoiding paying this tax altogether, could potentially raise more than R140 billion per annum. Such an approach could be sustained given that a net progressive wealth tax of a sliding scale between 3% and 7% (the higher rate for financial wealth over a certain level) would leave the wealth of the top 1% largely intact. If they lent their money to the government at an interest rate of 9-11% per year (by buying Treasury bonds), their extreme wealth would still grow. Given the pattern of stable and extreme wealth concentration, a progressive or graduated net wealth tax could be a useful tool to curb this dynamic of persistent inequality and to collect additional government revenue.

Besides no real wealth tax, the income derived from wealth is also under-taxed. For example:

- Capital gains tax is comparatively low. In 2016/17 it raised only R17 billion, a mere 1.5% of tax revenue. Because not all capital gains are taxed, in 2017, individuals only paid a rate of 16% on capital gains, and companies 22%. The weighted long-term integrated capital gains tax rate for OECD and BRIC countries in 2014 was 40%
- Tax on inheritance—estate duty—is levied at only 20% and raises revenue worth 0.05% of GDP compared with the OECD average of 0.2%
- The securities transaction tax (STT) (a tax on sale of shares) raises a small share of income; bonds are excluded and there is no transaction tax on derivatives and other forms of financial transactions. Despite South Africa’s market capitalization to GDP ratio being almost triple the OECD average, revenue from STT lags behind the OECD average.
- Taxes on immovable property (such as houses and offices) is levied at the municipal level, allowing wealthier areas to generate greater income than poorer areas; there is no national land tax despite the very unequal distribution of land.

Illicit financial flows, base erosion and profit shifting

Deleterious practices by transnational corporations in the form of trade mis-invoicing and transfer pricing - euphemistically referred to as aggressive tax planning - has a significant impact on governments ability to raise revenue. The South African Revenue Service (SARS) estimates that we lose more than R100 billion in revenue annually.

In the current context we need controls to limit the amount of capital outflows to ensure that sufficient capital stays in the country for domestic use, such as lending to the government so that it can finance the safety nets needed now more than ever. For example, by implementing capital controls, the government will more effectively be able to manage the balance of payments (how much money flows in and out), and protect our monetary system in a crisis like this one. Monetary policy autonomy is an important motivation behind the imposition of capital controls, because without them, the central banks must follow the dictates of international financial markets.

To illustrate, take the case of interest rates. Any attempt to lower interest rates to cushion small businesses in SA from halt in productivity will result in capital outflows as investors seek higher interest rates or a stronger currency. If the interest rates remain high in South Africa domestic investment declines and a resource transfer to the rest of the world takes place. Whereas with the aid of capital controls, countries can maintain differential interest rates and follow a relatively independent monetary policy without risking capital flight.

Gender Responsive Budgeting

Last year, the BJC's submission to the finance and fiscal committee critiqued the 2022 Medium Term Budget Policy Statement for missing the mark on gender, as it made no mention of gender outside of one passing mention to gender-based violence. The policy statement did not allocate funding in a gender responsive manner and the Division of Revenue Amendment Bill made no progress in allocating funding in a gender responsive manner.

Thus, we are pleased to see the progress reported in the Budget Review on gender-responsive budgeting in the form of the completion of the development of GRB guidelines, and the intention to workshop these this coming financial year.

A budget process that assesses systemic inequalities through the lens of macro-fiscal policy is crucial in a country with such high levels of inequality. This can result in a budget that doesn't entrench these inequalities but also further reflects how citizens of different gender, race, sexual orientation, education, income, age and other identity factors, experience the country.

A fiscal framework that prioritises cuts to social spending has dire consequences for gender equality in the nation as women disproportionately bear their burden: 74,8% of women-led households fall below the upper-bound poverty line and this gender gap exists at each line of poverty. This feminisation of poverty has caused more women-headed households to be more dependent on public services. This is worsened by the burden of care work women in the country, particularly Black women, carry owing to gendered and racial norms. Thus, reductions to public services and social support necessitate that women fill the gap by taking on informal, precarious employment.

As the BJC, we believe that fiscal policy has the power to advance equality and socio-economic rights in South Africa. Through policy-making and budgeting that is intentional in its reflection of the unequal way we experience this country, we can support the most vulnerable in South Africa.

We propose a gendered budget narrative in the Budget Review, for South Africa as part of the annual budget with an analysis of social spending areas like social grants, health, social development and education through gender outcomes, a review on economic indicators such as gender pay gap, labour force participation and earned income and meaningful reflection of investment in combating gender-based violence and the progress.

We look forward to progress updates on this and will participate in public consultations as these occur.

Climate Change Financing

South Africa is considered a Climate Change Hot Spot. On the 13th of February 2023, President Cyril Ramaphosa declared a national state of disaster in response to the widespread flooding that has affected seven of our country's nine provinces. Our position in the BJC is that the 2023 Budget needs to adequately equip the country's infrastructure and structures to be climate resilient, which the Treasury recognised in the Budget Review. However, health infrastructure has not received any funding to equip it to build climate resilient health care facilities. For example last year in KZN, around 85 health facilities were destroyed by the April floods. However, the province was forced to re-prioritise an estimated R200 million of its funds intended for other health priorities.

Moreover, the BJC proposes that to deal with climate change, the country needs to transition from its reliance on an export-led, extractivist growth model. We also recognise the country's dependence on Eskom for coal energy supply, which has plunged the country into another state of disaster. In this context, we support a transition from an energy mix dominated by coal to low-carbon energies such as solar PV and wind for example.

While the increasing occurrence of extreme weather events plagues the nation, we are open to the idea that a response to the climate crisis may be an opportunity to redress other social issues including mass unemployment. In this regard, the local manufacturing of renewable energy infrastructure is critical because this is where most of the jobs are in the energy-producing sector. This will require an import-substitution policy for South African renewable energy infrastructure producers to compete with the international market.

Yielding the benefits of this requires sufficient investment in improving public infrastructure to be more ecologically sustainable and resilient to climate shocks. Government must prioritise installing decent sanitation at all schools (4000 of which still use pit latrines), the increased roll-out of rainwater harvesting tanks, the replumbing of toilets to use harvested-water and supporting waste pickers.

Key expenditure trends

Education

A functioning basic education system, that provides all learners with a meaningful opportunity to complete their basic education, is central to realising many other human and socio-economic rights as well as building a prosperous society. It is therefore critical that basic education funding adapt to increasing learner enrolment, inflation and the changing costs of providing equal and adequate educational services. Although this financial year Basic Education has rebounded to the biggest spending area again, the overall funding increase from R302 billion in 2022/23 to R309 billion in 2023/24 is only a 2.5% nominal increase.[2] Once we factor in CPI inflation, we find that education investment is eroded by -2.4%. On a per learner basis, this equates to a reduction of funding from R22 552 per learner in 2022/23 to R21 630 per learner in 2023/24 (constant 2022/23 Rands). This trend is only set to worsen over the medium term, with a reduction of funding per learner in 2024/25 to R20 800. This will have tangible implications for schools,

[2] 2023 Peoples Guide. Available at: https://www.treasury.gov.za/documents/National%20Budget/2023/guides/2023%20Peoples%20Guide%20English.pdf.

teachers and learners who are already struggling to make do with limited and deteriorating school infrastructure and resources.

School Infrastructure

School infrastructure has a trend of above inflation investment for 2023/24, which we welcome. The Education Infrastructure Grant (EIG) increased by 11% in 2023/24 to R13.8 billion. This is welcomed in a context of a state of disaster (called in response to the increasing frequency of extreme weather events including the excessive flooding in seven of nine South African provinces).[3] It is imperative that South Africa's education system is well-resourced with adequate school infrastructure to be climate resilient. One of our member organisations works with schools in Limpopo that have been affected by extreme weather events, and the conditions of infrastructure at these schools interfere with teaching and learning. Continued extreme weather events only makes the infrastructure at these schools even more dangerous and unconducive to effective learning. We are also glad to see that R1.5 billion will be used for targeted spending in Gauteng to overcome overcrowding over the next three years.

School Nutrition

The National School Nutrition Programme (NSNP) sees a proposed increase of 9,1% this year. Although this is well above the CPI, we recommend that the NSNP considers the rising cost of feeding children nutritious meals, as food price inflation remains higher than ordinary inflation. While the Budget 2023 recognises food inflation this year at 7%, StatsSA recorded a 12.4% increase in the most recent month on record (18 January 2023). We caution that if food prices rise at a similar rate over the next three years, the NSNP will not be adequately funded to carry the real cost of meals to all nine million learners.

Early childhood development

The BJC welcomes the 51% and 24% increase in the Early Childhood Development (ECD) Conditional Grant for 2024/25 and 2025/26. This is a step in the right direction, given that the 2021 ECD Census found only 1.66 million children under 6 years are enrolled in early learning programmes, and less than 630 000 benefit from a subsidy. But we still have a long way to go to ensure that around 3.5 million poor children under 6 years have access to quality, subsidised programmes.

[3] IOL 2023 President Cyril Ramaphosa declares National State of Disaster in seven provinces after flooding. Available at: https://www.iol.co.za/news/president-cyril-ramaphosa-declares-national-state-of-disaster-in-seven-provinces-after-flooding-8e3ff6be-cd32-44b7-a505-2e040b6ce3b3

President Ramaphosa noted in his 2022 State of the Nation Address: “The social economy, including ECD … has significant potential not only to create jobs, but to provide vital services that communities need.”

But despite the proven multiplier effect of ECD for human capital development, financing for the sector continues to be a drop in the ocean of what we need to reap the rewards of a women-led, adequately funded and high-quality ECD sector.

The Department of Basic Education’s ECD Census 2021 found that more than 90% of key staff at early learning programmes (ELPs) are women. According to the Women’s Report published in 2021, ECD services are predominantly provided by non-profit organisations, subsistence entrepreneurs, or social micro enterprises (particularly in poor communities). In other words, the ECD sector is full of women entrepreneurs.

There is a very real possibility of rapidly upscaling these livelihood opportunities through a targeted employment stimulus package for early learning programmes. Achieving universal access to ELPs would create more than 300,000 additional direct jobs in the sector. This would increase the overall employment rate by 1.27 percentage points, and the employment rate for women by 2.8 percentage points, reducing the gender employment gap from 2.88 to just 0.08 percentage points.

Healthcare Spending

The finance minister Enoch Godongwana, in his speech said that “eradicating poverty, inequality and unemployment is as urgent, if not more than it was at the dawn of our democracy almost 30 years ago.” Furthermore, the country shoulders two concurrent states of disaster, an energy supply crisis and extreme flooding in seven of nine provinces. This has only aggravated unemployment, currently at 31% on the narrow definition, and stifled economic recovery. One impact of these challenges is a rising number of South Africans who rely on the public health care system. This raises concerns regarding the NHI Bill and the government’s ability to achieve efficient universal health coverage in a time where spending is being cut on healthcare.

In this context, it is concerning that healthcare investment is eroding; the Health budget did not receive increases, meaning its real value is only shrinking. Consumer Price Index (CPI) inflation is projected at 4.9% for the 2023/24 financial year. However, consolidated spending on health was allocated R259 billion in 2022/23 and will remain at this level in 2023/24; a real reduction on health care spending of -4.9%.

Health Infrastructure

Investment in health infrastructure has been falling in real terms. * These allocations are unlikely to equip the provinces to meet the infrastructure backlogs in the provinces, which predate the COVID-19 pandemic. A major contributing factor to these backlogs is a lack of investment in infrastructure and personnel. Investment in health personnel has been reduced by -5.4% in real terms in 2023/24, and funding for health infrastructure is stagnant, despite promises to assist public health facilities to adjust to load shedding and the increased risk of environmental disasters.

Health personnel

Investment in health personnel has been reduced by -5.4% in real terms in 2023/24. Just last year, Health Minister Joe Phaahla raised concerns that the shortage of health-care workers was threatening the quality and sustainability of health systems in Africa and worldwide[4]. Between 2015/16 and 2022/23, there has been a marginal annual growth in average headcount of nurses of 1.4%. However, over the same period, the ratio of nursing staff to the uninsured population has decreased (0.3% average annual decline). This means that the nursing workforce is being placed under an increased burden to provide for an ever-increasing uninsured population. This does not bode well for the quality of healthcare services and will in turn adversely affect users' right to health and potentially increase the risk of medical negligence incidents.

Social Protection

The Minister's opening remarks that the 2023 Budget is being tabled "in a difficult domestic and global economic environment… [where] households are under pressure from the rising cost of living, and unemployment remains stubbornly high" created hope that the Budget would respond to the challenges faced by the majority living in South Africa. The expectation was short-lived. At first glance it appears that the Minister acknowledges the plight of the poor and marginalised by indicating that an additional R66 billion is allocated to Social Development over the medium term, including R30 billion for inflation adjustments to the permanent grants, and R36 billion to fund the extension of the COVID-19 Social Relief of Distress grant for one year until 31 March 2024. However, the budget allocation is a smack in the face for the majority in South Africa.

Reduction in the real value and reach of the SRD.

[4] Shortage of Healthcare Workers Threatening SA's Health System available at: https://www.iol.co.za/mercury/news/shortage-of-healthcare-workers-threatening-sas-health-system-ab02f296-8b8d-4857-8b5a-871e701ef955

Despite a marginal improvement over the past year, the unemployment rate remains dangerously high, with a third of the working-age population unemployed according to the official (narrow) definition, and 43% unemployed if one includes discouraged work-seekers.[5] Yet the Minister has reduced the budget for the Social Relief of Distress (SRD) grant for the unemployed by almost 25%. As at 24 January 2023 there had been almost 13,5 million applicants for the COVID-19 SRD (13 474 520 to be exact[6]), but less than 7,5 million (7 487 351[7]) were approved to receive the grant due to the stringent and narrow eligibility criteria set out in the Regulations under the Social Assistance Act and the additional (unprescribed) questions included on the application portal.

International obligations

The Budget fails to work towards fulfilling its constitutional imperative to provide comprehensive social security. As far back as 2018, the United Nations Committee on Economic, Social and Cultural Rights expressed concern about the South African government introducing austerity measures that resulted in significant budget cuts to health, education and other public services. The Committee warned that austerity may worsen inequalities in the enjoyment of the rights under the Covenant and recommended that the government increase the level of funding in the areas of social security, health and education.

The Committee acknowledged that social grants have been an important instrument in reducing poverty in the country, but that the poverty rate in the country remains unacceptably high. It recommended that South Africa a) raise government social assistance benefits to a level that ensures an adequate standard of living for recipients and their families (in relation to the CSG, it recommended the grant be increased at least to the food poverty line); b) ensure that those between the ages of 18 and 59 with little or no income have access to social assistance; and c) consider the possibility of introducing a universal basic income grant. South Africa's next report to the Committee must be submitted later this year (2023).

The UN Committee on the Rights of the Child and the African Committee on the Rights and Welfare of the Child have also both recommended that the Child Support Grant be increased.

---

[5] StatsSA Quarterly Labour Force Survey, Q3 2022. Available: https://www.statssa.gov.za/publications/P0211/P02113rdQuarter2022.pdf

[6] 15 February 2023 Briefing by SASSA to Portfolio Committee on Social Development 230215PC_StatusonGrantPaymyents_15Feb23_d2.pptx (live.com)

[7] Ibid

This budget (and the medium term budget which will follow) are an opportunity to demonstrate that the SA government respects its obligations to international rights bodies and to the people of South Africa.

Public procurement reform and enhancing the efficiency and effectiveness of expenditure.

Public Procurement and Corruption

The Minister has followed through on commitments to increase funding to key crime and corruption fighting entities. Additional support has been provided to address the State Capture Commission recommendations through allocations to the NPA (R1.3 billion), Special Investigating Unit (SIU; R100 million), and the Financial Intelligence Centre (FIC; R256.3 million) over the medium term. This welcome decision seems largely attributable to the Financial Action Task Force (FATF) threat of grey-listing, which was announced on Friday 24 February. There is much less detail on how additional allocations will be used to address widespread corruption, and severe deficiencies in the procurement system which continues to place pressure on shrinking budgets, in a time of growing need.

This is of concern, given the extent of corruption and the apparent impact of maladministration in the delivery of public services, and the protection of human rights. While inherently difficult to measure the codex, estimates that State Capture cost the country somewhere between one and two trillion rand, or about 34% of GDP. This estimate is focused on major instances of corruption, revealed through the state capture enquiry. The true extent, including all departments and entities, could be much greater.

Testifying at the Zondo Commission, National Treasury's acting chief procurement officer Willie Mathebula noted that in 2017 more than 50% of the annual R800 billion procurement budget was lost due to intentional abuse of the system.[8] Assuming an annual increase of 5% of total procurement spend, this could equate to as much as R536 billion in 2023. This would have a significant impact on economic growth prospects, would improve trust in the state, and contribute significantly to the revenue available to fund much needed social programmes.

[8] https://allafrica.com/stories/202110120006.html

The BJC notes according to the 2023 Budget Review that the Public Procurement Bill *“will be tabled in Parliament in March 2023 once all other legislative processes are finalised. Currently, the bill is undergoing legal vetting by the Office of the Chief State Law Adviser and a socioeconomic impact assessment by the Presidency.”*[9]

The efficiency and effectiveness of the system does not only have an impact on countries' fiscal health but is central in building a functioning and equal society in which constitutionally protected rights are realised and promoted. Section 217(1) of South Africa’s Constitution requires that the government set up and operate a procurement system that is fair, equitable, transparent, competitive, and cost effective. However, South Africa’s procurement system is currently in crisis, riddled with mismanagement, fruitless and wasteful expenditure, corruption, and a culture of impunity. Within a constrained fiscal environment this has severe implications for social spending, as limited resources get diverted away from key sectors.

The Budget Justice Coalition welcomes reform of the procurement system in the form of the Public Procurement Bill. Whilst significant enhancements to South Africa’s procurement legislation are well overdue, the current Bill fails to adequately take into account the serious findings and procurement related recommendations emanating from the State Capture Commission of Inquiry. The BJC are concerned that the current Bill’s passage through Parliament prior to the 2024 elections, will be hurried and will not meaningfully consider submissions aimed at enhancing its provisions in the public interest and informed by the lessons flowing from the Commission.

The themes of concerns are as follows:

- **Insufficient shifts towards opening up procurement processes to public access and more meaningful and timely scrutiny.** Despite the National Anti-Corruption Strategy 2020 - 2030[10] emphasising *“Improving transparency of activity and use of resources in all sectors and improving the transparency and accountability of the public procurement system to ensure fair, effective and efficient use of public resources”* the current Bill fails to pointedly advance transparency in the procurement system. Examples include the lack of immediate access to vital procurement information which instead must be obtained through PAIA including the contract concluded with a successful bidder, as well as the

[9] See page 151 of the 2023 Budget Review accessible at https://www.treasury.gov.za/documents/national%20budget/2023/review/FullBR.pdf
[10] See page 13 of the NACS accessible at https://www.gov.za/sites/default/files/gcis_document/202105/national-anti-corruption-strategy-2020-2030.pdf

discretion of the Public Procurement Regulator to keep data from procurement process intervention secret.

- **The Draft Bill, although attempting to tackle corruption and mismanagement, does not provide sufficient mechanisms for consequence management and accountability.** This is created by a lack of transparency in the procurement process under the new bill, as well as a prolonged and vague review process, does not sufficiently strengthen our impotent barring systems, and no clarity on powers and functions of the oversight body (Public Procurement Regulator) that are distinct from what is already existing.
- **The Bill does not adequately address gender parity in procurement processes.**
- **The Bill does not adequately address concerns around front companies and lack of transparent beneficial ownership.**

These are detailed in our joint submission on the draft bill with Imali Yethu.[11]

The state is obligated to use the maximum of available resources to progressive realisation of socio-economic rights. If resources can be mobilised to enact regulatory reforms to address the FATF recommendations (which were not sufficient to prevent grey listing) then we demand that a similar sense of urgency is adopted to safeguard public funds from intentional abuse of the procurement system.

Recommendations

Public Participation in Fiscal Policy

Robust public participation in fiscal policy can enable governments to respond more effectively to people's needs. The Coalition recognises the need for complementarity in participatory spaces within Parliament as well as those established by the Executive/departments. We were encouraged, therefore, by the National Treasury's launching of South Africa's first Pre-Budget Consultations. This followed the introduction of the Fiscal Openness Accelerator (FOA) project in 2019. The aim of the FOA is to strengthen public participation in fiscal policy and was piloted in Benin, Liberia, Senegal, Nigeria and South Africa with support from Global Initiative for Fiscal Transparency (GIFT) and the International Budget Partnership (IBP). The involvement of a local

[11] Budget Justice Coalition and Imali Yethu, Submission on the Draft Public Procurement Bill available: https://budgetjusticesa.org/assets/downloads/SubmissiontoTreasuryonProcurementBill_June2020.pdf

multistakeholder Advisory Group comprised of civil society and government representatives is an important aspect of the co-creation of the mechanism.

The opportunity for the public to participate in these deliberations in advance of the Medium-Term Budget Policy Statement (MTBPS) is significant given that MTEC hearings interrogate the links between departmental budgets and government's policy priorities. The direct involvement of key government role-players such as the National Treasury Director-General, Deputy Director-General, senior Treasury officials and Directors-General from other Departments including the Presidency is significant. The MTBPS itself provides an opportunity to review the country's fiscal policy positions and is an important participatory space.

In 2021, approximately thirty-one submissions were received and of these - ten were presented during the consultations in which the Acting Deputy Director-General Edgard Sishi and various National Treasury representatives provided input and reflections.[12] The responses to the call to participate in the pre-budget sessions is a clear indication of public interest. In 2022, the Pre-Budget Consultations were designed to align with the medium- term allocation process, which is driven by the MTEC and a similar range of submissions were made by civic and state actors.

However, the Coalition and partners such as Imali Yethu are concerned by signals that the pre-budget consultations may remain at pilot stage and not see further iterations/continuance. This would constitute a regression in South Africa's efforts to institutionalise impactful, people-centred participation. To this end, we call on the Committees of Finance and Appropriations to urge the National Treasury to deepen these interventions including through the use of open budget data platforms such as Vulekamali. Vulekamali was identified as an existing platform to complement participatory mechanisms. As with many civil society organisations that have sought to do - the BJC is committed to supporting the deepening of public participation mechanisms.

[12] The submissions were presented by a diverse range of stakeholders including civil society, local government and private sector representatives. To read some of the submissions - visit Vulekamali here.