



**SUBMISSION BY THE BUDGET JUSTICE COALITION  
TO THE SELECT AND STANDING COMMITTEES ON FINANCE  
ON THE 2021 BUDGET**

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# 1 Austerity budget withdraws the state from its constitutional responsibilities and continues South Africa's unequal development path

Last year's medium-term budget policy statement (MTBPS) submission by the BJC argued that the 2020 MTBPS would cement austerity. This would provide the poor, disproportionately women, and under-served with less government services and increase economic hardship.<sup>2</sup> This fear is given concrete expression in the 2021 fiscal framework.

We believe that it is critical that the Committees ask whether the underlying logic of this framework supports the kind of state envisaged in the Constitution. A state that must make the maximum possible resources available for promoting, respecting, protecting and fulfilling fundamental human rights, including socio-economic rights and ensuring environmental sustainability.

The COVID-19 crisis has laid bare the deeply-rooted and structural inequality inherited from apartheid and maintained through neo-liberal capitalism's unending search for profit as the organising principle of life. This has meant that despite its Constitutional obligations, the Executive, represented by Minister Tito Mboweni, has presented Money Bills that systematically prioritise the interests of local and global financial capital accumulation over those of the majority of people. The disinvestment in state capacity during this period of austerity will further enable the hothouse of public-private corruption and maladministration. This toxic mix of austerity, the elite capture of economic and fiscal policy and corruption has resulted in communities left uncared for, with nothing but their right to protest to assert their rights. Yet even this right has been severely limited in the COVID-19 context. The erosion of public services will mean that women, who continue to live in poverty, will have the burden of their paid and unpaid labour increase. At the same time, despite widespread poverty, life continues to improve for the country's richest 1%<sup>3</sup> - the "wealthiest 1% owns 67% of all the country's wealth. The top 10% owns 93%. The remaining 90% of South African owns a paltry 7% of the country's wealth."<sup>4</sup>

While 'growing the economy' is the core focus of the Executive, it can be argued the state has lost sight of what the economy is for: improving the lives of all in South Africa. As a result, we see more budget cuts implemented even as rates of child stunting and child obesity increase<sup>5</sup> and millions of jobs have been shed. We see capital left to its own devices brutally looking after its own interests through the financialisation of the economy, capital flight and illicit financial flows,<sup>6</sup> use of tax havens, shrinking of the manufacturing sector and de-industrialisation of the economy.<sup>7</sup> At the same time in the "private economy" that Treasury lauds, we see ever greater dependence on unpaid care work and domestic labour, increasing penetration of the local market by rapacious global corporations, and deepening climate and environmental catastrophes.

Four decades of neo-liberal capitalism, embraced by the National Treasury through liberal trade and financial policies, racing to the bottom on corporate, income and wealth taxes, a failure to invest in industrialisation and infrastructure and ongoing cuts to public services, continues to limit the scope for

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<sup>1</sup> For more on how BJC understand austerity in the South African context please

read:<https://iej.org.za/wp-content/uploads/2020/02/The-cost-austerity-lessons-for-South-Africa-IEJ-30-10-2019.pdf>

<sup>2</sup> [https://static.pmg.org.za/201104MTBPS\\_Submission\\_to\\_Finance\\_Committees\\_by\\_the\\_BJC.PDF](https://static.pmg.org.za/201104MTBPS_Submission_to_Finance_Committees_by_the_BJC.PDF)

<sup>3</sup> <https://www.newframe.com/why-sa-is-the-worlds-most-unequal-society/>

<sup>4</sup> <http://www.redi3x3.org/sites/default/files/Orthofer%202016%20REDI3x3%20Working%20Paper%2015%20-%20Wealth%20inequality.pdf>

<sup>5</sup> <http://www.ci.uct.ac.za/cg-2020-food-and-nutrition-security>

<sup>6</sup> <https://www.tips.org.za/policy-briefs/item/3980-illicit-financial-flows-and-industrial-development-in-south-africa-a-discussion-of-policy-options>

<sup>7</sup> According to RW Johnson Fighting for the Dream:How Long will South Africa Survive, South Africa's manufacturing as a share of GDP has almost halved, to 11%.

South Africa to develop a caring and inclusive state. Such a state would care for the needs of the majority by providing “more” and “better” government in line with the Constitution. The BJC argues that a caring state is one that resources all the structures that facilitate well-being of people and foster the capabilities or sustainability of all in South Africa, including natural resources within the country.

Why do we introduce our submission to the Select and Standing Committees on Finance with a critique of neo-liberalism and a definition of the role of the caring state? We do so because we believe as the BJC that the 2021 fiscal framework further limits the scope for a humane, caring state by proposing further cuts to already pitiful public resources for social services, while entrenching the interests of corporate profit-driven patterns of economic growth that prioritise the needs of the richest 1% through tax rebates and tax cuts. For example, the wealthiest 1 % alone owns around 90% of the country’s bonds and corporate shares.

The BJC recommends that the honourable members of the Committees ask, first and foremost, what a caring South African economic development model would look like in light of the Constitution? In other words, when calling the Executive to account for their fiscal and economic policy proposals, are they able to defend them in light of their human rights obligations to ensure access to water and sanitation, health care services, quality early, basic and higher education, decent, affordable housing, a healthy environment for present and future generations, social protection and food sovereignty?

The proposed Budget is, in fact, indefensible in light of the extreme levels of inequality, poverty and unemployment South Africa faces. Statistics South Africa now reports that the official unemployment level is at a staggering 11.1 million people (42.6%) on the expanded definition, while 11.6 million children live below the upper-bound poverty line.<sup>8</sup>

Last year’s lockdown brought to the fore the precarious nature of access to food in South Africa for the majority of South Africans. The South African Child Gauge 2020 reported that child hunger increased primarily because of insufficient publicly provided social protection for all and in particular womxn and children.<sup>9</sup> About 1,3 million households -- almost five million people -- live in informal settlements in and around the top six major metropolitan cities.<sup>10</sup> These examples of an uncaring state could extend to gender-based violence, access to water and sanitation, and educational outcomes, all reminding us that despite South Africa being classified as an upper middle-income country this does not apply to the majority of South Africans who are increasingly seeing their access to a caring government diminish.

The BJC recommends that the Committees call on the National Treasury to defend their proposals in light of the Constitution and the human right to dignity and care (to care, be cared for and self-care). We believe that the COVID-19 pandemic has unmasked how rigged South Africa’s fiscal policies are towards local and global finance, corporations and the wealthy. The examples below show that this skewed system of debt and finance outlined in the 2021 fiscal framework under the guise of fiscal consolidation is contributing to (1) the reproductive debt owed to womxn for their unpaid care and domestic work (2) the loss of income by womxn through the gender pay gap, loss of jobs and increasing worker precarity, (3) the depletion of public services, namely health, education, social development and housing, water and sanitation, social infrastructure and public institutions through underfunding, (4) the loss of community assets through land and natural resource grabs, (5) diversion of funding to large (mostly white-elephant) infrastructure projects creating unsustainable and unpayable debt, and (6) environmental damage and climate change.

Lastly, BJC calls on the Committees to support a just, green, human rights based recovery plan. We recommend that the Committees call on the Parliamentary Budget Office to assist in supporting them to make the necessary amendments to the 2021 Fiscal Framework that begins to dismantle the neo-liberal

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<sup>8</sup>[http://www.ci.uct.ac.za/sites/default/files/image\\_tool/images/367/Child\\_Gauge/South\\_African\\_Child\\_Gauge\\_2020/CG2020\\_CC\\_income%20poverty%20unemployment%20and%20social%20grants.pdf](http://www.ci.uct.ac.za/sites/default/files/image_tool/images/367/Child_Gauge/South_African_Child_Gauge_2020/CG2020_CC_income%20poverty%20unemployment%20and%20social%20grants.pdf)

<sup>9</sup> <https://theconversation.com/covid-19-holds-lessons-for-the-future-of-social-protection-155787>

<sup>10</sup> <https://mg.co.za/analysis/2020-06-25-policy-exists-but-shacklands-spring-up/>

capitalist economic model and instead support and advance a fiscal framework, including around tax, debt and spending that are based on meeting the human rights obligations of a caring state.

Fiscal consolidation in the name of 'economic growth' has not and will not increase our collective wealth, it reduces it. Importantly the cutting of funding for the provision of key social services has not reduced government debt any more than it has 'crowded in' private investment for services which by their nature cannot and should not generate profit. Lastly, reducing access to publicly provided goods and services -- health services, schools, water, waste management, sanitation, libraries, housing, public transport, protection against violence, land etc -- reinforces gender inequality. Reject this budget in favour of one that supports decent work, living wages and livelihoods, publicly funded social services and universal social protection programmes because they do not hold back economic growth, rather they are the bedrock of socio-economic resilience and a caring state.

## **2 Economic policy promotes an unequal, private sector led recovery**

Fiscal consolidation which is premised upon rolling back public goods and services, while giving tax breaks to high income earners and corporations, reflects the political priorities of the contemporary South African elite, rather than the majority of people living in the country. Austerity policies have been part of the neoliberal toolkit of stabilisation, liberalisation, privatisation and rationalisation, developed in Washington and ruthlessly exported to the global south. Within this paradigm, markets are given ever increasing space to direct investments towards the "efficient" allocation of resources and are seen to be the key to innovation and productivity growth. In line with this, National Treasury's fiscal consolidation / austerity programme is being used to shrink the (social welfare) role of the state: to walk away from government's Constitutional obligations to progressively realise socio-economic rights and enhance the profits and rents of capital.

### **A private sector led growth and infrastructure strategy**

Despite the narrative of an infrastructure-led economic recovery, the budget paints a very different picture. Public investment in infrastructure as a percentage of GDP has declined to under 20% since 2016 and has declined by 7.2% from R815 billion in the 2020 budget to R791.1 billion over the MTEF. In addition, only R18 billion has been allocated for infrastructure for 2021-2024, amounting to only 3 infrastructure projects that are expected to be financed in this period. In lieu of a lack of public spending in infrastructure, the government is relying on private capital to fill this gap. This fundamentally reneges on the government's duty to provide accessible and affordable infrastructure to all.

The government has indicated that the Infrastructure Fund will attract capital from the private sector by 'de-risking' infrastructure development by easing the risks of doing business. The South African 'economic reconstruction and recovery plan' (ERRP) claims this will leverage *R1-trillion* in private investments in infrastructure over the next 10 years. Supporters of de-risking argue that one of the key reasons private sector participation in infrastructure in South Africa is low is because of the high risks and low returns associated with investing in infrastructure. These risks range from political instability to macroeconomic risks like inflation or interest rate increases. Thus, the purpose of de-risking mechanisms, such as PPPs and blended finance mechanisms, is for the government to mitigate and/or compensate for these potential risks to make it more attractive to private investors.<sup>11</sup>

A private-sector led infrastructure recovery will not lead to the required infrastructure needed to uplift many rural communities out of a chronic lack of access to affordable infrastructure. This is because, firstly, de-risking methods shift the bulk of the infrastructure project risks to the fiscus, while private

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<sup>11</sup> Phalatse, S. (2020).

<https://www.dailymaverick.co.za/opinionista/2021-02-17-south-africas-road-to-recovery-the-risks-of-a-private-sector-led-infrastructure-build-plan/>

investors reap the benefits at very little cost. De-risking infrastructure implies that the public sector will absorb a greater share of risk than usual to boost private capital.

Secondly, demand risk, the risk that revenue will not be consistent throughout the life of the project, is what private investors are concerned about when investing in infrastructure. However, blended finance in the form of subsidies, grants, or guarantees to compensate for demand risk generates considerable financial implications for the public sector. South Africa has high levels of unemployment, and low incomes, that make it difficult for the government to guarantee revenues through user-generated revenue. Despite this, Minister Mboweni reasserted the importance of the problematic 'user-pays principle' in his 2021 budget speech, implying that all users of the infrastructure projects are expected to pay for this service. At the same time, given deep socio-economic inequalities the majority of South Africans are unable to cover the costs of these tariffs.

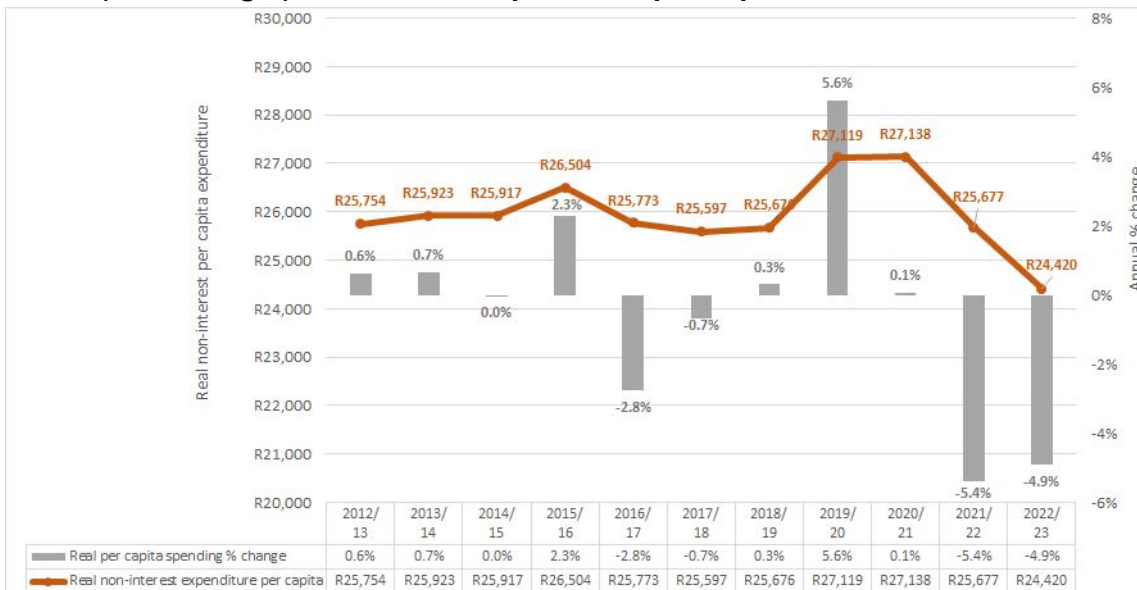
The government's economic reconstruction and recovery plan hinges on a neoliberal framework that seeks to further commodify essential services, transforming public goods into infrastructure designed to extract and externalise increasing profits to the private sector. The increased liberalisation of energy is a clear example of this.

### **3 Deepening austerity for the many and tax breaks for the few: fiscal policy continues to dump the burden of fiscal consolidation on the backs of the poor and vulnerable**

#### **Key points**

- Budget 2021 cuts nominal non-interest government expenditure for the first time in at least 20 years
- In 2022/23, real per capita non-interest spending will have been reduced by 10% compared with 2019/20 (meaning government will be spending R2 700 less per head of population on public services)
- Rather than using additional tax revenues of R100 billion this year and R86 billion next year (compared to MTBPS projections) to protect public services from further cutbacks, government chose to give tax relief to high income earners and corporate South Africa
- Fiscal policy remains blind to government's obligations to narrow wealth, income and gender inequalities
- The defunding of socio-economic rights while alternatives exist to raise additional resources from wealth, high incomes and finance capital is unfair and arguably unconstitutional

**Figure 1: Real (main budget) non-interest expenditure per capita**



**The austerity denialism must end.** BJC has consistently provided [evidence](#) to this committee that there is no such thing as “pro-growth fiscal consolidation”. The National Treasury’s approach is more aptly described as a “pro-wealth and pro-corporate fiscal consolidation” and an “anti-poor fiscal consolidation”. Austerity, by definition, is contractionary fiscal policy implemented by a state aimed at solving debt and growth problems during a period of economic recession or stagnation. The numbers reveal that this is precisely what fiscal policy in South Africa has been doing and will continue to do if the 2021 budget proposals are implemented.

**Table 1: BJC’s key fiscal indicators for Budget 2021**

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2019/20 - 2022/23
<b>Real per capita GDP growth</b>	-0.8%	-0.2%	-0.9%	-1.3%	-9.7%	4.0%	0.6%	<b>-2.3%</b>
<b>Unemployment (expanded definition)</b>	36.2%	36.6%	37.4%	38.9%	42.6%	-	-	-
<b>Real revenue growth</b>	0.5%	-1.1%	1.8%	0.9%	-14.4%	9.3%	3.3%	<b>-3.3%</b>
<b>Real per capita non-interest expenditure</b>	R25,773	R25,597	R25,676	R27,119	R27,138	R25,677	R24,420	<b>-R2 699</b>
<b>Real annual growth of non-interest expenditure</b>	-2.8%	-0.7%	0.3%	5.6%	0.1%	-5.4%	-4.9%	<b>-10.0%</b>
<b>Real annual growth of debt service costs</b>	8.2%	4.4%	6.8%	7.6%	9.1%	12.5%	9.6%	<b>+34.6%</b>
<b>Debt service costs as a % of revenue</b>	12.9%	13.6%	14.3%	15.2%	19.4%	20.0%	21.2%	

Source: Own calculations based on National Treasury data

Despite Minister Mboweni’s desire not to be remembered as the Minister of Austerity, the empirical data are not on his side. Table 1 shows that real per capita GDP has fallen in every year under his watch, while unemployment has soared, and debt service costs have continued to increase. This is because

cuts to non-interest expenditure and a failure to implement growth and welfare enhancing policies have led fiscal policy predictably into a death spiral known as “death by a thousand cuts”.

Countries all over the world are continuing to implement stimulus measures to see their economies through the worst of the pandemic with as many businesses and lives intact. Yet ours continues to cut funding for socio-economic rights and hides behind a stimulus package that never was, as two-thirds of the repeatedly promised R500 billion “fiscal package” have never materialised.

Instead, real per capita non-interest expenditure has either been cut or grown by 0.3% or less in four of the past five years and is set to fall by an astounding 10% between 2019/20 and 2022/23. This is austerity.

In the one year when per capita non-interest expenditure grew significantly, by 5.6% in 2019/20, this was largely attributable to record-breaking bailouts to state-owned enterprises totalling R66.1 billion. Moreover, given the large amount of expenditure in 2020/21 on payments for financial assets of R87.6 billion, which mainly includes support provided to SOE’s such as Eskom and SAA, the flat per capita expenditure increase of 0.1% last year must be recognised as masking significant cuts in other non-interest expenditures in the budget, especially on socio-economic rights, as documented below

Table 1 also reveals uncomfortable truths about the fiscal policy that has been pursued in recent years. As documented in section 4 of this submission on tax and revenue trends, real revenue growth has been negative or minimal since 2016/17. While the denuding of SARS partly explains this, the long term trend also demonstrates that our tax system is not collecting sufficient revenue from the income and wealth that is being generated in the economy. For the government to say that the only way to balance the budget now is to cut non-interest expenditure is disingenuous given that no new tax measures are being proposed, and previously proposed measures have been withdrawn. Government could protect socio-economic rights and limit the burden of debt service costs on the budget by making efforts to raise more revenue, especially from wealth and high incomes. By targeting a higher real revenue growth of +5% a year, government would be able to gradually reduce the unsustainable percentage of revenue that is spent on debt service costs while maintaining expenditure on public services.

BJC says that the choice to focus only on large and deadly expenditure cuts reflects an ideological position that puts the National Treasury far to the right of even the IMF, whose senior economists back-tracked on austerity as an appropriate medicine for dealing with an economic downturn, advancing evidence which showed that:

Austerity policies not only generate substantial welfare costs due to supply-side channels, they also hurt demand—and thus worsen employment and unemployment. The notion that fiscal consolidations can be expansionary (that is, raise output and employment), in part by raising private sector confidence and investment, has been championed by, among others, Harvard economist Alberto Alesina in the academic world and by former European Central Bank President Jean-Claude Trichet in the policy arena. However, in practice, episodes of fiscal consolidation have been followed, on average, by drops rather than by expansions in output. On average, a consolidation of 1 percent of GDP increases the long-term unemployment rate by 0.6 percentage point and raises by 1.5 percent within five years the Gini measure of income inequality (Ball and others, 2013).

This Budget proposes a fall in spending per person that leads to real reductions in health, learning and culture, and general public services; as the Budget Review notes: in the medium term “consolidated non-interest spending will contract at an annual real average rate of 5.2 per cent”. This is over-and-above various proposed cuts announced in recent budgets. BJC re-affirms that the budgets the government has approved until now **will result in the widespread violation of many socio-economic rights**, and fail to uphold government’s obligations in the Constitution and international human rights treaties it has ratified. The approval of the 2021 budget will only further impede the government from fulfilling its Constitutional mandate.

- **Health:** While we welcome the much-needed strengthening of the National Health Insurance office within the Department of Health and the commitment to ensuring sufficient funding for the



procurement and mass rollout of COVID-19 vaccines, overall, Budget 2021 reduces planned spending on public health by an unprecedented R50.3 billion over the next three years. In yet another demonstration of the government's skewed priorities, the allocation to COVID-19 vaccines has come at the expense of other vital health services, including the HIV/AIDS and TB programmes, rather than from a small increase in taxes, which Treasury had [said it was considering](#) in January.

Health Spending	2018/19	2019/20	2020/21	2021/22	2022/23	2019/20 - 2022/23
Nominal health budget (Billions)	R209.7	R223.2	R247.0	R248.8	R245.9	
Annual % change		6.4%	10.7%	0.7%	-1.2%	
CPI inflation	4.6%	4.2%	3.0%	4.2%	4.2%	
Real health budget (2019/20 Rands) (billions)	R219.3	R223.2	R237.1	R231.9	R220.0	-R3.2
Real annual % change		1.8%	6.2%	-2.2%	-5.1%	-1.4%
Public health care users (Millions)	46.4	48.0	49.1	49.8	51.0	
Difference		1.6	1.1	0.7	1.1 <sup>1</sup>	3.0
Annual change		3.4%	2.3%	1.4%	2.3%	6.2%
Real health care budget per user	R4,725	R4,649	R4,824	R4,653	R4,316	-R332.8
Annual change		-1.6%	3.8%	-3.5%	-7.2%	-7.2%
Difference year on year		-R76	R175	-R171	-R337	
COVID-19 response spending (Billions)	-	-	R22.9 <sup>2</sup>	R13.2 <sup>3</sup>	R3.0	R39.1

<sup>1</sup> This is a projected increase based on the average increases over the past three years. The financial figures which follow from this should therefore be taken as indicative.

<sup>2</sup> We do not find an estimate in the 2021 budget documents of the total allocation within the health sector to COVID-19 related expenditures during the 2020/21 financial year. We therefore draw on the figure provided in the [October 2020 MTBPS](#), which stated on page 41 that "To support the public health response to the coronavirus pandemic, national and provincial governments reprioritised about R20 billion and allocated about R2.9 billion in new funding to the health sector during 2020/21."

<sup>3</sup> 2021 Budget Review at p55.

The above table shows that while the health budget grew in nominal and real terms overall in 2020/21, this was almost entirely due to the R23 billion of estimated spending on the COVID-19 pandemic. When CPI inflation and the projected increase in the number of public healthcare users is accounted for, the real value of spending going towards public healthcare services diminished in 2019/20 and will continue to decrease over the next two years. In 2021/22, R13.2 billion is allocated for the COVID-19 vaccine rollout and the management of further waves of infections, but the overall budget for health care is reduced by -2.2% in real terms. Given the [additional](#) 700 000 users of the public health care system, this results in a reduction in spending per user of -3.5%, or R171 less per user. The cuts in health spending in 2022/23 are even deeper, and clearly pose an existential risk of a deterioration in enjoyment of the right to access health care services, while further delaying the implementation of NHI for many years to come.

- Education:** Although cuts to the consolidated basic education budget were not as drastic as predicted during the 2020 MTBPS, funding has not returned to pre-Covid-19 levels, and the picture for basic education remains bleak. Consolidated basic education funding will decrease in real terms every year for the next three years, while funding for the Department of Basic Education remains relatively stagnant. There will be low growth of compensation for those employed in the basic education sector, with a nominal growth rate of only 0.8% over the medium term. Treasury has acknowledged that this, along with early retirements, "*will reduce the number of available teachers. This, coupled with a rising number of learners, implies larger class sizes, especially in no-fee schools, which is expected to negatively affect learning outcomes.*" As the levels of funding for basic education pre Covid-19 were unable to sufficiently address the inequalities in our education system, this reduced basic education budget does not meet the moment.

- **Social grants:** Government will adjust the smallest social grant, the Child Support Grant (CSG) by just R10. While for the past 5 yrs, the CSG has received a R10 increase in April and a second R10 increase in October; in 2021, only one increase of R10 in April is committed taking the grant to R460. The Foster Child Grant (FCG) is increased by only R10 which represents a below inflation increase, and the overall budget for the FCG declines by 11% in nominal terms over the MTEF due to a massive projected decline in new FCG applications<sup>12</sup>. This is despite this grant being targeted at very vulnerable children such as orphaned and abandoned children living with relatives. The CSG 'top-up' for relatives caring for orphans that is meant to offset this decline in the FCG, has not been included in the budget despite being ready for implementation in April. Government has effectively decided to reduce the grant for orphaned children from R1050 to R460 in the middle of a public health pandemic. These multiple regressive decisions on children's grants were made despite overwhelming evidence of rising child hunger,<sup>13</sup> persistently high rates of child stunting (27% of all children under 5) and increasing child obesity.

The Old Age Pension, Disability Grant and Care Dependency Grant will be increased by only R30 in 2021 taking them to R1890 which represents below inflation increases. Considering the poor predominantly spend any income they receive on food, electricity and transport - the prices of which have risen substantially over recent years - this means that in real terms social grant recipients will be left with much less than they had last year.

The proposal to end the R350 COVID social relief of distress grant at the end of April in the context of greater than 40 percent unemployment, and a likely third wave of COVID in May or June, will lead to increasing hunger, uncertainty, vulnerability and the breaking down of our social fabric. This ignores civil societies' strong submissions to extend the grant while the details of a BIG are being finalised; increasing the COVID grant to the Food Poverty Line of R585; and the inclusion of caregivers in the grant. The continued exclusion of unemployed women from the COVID social relief of distress grant, simply because they receive a small R450 CSG for their child's basic needs, represents unjustifiable discrimination against women - especially given that women have borne two thirds of the COVID19 job losses and bear a greater care burden when schools are closed.

These decisions should be juxtaposed with the above inflation adjustments to personal income tax rebates. Why are poor children and their predominantly women caregivers, the elderly, people with disabilities, and millions of unemployed people being told to tighten their already tight belts while the wealthy and middle class are given more?

- **Public sector wages:** core elements of public provision, such as, basic education and healthcare, will be fundamentally weakened through the likely reduction in the public employment due to restrictions placed on the public sector wage bill. This is on top of already existing vacancies. The value of these services will decline. Unfilled posts, hiring freezes and a lack of wage progression and promotion opportunities will result in a gutting of capacity in the public sector and contribute to the inexorably rising unemployment rate across the country.

## 4 Tax policy continues to reinforce excessive wealth at the expense of social equality

Expected gross tax revenue for 2020/21 is higher than what was expected at the 2020 MTBPS; yet it remains R213.2 billion lower than anticipated in the February 2020 budget. This is still a large shortfall and brings into question Treasury's proposal to withdraw the increases to personal income tax announced in the 2020 MTBPS, which would have raised an additional R40 billion in revenue over the

<sup>12</sup> Budget Vote 17 - Social Development in Estimates of National Expenditure 2021 Table 19.3 pg 330

<sup>13</sup> <http://www.ci.uct.ac.za/cg-2020-food-and-nutrition-security>

next four financial years. Instead, it is proposed to increase the personal income tax bands at above inflationary rates foregoing R13.4 billion in tax revenue (R11.2 billion in potential revenue, on top of R2.2 billion decline in revenue) in 2021/22; in addition corporate tax rates are reduced. Conversely, indirect taxes, including fuel levies, are set to increase. These measures will contribute to the declining progressivity of the tax framework. Given that the government must do everything within its power to generate (or “mobilise”) sufficient resources to fund the progressive realisation of socio-economic rights, **the tax measures announced in the 2021 budget should not be approved.** All efforts must be placed on increasing the progressivity of the South African tax framework towards raising the resources necessary to protect and advance socio-economic, human and cultural rights. To this end there are many ways to mobilise resources, but the bulk will come from a mix of revenue raising measures, such as taxes, and borrowing via the issuance of government bonds.

In the first instance, in the context of incomparable levels of wealth inequality it is essential to take concrete steps to implement a progressive net **wealth tax**. Research by Chatterjee, et al (2020), indicates that more than R140 billion in revenue can be raised from a progressive net wealth tax of 5 percent to 7 percent, even after 30 percent of the wealthy will avoid paying this tax altogether. **The Treasury and government should indicate what progress has been made toward implementing a net wealth tax.**

We would also like an explanation from the Treasury on why the finance minister announced the reduction in corporate income tax rate to 27 percent, but no reference of this was made in the full budget review? **Was this a decision taken by the Treasury, or somewhere else? Lots of research shows that the global corporate income tax race to the bottom has detrimental consequences for the poor and social stability. Has this been considered at all? The Treasury must explain to the public what the consequences are of this last minute decision. This is only one of the reasons why this budget cannot be approved by Parliament.** Revenue raising measures such as taxes on income, wealth, consumption and corporate profits must be equitable, so that those with the greatest means of paying them carry the largest burden.<sup>14</sup>

## 4.1 Tax reform proposals

### Do not increase the VAT rate

In subsequent budgets, we call on SARS and Treasury not to increase VAT. The increase in the VAT rate from 14 to 15% as of April 2018 represents a clearly retrogressive austerity measure, which, when combined with spending cuts, imposes a greater burden on the poor. VAT change increases the taxes paid by poor and low-income households, reducing their ability to afford foodstuffs and other essential goods and services, necessary for rights realisation, through lowering disposable incomes. In 2018, the IEJ (see *Mitigating the impact of VAT increase by extending zero-rating*) proposed a number of goods that could be zero rated. This needs to be looked at again, given that most South African households living on low incomes cannot get through the month on the level of income that comes into the home and cannot afford even the very basic goods and services they need.

According to PMBEJD’s January Household Affordability Index, food items have increased marginally by 1.2% – or R49 – since December 2020. The average household food basket it tracks now costs R4,051 a month. At R4,000, the basket is higher than the national minimum wages (R3 470 generally and R2 491 for domestic workers), and is out of reach of the 30.4 million people (55.5% of the population) who are living below the upper-bound poverty line of R1 268 per month.

### Do not decrease corporate income tax

Since the 1980s the average global corporate income tax rate has declined by more than half - from 49 percent in 1985 to 24 percent in 2018 - in line with the global income corporate tax race to the bottom.

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<sup>14</sup> <https://unctad.org/webflyer/trade-and-development-report-2020>

This has occurred as governments around the world were increasingly required to increase incentives for private sector investment. Historically this has proven to have a number of adverse socio-economic impacts. In the first instance, contrary to the view that reductions in corporate income tax is a form of fiscal stimulus that would result in greater levels of spending and/or investment, international evidence from UNCTAD, has shown that productive investment has not increased despite declining levels in CIT. Moreover, as developing countries are more heavily reliant on raising revenues through corporate income taxes, given relatively small tax bases, cuts in corporate income tax impacts heavily on potential revenue. Related to this, in order to supplement lost revenue from corporate taxes, governments invariably raise indirect taxes, further reducing the progressivity of the tax framework and entrenching existing inequalities.<sup>15</sup>

### **Implement a resource rent tax**

Wealth from South Africa's resources has not been adequately redistributed to the nation. Recommendations by the United Nations to developing countries noted that it is critical that the "government obtains an adequate and appropriate share of the benefits from its resources—taking into account that extractives are assets owned by the country and once extracted, they are gone—while providing a return commensurate with the risks borne and functions carried out by the parties".<sup>16</sup>

Analysis by Isaacs and Bowman showed that during the last commodity's boom companies in the extractives sector (particularly in mining) made super profits between 2000-2008<sup>17</sup>. In concluding their research they supported the proposal of a resource rent tax (RTT) that had been advanced, and modelled, by the ANC's 2012 discussion document Strategic Intervention in the Mining Sector (SIMS). An RTT would be activated during commodity booms which "means that profits earned above a fair rate of return on investment would be heavily taxed. This allows companies to comfortably remain profitable while a greater share of the benefit of the country's mineral wealth is directed towards South Africa's developmental challenges".<sup>18</sup> An RTT is particularly relevant now, given that commodity producers have fared well during the COVID-19 crisis, hence the better than expected revenue, even for SARS.

The following proposals are made:

- Remodel the impact of an RTT at various rates, including at 15%.
- An introduction of an RTT at a threshold based on the outcomes of the research above.

### **Introduce a Social Security Tax / Solidarity Tax**

The introduction of a Social Security Tax is one of the primary mechanisms that can be used to finance better social protection in the form of a Universal Basic Income Grant (UBIG). This is a tax on income, dedicated to financing the extension of social security. It is progressively levied on those earning income above R80 000 a year – at 2 to 3% of taxable personal income. The tax revenues collected should be ring-fenced to provide funding specifically for a UBIG. For a more accurate collection estimate, access to administrative tax data from SARS is required.

Institute for Economic Justice calculations show this is sufficient income to finance one third of a UBIG set at the Food Poverty Line of R585 for all adults 18-59 (R191 billion per annum with an 80% uptake). Certainly, the UBIG will not see 100% take up, especially not in the early years.

The following proposals are made:

- Conduct further research on the collection estimate, using administrative tax data from SARS and determine rates between 2 and 3%.

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<sup>15</sup> <https://unctad.org/webflyer/trade-and-development-report-2020>

<sup>16</sup> United Nations. (2017). Handbook on Selected Issues for Taxation of the Extractive Industries. Retrieved from: [https://www.un.org/esa/ffd/wp-content/uploads/2018/05/Extractives-Handbook\\_2017.pdf](https://www.un.org/esa/ffd/wp-content/uploads/2018/05/Extractives-Handbook_2017.pdf)

<sup>17</sup> Bowman, A. & Isaacs, G. (2014). Demanding the impossible? Platinum mining profits and wage demands in context

<sup>18</sup>

- National treasury and SARS to coordinate the ring fencing and use of the Social Security Tax.

The following is required to reform **wealth taxes**:

- Committing to develop a plan for the implementation of a permanent annual net wealth tax as soon as practicable. This should be levied within the international range of 0.5-2.5%, taking into account the extremely high concentration of wealth to ensure a meaningful outcome. Wealthy individuals must immediately be required to declare their assets and liabilities in full so that SARS can gather a more accurate picture of wealth in contemporary South Africa.

Further, in terms of income taxes on high-income earners , and high-net worth individuals:

- Increases to personal income tax on the two highest brackets and adjusting the remaining tax brackets below inflation. High-income earners have experienced significant growth in their income over the last two decades, due to “skills inequality” and are the most likely to have remained in employment and saved on monthly expenses during the lockdown period. The top 1% of income earners in South Africa averaged a compounded growth rate of 5.4% over the years 2003-2015, whilst the majority (at least 80% of income earners in South Africa) have experienced declining negative growth in income over the same period. Effective tax rates for the earners above R500,000 have declined by 5% between 2008 and 2018. In the immediate term, the government must take the opportunity of a moral high ground by progressively increasing taxes on high incomes (above R500 000), with the rate increasing at the various income levels.
- Higher income groups have also received higher deductions on their taxes. In 2018, those earning above R500,000 received tax deductions of 12% of their income. R30.5 billion could be raised by not granting deductions on retirement fund contributions to those earning above R1 million.

In relation to income derived from wealth:

- Revising the primary abatement for estates of R6 million, and clamping down on the use of trusts to shield individuals from paying the full estate duty tax. A comparative study of South Africa’s estate duties with other countries needs to be done in order to assess why it contributes (as a share of GDP) only a quarter of the OECD average and how rates could be increased.
- Capital gains tax should be restructured so that:
  - Longer holding periods and capital reinvestment are encouraged through rate reduction.
  - A surcharge is applied to taxpayers earning high levels of capital gains,
  - The inclusion rate is raised to 100%.
  - The inclusion of non-resident is simplified and widened.
  - The use of share buybacks to avoid paying capital gains is prohibited.
- Further, the capital gains rate of 16% - 33% is below the OECD and BRICS norm and could be raised over the medium term.
- The securities transaction tax (STT) should be raised. Despite South Africa’s capital market to GDP ratio being almost triple the OECD aggregate, revenue from SST (as a share of GDP) lags being the OECD average. A taxation on cancelled orders should be instituted to disincentivise high frequency trading, and derivative taxation requires further research.
- Regarding taxation of immovable property and land there is room for:
  - A property tax over and above municipal rates and for this to cross subsidise poor municipalities.
  - A surcharge on the transfer duty for the acquisition of second homes.
  - Non-residents to pay higher transfer duties than residents, particularly, or exclusively, for residential property.

- A land tax, particularly of vacant/unused land be instituted. This has been successfully implemented elsewhere and has been used to fund land redistribution. This submission has not sufficiently interrogated this issue to make detailed recommendations but this matter requires attention.

### **Creating a public registry of beneficial ownership**

We welcome the decision by Treasury to “focus on consolidating wealth data for taxpayers through third-party information”. However, another very important step towards tax transparency is the need to create a public registry where all property titles, of both real and financial assets, would be listed. The objective is to force the beneficial owners to disclose their identity in such a registry as soon as they buy an asset or property in South Africa. This means they wouldn't be able to hide behind a trust, an offshore company or any other kind of legal structure; the ultimate owner's name would have to appear.

This can be implemented fairly easily by enhancing the role of already existing institutions or databases such as the Companies Intellectual Property Commission (CIPC), and will in addition, ease the automatic exchange of information with foreign authorities while putting pressure on such foreign bodies to disclose the information they have on the foreign assets of South African taxpayers. Taken together this will mean an increase in tax compliance and a re-establishment of the South African tax base.

### **Illicit financial flows and base erosion and profit shifting**

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

According to the African Union high level panel on illicit financial flows (Mbeki Panel), 4% of the South African GDP was lost every year on average between 1970 and 2008. This represents over the period US\$81.8bn (R1145 billion). In today's terms, this trend of 4% of GDP would mean R216.5 billion for the 2019/20 budget year. A [2019 statement from Financial Intelligence Centre \(FIC\) indicated that South Africa loses between US\\$10 billion and US\\$ 25 billion annually in illicit financial flows](#). At today's exchange rate (R15 per US\$), this amounts to between R150 billion and R375 billion this amounts to between R165 billion and R400 billion.

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

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

The fact that the government recognises the massive impact that illicit financial flows, base erosion and profit shifting has in relation to the erosion of the tax base is a step forward. However, the already February 2020 budget indicated that the Treasury endeavours to reduce corporate income tax rates to mitigate against the incentive for multinational corporations to shift profits to low-tax (or zero-tax) jurisdictions. This will continue to drive the global corporate tax race to the bottom and make the South African tax framework increasingly regressive. Alternative measures to combat IFF and BEPS would be for South Africa to increase capacity for SARS including the restoration of the large business centre and

the IFFs unit, to ensure effective enforcement of the general anti-avoidance rule. Further, the strengthening of legislation through the introduction of a general anti-tax avoidance act would enable statutory bodies to take action against individuals or corporations found to be involved in IFFs.

It is also essential to move towards a system of enhanced tax transparency. This will help to re-establish trust and confidence in our tax system, as well as assist in mitigating against the risks of corruption, and preventing any complacency from tax authorities. These will also help to ensure greater oversight over MNC's tax avoidance schemes. All the following options to impose tax transparency rest on one fundamental assumption: in the face of the threat of corruption tax authority's internal oversight mechanisms won't be enough. Therefore, this tax information should be made publicly available, allowing for independent organisations and journalists to have the possibility to check, creating another mechanism for accountability.

### **Tax revenue collection capacity**

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

- Under-capacity with more than 968 vacancies of which 600 to 800 are "critical";
- Lack of confidence in the revenue collector; and
- Growth, and consumption being revised downwards.

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

## **5 Debt and debt servicing costs<sup>19</sup>**

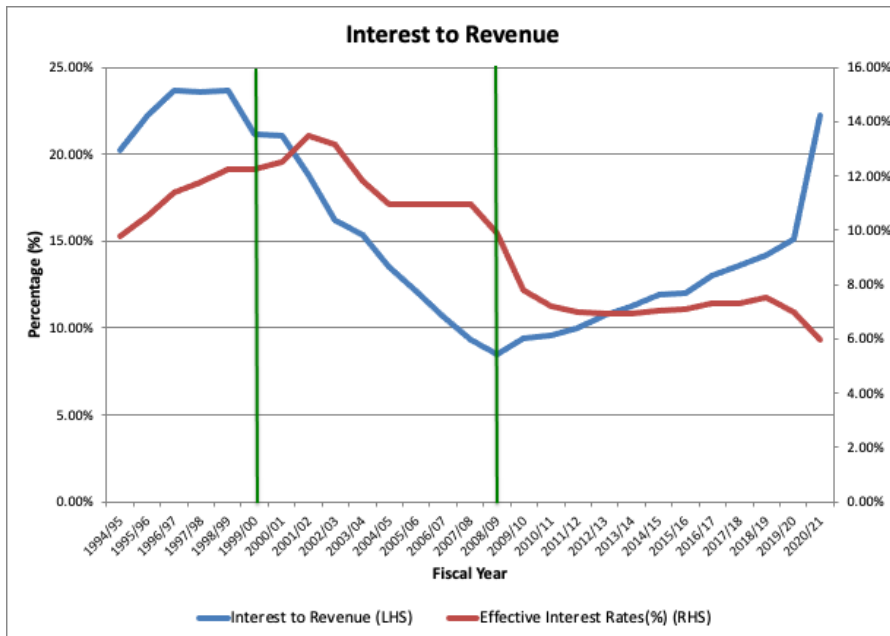
### **5.1 Debt position**

At the end of the fiscal year 2019/20 total government gross loan debt stood at R23 trillion. South Africa's debt burden has been on an increasing trend since the 2009/10 fiscal year, regardless of the measurement used to assess the trend. South African's debt-to-GDP ratio (expressed as a percentage) peaked during the 1995/96 fiscal year at 49.5% after which it declined to 26% during the 2008/09 fiscal year. Since then it has been steady increasing to 81.8% at the end of the 2019/20 fiscal year. Based on National Treasury's projections our debt-to-GDP remains at these levels for the next decade. While the effective interest rate of public debt has declined since the height of the early 2000s (2001/02) and remained reasonably stable over the last 9 years, the interest payments relative to total revenue displays a different. While it also declined during the 2000s it has been on an increasing trend since 2009/10, currently at 15.1% and expected to reach 22.5% at the end of the 2020/21 fiscal year.

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<sup>19</sup> This section has been substantively revised since the original submission to the Select and Standing Committees on Finance submitted on 2 March 2020





Source: N, Tippett, T. 2020 (own calculations) based on National Treasury, South African Reserve Bank

The gross borrowing requirement rose from a projected R433bn to R670bn for 2020/21, or from 8.0% to 13.6% of GDP. The gross borrowing requirement for 2021/22 is R548bn and over the medium term it declines to R542bn in 2023/24. The borrowing will be funded from short-term and long-term domestic borrowings (bonds) and foreign-currency loans.

It is important to note that “even before the crisis, government debt relative to GDP had risen in many EMEs over the previous two decades. Some EMEs now have a stock of government debt to GDP as high as 70%”.<sup>20</sup>All debt has increased, not just South Africa.

## 5.2 Debt vulnerabilities

The rising debt levels are one of the main arguments used by Treasury to legitimise harsh austerity and the deepening of a neoliberal macroeconomic framework.

Valid concerns can be raised over debt servicing costs but these must be carefully understood and interrogated.

### Debt levels

There is no magic number at which debt-to-GDP ratios are “sustainable” or “unsustainable”.<sup>21</sup> This is, in fact, tacitly admitted by National Treasury. Just 12 months ago debt levels of 80% would have been regarded by National Treasury as catastrophic. Now, this is the level they wish to stabilise debt at. Further, and as noted above, such a debt levels is not comparatively unusually high. In addition, the South Africa’s sovereign balance sheet is strong, with large reserves available, for example in the Government Employees Pension Fund. South Africa is not in any immediate danger of losing access to

<sup>20</sup> [https://www.bis.org/publ/qtrpdf/r\\_qt2006z.pdf](https://www.bis.org/publ/qtrpdf/r_qt2006z.pdf)

<sup>21</sup> Wray, L. Randall (April 20, 2013). "Why Reinhart and Rogoff Results are Crap". *EconoMonitor*. Roubini Global Economics; and Dylan Matthews, writing in the *Washington Post*: <https://www.washingtonpost.com/blogs/wonkblog/wp/2013/04/08/why-do-people-hate-deficits/>; and Bell, Andrew; Johnston, Ron; Jones, Kelvyn. (2015). "Stylised fact or situated messiness? The diverse effects of increasing debt on national economic growth". *Journal of Economic Geography*. 15 (2): 449–472. doi:10.1093/jeg/lbu005.



capital markets. An approach to debt that fetishizes the debt-to-GDP ratio is unsophisticated and counterproductive.

### **Contingent liabilities**

Contingent liabilities held on the government's balance sheet – for example, guaranteeing loans for Eskom – do pose a risk as these could come due suddenly and destabilise public finances.

### **Debt service costs**

The costs associated with servicing debt – or the share of the budget being spent on repaying debt – is an important consideration.

This is influenced by: 1. External financing conditions, 2. The perceived risk of holding South African bonds, 3. Monetary policy and the willingness of the South African Reserve Bank (SARB) to purchase government debt in order to lower its costs, and 4. Regulation to manage bond purchases.

The external financing conditions have, for most countries, been favourable, with huge injections of funds into capital markets in major economies. Advanced economies are borrowing at record low interest rates. While South Africa has not benefited to the same degree it has still benefited. The record low interest rates have made emerging market bond yield movements less susceptible to rating agency decisions, and funds more readily available. Treasury has expressed concern around borrowing costs and credit rating agencies. While such ratings are a concern, a comparative study shows that prior to COVID-19, South Africa's debt was below the levels at which comparator countries lost and regained their investment-grade rating.<sup>22</sup> While the higher yields demanded on South African government debt does indicate a higher perceived risk, including due to SOEs and large contingent liabilities, South Africa has maintained ready access to capital markets, even during the worst of the COVID-19 downturn.

The SARB has stepped up its purchase of government debt and this was important in reducing yields during 2020. However, it has done so to an insufficient extent, as noted by Investec economist Brian Kantor.<sup>23</sup> Similarly, little effort has been put into limiting speculation in South African bond markets (“carry trade”).

### **Debt denomination**

The majority (almost 90 percent) of national government's total debt is denominated in domestic currency. Treasury projects that foreign currency denominated debt will be at an average of 10.3 percent over the medium-term. Low levels of government debt denominated in foreign exchange, and an all time high, level of foreign exchange reserves, reduces any perceived pressures to attract greater levels of financial inflows, required in an instance of a balance of payments crisis - see below on the state of the BoP. Both imports costs and debt-services costs are easily met. These details are important in considering how best to mitigate against the country's growing debt levels. The current debt composition (between Rand denominated debt and debt denominated in foreign exchange) coupled with a stable BoP illustrates that prioritising the reduction in debt-to-GDP levels through cuts to main non-interest expenditure is not only self-defeating in relation to its own objectives but that it is also entirely unwarranted. Given the current position of the South African Reserve Bank (SARB), the SARB can be used to directly finance some of government's debt.

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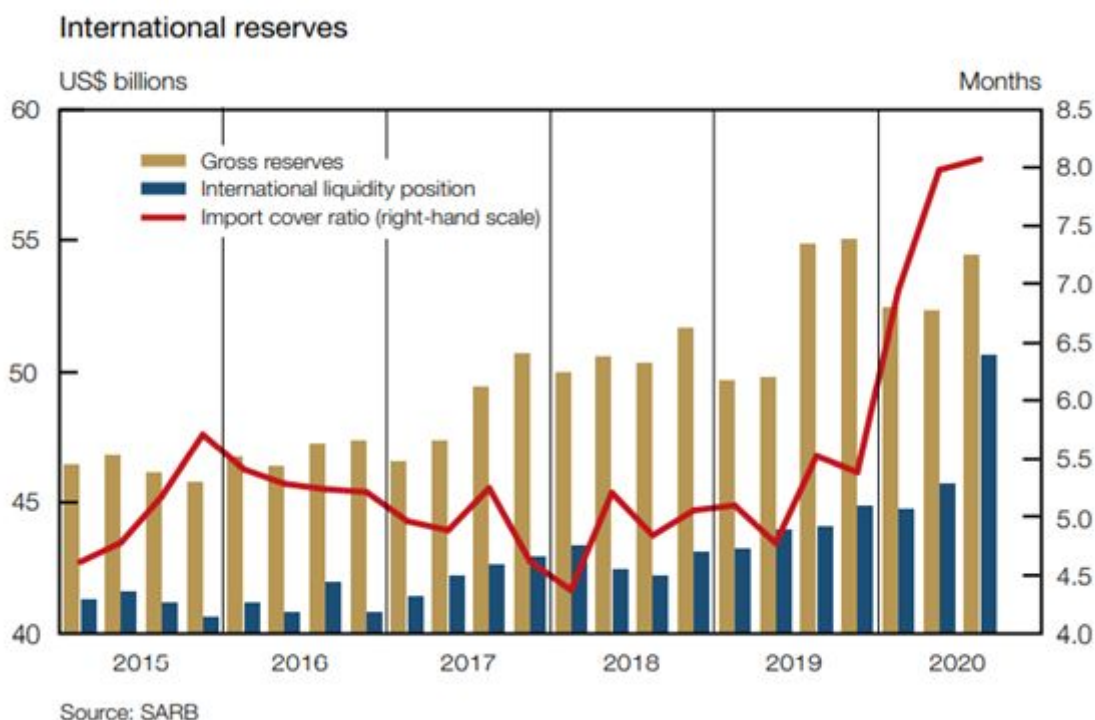
<sup>22</sup> <https://developingeconomics.org/2017/10/05/austerity-unlikely-to-solve-emerging-market-credit-woes/>

<sup>23</sup> [https://www.investec.com/en\\_za/focus/investing/weekly-view.html](https://www.investec.com/en_za/focus/investing/weekly-view.html)

## The current account and reserves in foreign currency

Statistics since back to the 1950s show that South Africa is experiencing the largest current account surplus in 70 years. The balance of payments stood at “the largest ratio of GDP of 5.9% since the third quarter of 1988”. The December 2020 Quarterly Bulletin from the South African Reserve Bank (SARB) reported that the foreign currency reserves of over R800-billion cover eight months of imports. This was all-time high. This situation has continued into 2021 with further increases.

The only rationale for not using the exorbitant reserves accumulated at SARB to fight hunger in the country is the “signal” it would send to the finance industry and bondholders that the government is backing off from implementing hard austerity policies.



## 5.3 Proposals

The National Treasury’s approach to debt management has failed. South Africa has missed every debt target set over the last. It is time to consider other approaches.

### No debt reduction without growth

During economic recessions, there is shrinking private-sector expenditure. Cutting depresses spending in private and public sectors, which determine the growth and size of GDP. Because debt levels are measured as a ratio of debt to GDP, if measures to tackle debt lead to, or exacerbate, poor economic growth, then debt relative to the (shrinking) GDP will go up, not down. It is critical to understand debt as a structural issue which requires a systematic response through the transformation of the economy itself.

The most viable way to reduce debt-to-GDP is to grow GDP. This will likely require increasing public spending the near term. A well spent fiscal stimulus can actually reduce the debt-to-GDP ratio through spurring economic growth. A well designed stimulus should pay for itself in the medium to long term. Summers and DeLong argue that fiscal stimulus spending can self-finance because of increases in both

consumer spending and investment, which, in turn, raises future incomes and tax payments, offsetting more government spending.<sup>24</sup>

This is true both in terms of essential COVID-19 rescue and recovery spending. As shown by the IEJ, only a third of the R500 billion had been utilised at the time of the State of the Nation Address on 11 February 2021.<sup>25</sup> As former Budget Office chief, Michael Sachs notes: “a much stronger easing of expenditure restraint in 2020 was warranted and possible to achieve without permanently damaging South Africa’s fiscal position”.<sup>26</sup>

It is also true in terms of providing the necessary stimulus to the economy over the next 3 to 5 years. In fact, even research on rating agency upgrades shows overwhelmingly evidence that the means through which to reduce debt and regain positive credit ratings is through raising economic growth and GDP levels and not attempting to slash borrowing.<sup>27</sup>

Therefore, rather than focusing solely on the level of debt, a good debt policy is one that borrows to invest in improving a country’s productive capacity. Historically, this has proven to reduce the debt-to-GDP ratio in the medium to long term.

### **Borrowing costs**

A critical objective should be set to reduce the cost of borrowing. This could be done through prescribed assets and set interest rates for local private institutional investors, managing capital flows, and reserve bank invention in bond markets. The state could also shift certain expenses to public development finance institutions - such as, the Development Bank of Southern Africa - by capitalising those, including through the Reserve Bank. Increased growth, and credible debt targets based on growth enhancing measures, will also curtail the cost of borrowing by reducing the perceived sovereign risk and lifting in credit ratings.

### **Reducing contingent liabilities**

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

- Require that Treasury present to the Finance Committees on the project applications that have been made to the Budget Facility for Infrastructure and specifically request clarity on whether the Grand Inga Project has been properly appraised.
- Undertake oversight visits to Eskom, SABC, SAA, Denel and SANRAL to determine whether these State Owned Entities are taking sufficient measures to better manage their finances including tighter management of their procurement functions.
- Ensure that all State Owned Entities (particularly Eskom due to the extent of the risk) that require loan guarantees from Treasury disclose the full details of all loan agreements that it enters into.

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<sup>24</sup> Delong, J. & Summers, L. (2012). Fiscal Policy in a Depressed Economy. Retrieved from [https://www.brookings.edu/wp-content/uploads/2012/03/2012a\\_delong.pdf](https://www.brookings.edu/wp-content/uploads/2012/03/2012a_delong.pdf)

<sup>25</sup> <https://www.iej.org.za/wp-content/uploads/2021/02/IEJ-COVID-19-%E2%80%93-rescue-scorecard-2021-1.pdf>

<sup>26</sup>

<https://www.news24.com/fin24/Opinion/michael-sachs-sas-budget-and-the-absence-of-social-solidarity-20210222>

<sup>27</sup> <https://developingeconomics.org/2017/10/05/austerity-unlikely-to-solve-emerging-market-credit-woes/>

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

### **A fairer financial architecture**

The BJC believes that it is possible to create a global economic and financial architecture for a more sustainable, prosperous and equitable lending and borrowing system.

BJC supports the global calls for standstills on sovereign debt payments to official and private creditors. A standstill entails an agreement among creditors and the debtor for a temporary pause on debt payments. Greater support is needed for countries who are currently in debt distress as they prioritise lives and livelihoods.

The BJC has also in the past called for meaningful participation and transparency with regards to borrowing, particularly from institutions such as the IMF . The National Treasury must demonstrate that domestic resource mobilization attempts have been exhausted and justify the need to mobilise externally.

## **6 Domestic resource mobilisation: Non-orthodox tools are needed**

### **Fiscal stimulus: Investing in a care economy**

Government cannot wait for private sector to come to the table. An interventionist government is needed to fundamentally transform our economy along the lines of race, class, gender, age etc.

This requires that the government invest in non-traditional sectors as well. For example, government should invest in the care economy (childcare, care of the elderly, education and health). This is because economic outcomes are not gender-neutral. For example, the first estimates of the impact of the coronavirus on livelihoods in South Africa have been harrowing. Over the first three months of the imposed lockdown, almost 3 million people have lost their jobs, particularly in the informal economy. It is particularly concerning that women accounted for the 2 million in lost employment. The precarity of women's livelihoods, particularly Black women, is one of the defining features of South Africa's economy

and yet the dynamics that perpetuate these gender inequalities remain marginal to Treasury's budgeting processes.

Research by the International Trade Union Confederation (ITUC) on South Africa shows that multipliers are high in the care economy. If 2% of GDP were invested in the health and care sector, it would generate increases in overall employment of over 400 000. A similar level of investment in construction would increase overall employment by 511 000. Investing in the care economy also helps to improve equity by changing the distribution of unpaid work. The 2000 time-use survey confirmed that, "women were found to spend much more of their time on unpaid, reproductive type work while men were more likely to be engaged in paid work". In a further analysis of this data, researchers have argued that unpaid work obligations "affect women's employment options and their ability to look for paid work". Spending on care work improves livelihoods for the most vulnerable. ITUC, for example, argues that the "lack of provision of formal care puts an enormous burden on elderly members of the community" in the context of high HIV/AIDs prevalence. They argue that to achieve formal long-term care provision for the elderly, South Africa needs to increase the number of formal care workers by 86 000 which is five times the current long-term care workforce.

Not only is investment in care (childcare, elder, education and health) critical for jobs, it also enables services that raise women's participation in direct employment, increasing supply capacity in the economy and improving equity. Many gender activists have argued that "unlocking the potential offered by many millions of women joining the formal workforce builds stronger economies and wealthier households". Such investment can also undo the harm caused by austerity. International evidence has shown that women disproportionately bear the burden of austerity policies - women carry more of a burden in social provisioning and require more access to public services which austerity takes away.

We recommend the committee requests Treasury to explicitly describe how they intend to invest in an economy that supports care by providing details of plans for increasing jobs in the areas of:

- (1) Child care (eg Early Childhood Development - provincial DSD and DBE budgets)
- (2) Care of the elderly (eg transfers to NPOs in provincial DSD budgets)
- (3) Care of people with disabilities (eg transfers to NPOs in provincial DSD budgets)
- (4) Care and support to victims of violence (eg social work posts and transfers to NPOs in provincial DSD budgets for child protection services and shelters for victims of domestic violence)
- (5) Care of the sick (eg nursing, medical practitioners and allied professionals at all levels of the health- care system)
- (6) Education (eg teacher and teacher assistant posts in provincial DBE budgets)
- (7) Safe public transport (e.g. trains, buses, combi taxis)
- (8) Housing (e.g. affordable public housing, access to ownership)
- (9) Access to land

## **Capital controls**

Capital controls are measures taken by the government aimed at restricting financial flows- both inflows and outflows. In the current context we need the strengthening of these controls to mitigate against potential financial outflows in the instance of implementing a human rights budget (which we propose here and in our Imali Yesizwe document). In addition, strengthening capital controls will allow government to more effectively manage the balance of payments (how much money flows in and out), and protect our monetary system in a crisis like this one.

Most states used capital controls until the International Monetary Fund forced them to "liberalise" as part of structural adjustment in the 1980s. But since the global financial crisis there has been a resurgence in the legitimacy of capital controls following [many countries](#) successfully re-imposing capital controls. These include Malaysia (1998), Argentina (2001), Venezuela (2003), Cyprus (2013), China (2016) and Brazil (2018). With the aid of capital controls introduced in 1998, for instance, Malaysian authorities were

able to lower interest rates without being concerned about currency depreciation or capital flight that were destroying other Asian economies (especially South Korea, Thailand and Indonesia) that year. It is imperative that a regime of capital controls is accompanied by a transparent and accountable system of enforcement. In more recent years, even the IMF has acknowledged the value of certain forms of capital controls in promoting financial stability.

## GEPF, UIF, PIC etc

In his [speech](#), Finance Minister Tito Mboweni illustrated the rising debt service costs of the government by saying that 21 cents of every rand in tax revenue goes to paying interest on the state debt. He failed to mention that 4 of these 21 cents is transferred to the (overfunded) Government Employee Pension Fund (GEPF) and the Unemployment Insurance Fund (UIF) as interest or levies. The Treasury has refused to participate in the public debate on how the 15-20% of the debt service costs that are paid internally within the public sector could be repurposed. These transfers should be reconsidered in order to reduce the government's borrowing cost, which it claims is the key aim of its austerity budgeting.

<i>Billions of rand</i> Government Employee Pension Fund (GEPF), 2010/11 - 2018/19										
Financial year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
<b>Contributions</b>	40	44.2	47.9	52.2	56.4	60.3	65.5	70.4	75	<b>80</b>
Investm. income	40.6	44.5	49.9	54	68.5	69	69.5	72	82.8	<b>86.4</b>
<i>Contrib &amp; Inv. Incomes</i>	80.6	88.7	97.8	106.2	124.9	129.3	135	142.4	157.8	<b>166.4</b>
Benefits paid	29.9	37.2	43.2	57.9	85.8	83.1	88.3	94.9	103	<b>110.9</b>
Surplus to reinvest	50.7	51.5	54.6	48.3	39.1	46.2	46.7	47.5	54.8	<b>55.5</b>

Source: Cash account for GEPF's finances. (Sources: Treasury's Budget Reviews 2017 - 2020; GEPF's 2020 AR and own calculations)

A large portion of the Public Investment Corporation (PIC) R2-trillion in assets under management is invested in the JSE. The largest contributor to the PIC's assets is the Government Employees' Pension Fund (GEPF). Currently, the GEPF has approximately R1.8-trillion in accumulated reserves, and has all current and future liabilities covered. The fund's financial position is bolstered given a surplus of approximately R40 billion to R50 billion each year, after benefits are paid to beneficiaries. Given the sound financial position of the GEPF, it can afford to forfeit the government's contribution to the fund in the medium-term by way of a contribution holiday from payments to the GEPF. Given that last year the government's contribution to the GEPF was R48.7 billion, a pension holiday for the next three years could raise more than R120 billion in revenue.

## 7 Participatory Processes

### 7.1 Public participation

BJC is concerned about how lockups continue to exclude many who are keen to participate in the budget. Provisions need to be made to open up the space for more citizens and organisations to be able to attend the budget lockup and conduct their analysis. BJC understands that COVID-19 protocol requires more stringent rules, however, this should not be an excuse to unnecessarily contract the space.

The Constitution provides for public participation in many ways. Section 118 (1) states that a provincial legislature must *facilitate public involvement in the legislative and other processes of the legislature and its committees*. The Constitution also obliges the legislature to *conduct its business in an open manner*



and hold its sittings and, those of its committees, in public. At the local government level - the Integrated Development Planning Process (IDP) also provides for direct public engagement. Public administration principles, read alongside section 195 of the Constitution, provide for the role of an accountable public service that must respond to people's needs and provide opportunities for their participation in policy-making. The current pandemic has illustrated the importance of a people-centred approach to response and recovery.

The budget is an explicit statement of what priorities and commitments a government has made or intends to make to its people. It is also a legal planning document that should be aligned with explicit lines of accountability. Social accountability principles also emphasise public resource management processes that are inclusive of and accountable to the public. In a functional social accountability context – systematically marginalised groups are prioritised not just in budget prioritisation but in the actual decision-making process. People's right to engage and question elected representatives, public officials and private actors on budgetary and policy decisions is central. While this is by no means a new paradigm – it is one that the South African government must substantively shift towards to re-energise its participatory democracy ideals.

In addition to deepening public participation in existing legislative and policy processes - people-centred fiscal policy must account for key principles including timeliness, reciprocity, inclusivity, accessibility and respect for self-expression as defined by the Global initiative for Fiscal Transparency (GIFT). The BJC calls for the piloting of participatory mechanisms in fiscal policy taking South Africa's social and demographic characteristics into account while addressing fundamental deficiencies in budgeting at the provincial and local levels. Examples of meaningful, cost effective and impactful processes include participatory budgeting as introduced in Cascais, Portugal in 2011 - resulting in the introduction of citizen-informed municipal projects.

## 7.2 Parliamentary oversight and Supreme Audit Institution

National budgets are tabled in Parliament - not as sealed deals but as policy commitments for approval by the legislative arm of the state. Budget priorities must also be open to public input given that they are intended to serve the developmental needs of the people. Enabling thorough scrutiny and debate of priorities set in the budget processes is therefore crucial and cannot continue in its current form.

Openness in government decision-making, the availability of budget and outcomes data and the effective management of government constituencies in budget debates are inseparable. The release of better information by the executive branch will not mean much unless coupled with efforts in the legislature and civil society to use that information. Similarly, it is difficult for the executive to establish accurately what information and institutional provisions are most urgently needed in the absence of a dialogue with legislatures and civil society. Only through a vibrant budget debate will the potential benefits of transparency be realized<sup>28</sup>

Section 188 of the Constitution outlines the functions of the Auditor General of South Africa while the Public Audit Act, 2004 provides for the auditing of institutions in the public sector. Reports of the Auditor-General are therefore critical for evaluating the performance of the executive - and of accounting officers in particular. Various parliamentary committees such as public accounts committees rely on these reports as a means to verify financial information presented to them by departments and entities. The rigour and reliability of AGSA audit reports are arguably a hallmark of South Africa's public finance management environment. However, missing link is the lack of more direct connections to community experiences of the impacts of weak fiscal governance on the delivery of services. The emergence of COVID-19 necessitated real-time auditing and reporting of departments' procurement and spending of pandemic funds by the Auditor-General. The AG's office has also established ongoing partnerships with civil society and community groups to contribute to real-time monitoring. The BJC commends these

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<sup>28</sup> Matemba, L., Kgampe, L. and Claassens, M. South Africa in Claassens, M. & van zyl, A. (Eds) 2005. *Budget Transparency and Participation 2: Nine African Case Studies: Botswana, Burkina Faso, Ghana, Kenya, Namibia, Nigeria, South Africa, Uganda and Zambia*. IDASA, Cape Town. p.270

efforts and calls deepening of partnerships of this nature and more direct engagement of communities in a sustained manner.

### **7.3 Transparency**

BJC notes with great concern the discrepancies between the budget documents circulated in lockup this year. As noted earlier we would also like an explanation from the Treasury on why the finance minister announced the reduction in corporate income tax rate to 27 percent, but no reference of this was made in the full budget review. Analysts and activists in the lockup were only provided with the speech late into the lockup. Excel sheets were also not readily available at the beginning of lockup.

BJC is also concerned with the ongoing regression in access to provincial budget information. Provincial budget information has not been made available which undermines transparency as well as hinders participation. We call for this information to be made available immediately, and an explanation as to why provincial budget information has not been made available.

## **8 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), Open Secrets, Public Affairs Research Institute (PARI) OxfamSA, Pietermaritzburg Economic Justice and Dignity Group (PMEJD), the Centre for Child Law, the Public Service Accountability Monitor (PSAM), the Rural Health Advocacy Project (RHAP), SECTION27, and the Treatment Action Campaign (TAC).

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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