BUDGETING IN AN ERA OF AUSTERITY AND STATE CAPTURE:
A FIVE-YEAR REVIEW OF BUDGET POLICIES AND OUTCOMES

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

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CONTENTS

This submission is informed by a range of civil society organisations (CSOs) who are part of the Budget Justice Coalition, including the Alternative Information and Development Centre (AIDC), the Children's Institute at UCT, the Dullah Omar Institute (DOI), Equal Education (EE), Equal Education Law Centre (EELC), the Institute for Economic Justice (IEJ), the National Shelter Movement, OxfamSA, Pietermaritzburg Economic Justice and Dignity (PMEJD), the Public Service Accountability Monitor (PSAM),the Rural Health Advocacy Project (RHAP), SECTION27 and the Studies in Poverty and Inequality Institute (SPII).

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, including the obligations of the progressive realisation of socio-economic rights contained in the South African Constitution.

1. INTRODUCTION: ONE STEP FORWARD, TWO STEPS BACK

As the fifth Parliament draws to a close, the Budget Justice Coalition (BJC) has opted to develop a submission that provides an overview of the key budgeting trends of the past five years, as well as the impact of these on two elements of the social wage: health and education. The submission also focuses on Parliament's oversight role in relation to the budget, looks at how budget decisions have been made and provides recommendations to support greater and wider participation by the public in the budget process.

During the fifth term, BJC submissions have been concerned with the pursuit of regressive and counter-productive austerity policies that have become increasingly entrenched. The fact that the tax-mix hasn't been shifted back from the unsustainably low path established by the Growth, Employment and Redistribution (GEAR) policy is also a major concern, given the obligations on the state to maximise its available resources to fulfil the rights in the Constitution. Instead, fuel levy and VAT increases combined with social spending cuts have been implemented to plug holes in the fiscus and to bail out captured state-owned entities (SOEs).

We believe that reshaping our current tax-mix towards more tax justice, a better oversight of state expenditure and an increased focus on fighting tax evasion and avoidance can relieve the burden that has been imposed on the poor and working class.

It is also crucial that alternative options are considered for debt management. We call for genuine engagement by the state with a wider range of stategieis including those that would limit its reliance on local and international capital markets.

2. INDICATORS ON THE PERFORMANCE OF THE BUDGET OVER THE PAST FIVE YEARS

The period 2014 - 2019 has been a difficult one for South Africa. Per capita incomes have fallen, poverty has increased[1] and unemployment stands at a near 15 year high[2]. At more than 50%, South Africa now has the highest rate of youth unemployment in the world[3] and we remain the world's most economically unequal country[4]. The following indicators provide a snapshot of these trends.

Indicator 1: GDP growth vs population growth, 2014/15 - 2018/19[5]

	2014/15	2015/16	2016/17	2017/18	2018/19
GDP growth	1.9%	0.6%	0.9%	1.3%	0.7%

[1] StatsSA (2017) "Poverty Trends in South Africa".
[2] www.moneyweb.co.za/news/south-africa/unemployment-rate-persists-near-15-year-high.
[3] https://citizen.co.za/news/south-africa/2025384/sa-has-highest-youth-unemployment-in-the-world/
[4] www.theguardian.com/inequality/datablog/2017/apr/26/inequality-index-where-are-the-worlds-most-unequal-countries.
[5] National Treasury 2019 Budget Review and StatsSA Mid-Year Population Estimates.

Population growth	1.6%	1.6%	1.6%	1.6%	1.6%

Per capita GDP has fallen for four years in a row. This is evidenced by the fact that the economy has grown at a slower pace than population growth. This means that the economy is smaller (i.e. we are producing relatively fewer goods and services) per person today than we were before the start of the 5th Parliament.

Indicator 2: Gross loan debt and debt service costs as a percentage of GDP, 2014/15 - 2018/19[6]

	2014/15	2015/16	2016/17	2017/18	2018/19
Gross loan debt	46.5%	48.9%	50.6%	52.7%	55.6%
Debt-service costs	3.0%	3.2%	3.3%	3.55	3.6%

By shrinking investment in the economy, fiscal consolidation has failed to reduce public debt, leading to negative growth that has been compounded by credit ratings downgrades and currency depreciation. In other words, **public debt has grown as a share of total GDP, despite cuts in non-interest expenditure.**

Indicator 3: Non-interest expenditure growth, 2014/15 - 2018/19

	2014/15	2015/16	2016/17	2017/18	2018/19
Non-interest expenditure growth	1.7%	4.6%	-0.2%	0.3%	2.6%

Non-interest expenditure growth has slowed to a crawl, with real terms reductions and per capita reductions occurring in 2016/17 and 2017/18. These cuts are disastrous for developing a capable state, and since social expenditure is broadly progressive, **cuts have the effect of widening socio-economic inequality.**

Indicator 4: Employment trends, 2014 - 2018[7]

	2014	2015	2016	2017	2018
Labour force (expanded[8])	23.4 million	24.1 million	24.7 million	25.5 million	26.0 million
Number of people employed (millions)	15.1 million	15.7 million	15.8 million	16.2 million	16.4 million

[6] National Treasury 2015-2019 Budget Review.
[7] StatsSA Quarterly Labour Force Survey, 2018Q4 Trends.
[8] The expanded labour force includes people who want to work but who have become discouraged from looking due to a lack of employment opportunities.

No. of people unemployed	8.3 million	8.4 million	8.9 million	9.3 million	9.6 million
Unemployment rate (expanded)	35.3%	34.8%	36.1%	36.5%	37.0%
Unemployment rate (narrow)	25.1%	25.3%	26.7%	27.5%	27.1%

Structural (i.e. non-cyclical) unemployment in South Africa has been on an inexorable rise over the past five years. Using the expanded definition, unemployment reached 37% in 2018. Moreover, a lack of policy foresight and enforcement by government[9] has enabled **the rise of precarious work without standard employment benefits**. Thus, the number of workers classed as 'informal' and operating in casual employment relationships (for example, Uber drivers) means that the quality of work has deteriorated for many.

Having **one in three working age people in the labour force out of work** is not only a violation of their right to decent work, but represents a huge missed opportunity for expanding economic production and realising the potential of our country. The unemployment trends are a result of a combination of factors including weak macroeconomic policy, poor education and skills development, anemic economic growth and austerity policies. Alternatives to another lost decade for one in three South African workers were presented at the 2018 Jobs Summit in Johannesburg.[10]

In relation to **poverty** and **inequality**, StatsSA's 2017 Report "Poverty Trends in South Africa" revealed that rates of poverty increased between 2011 and 2015.[11] In 2015, over half (55.5%) of the population—30.4 million people—lived below the official national upper bound poverty line (UBPL) of R992 per person per month (2015 prices). Notably, this increased from 53.2% in 2011, meaning approximately 2.9 million people were pushed into poverty over this period. A quarter—13.8 million people—lived in "extreme poverty" in 2015, unable to afford enough food to meet their basic physical needs.[12] These trends have almost certainly continued since 2015 as the economy has dipped in and out of recession, unemployment has continued to rise and food prices spiked due to the drought. While unemployment is a strong driving factor of poverty, in 2015 54% of full-time workers earned below the "working poverty line" of R4 125 (the amount needed to bring them and their dependents above the poverty line) - wage levels in the economy are therefore below acceptable levels.[13]

The UN Committee on Economic Social and Cultural Rights found in their Concluding Observations issued to government in November 2018[14] that "With a Gini coefficient of 0.63 and a

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[9] The traditional labour movement must also take some of the blame.
[10] Available at: www.dropbox.com/s/c40ht9ki68sfybm/IEJ%20-%20Jobs%20Summit%20Policy%20Briefs%20compilation%20-%20Final.pdf?dl=0
[11] Available at: www.statssa.gov.za/?p=10334.
[12] Statistics South Africa, 2018. "Men, Women and Children: Findings of the Living Conditions Survey, 2015." It should be noted that academics have proposed alternative, more accurate, methodologies for calculating the national poverty line which result in an UBPL headcount of 62.76%. See Budlender, J, Leibbrandt, M & Woolard, I, 2015. "South African poverty lines: a review and two new money-metric thresholds," Southern Africa Labor and Development Research Unit Working Paper Number 151.
[13] Finn, 2015.
[14] The South African government appeared before the UN Committee in September 2018 to defend its record in fulfilling socio-economic rights, in pursuance of its obligations under the International Covenant on Economic, Social and Cultural Rights (ICESCR), which was ratified in 2015. It's Concluding Observations on the states performance of its obligations and recommendations for realising

Palma ratio of 7.1[15], **the State party is among the most unequal countries in the world**; and market inequalities, before tax and redistribution, are even more striking.” In 2014, two thirds of personal income was captured by the richest 10% of households. The income share of the top 1% of earners was 20%, an increase of 11 percentage points since 1994.[16] It goes without saying that poverty and inequality in South Africa remain heavily racialised and gendered.

This submission will show that reducing government non-interest expenditure and the implementation of regressive tax changes such as the VAT hike and fuel levy rises have **exacerbated inequality** since people on low incomes rely on government services the most and pay a greater share of their income in VAT and transport costs. This is despite the very real obligations on the state both in terms of the Constitution and international human rights instruments to progressively realise socio-economic rights as well as the non- derogable rights to Life, Dignity and Substantive Equality in the Constitution.

As a result of the government’s failure to address these multiple crises, surveys are showing that citizens’ trust in Parliament and in government has waned over the past five years. Trust in government as a whole has been severely eroded and according to one annual survey, reached a low of 14% in 2018.[17] A survey by the Foundation for Human Rights on attitudes to democracy and human rights found worryingly that **half of the population no longer believes that democracy is the appropriate system of government for South Africa**[18] and warnings about a turn to populism abound.[19]

If social fragmentation is not to tear the threads of our young democracy apart, government must embark on a bold series of reforms. This submission by the Budget Justice Coalition provides some guidance on where to start.

3. MACROECONOMIC POLICY

In its Concluding Observations to government, the UN Committee said that ‘the persistence of such inequalities [post-apartheid] signals that the model of economic development pursued by [South Africa] remains insufficiently redistributive”. This observation is based on the fact that the Treasury has made “macroeconomic stability” the “overriding objective of economic policy”.[20] At the same time, a market-centric logic continues to permeate the Treasury in which the state is seen as a “market enabler” rather than a provider of desperately needed goods and services.

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socio-economic rights are legally binding on the State. Along with a multiple of parallel submissions by civil society organisations, they can be found at: https://tbinternet.ohchr.org/_layouts/treatybodyexternal/SessionDetails1.aspx?SessionID=1200&Lang=en.

[15] The Gini coefficient (or GIni index) is a measure of the income or wealth distribution of a nation's residents in which 1 equals maximum inequality (all income is earned by one person) and 0 equals maximum equality (everone earns the same). The Palma ratio compares the income of the richest 10% of the populationwith the poorest 40%. **South Africa currently ranks at the bottom of both global indexes.** See The Guardian ‘Inequality index: where are the worlds most unequal countries’. Available at: www.theguardian.com/inequality/datablog/2017/apr/26/inequality-index-where-are-the-worlds-most-unequal-countries.

[16] Alvaredo, F et al, 2018. World Inequality Report, 2018 at https://bit.ly/2N5WNzG

[17] Edelman ‘Trust Barometer’ 2018. Avaiable at www.edelman.com/post/south-africa-trust-falls-business-expected-to-lead.

[18] Foundation for Human Rights ‘SEJA Baseline Survey Report’ 2018. Available at: http://pmg-assets.s3-website-eu-west-1.amazonaws.com/SEJA_Report.pdf.

[19] www.timeslive.co.za/news/south-africa/2019-01-29-turn-to-populism-by-fed-up-citizens-could-reverse-democracy-sipho-pityana/

[20] Macroeconomic stability is defined as stable prices, stable interest rates, predictable economic costs such as tax policies and regulatory regimes and predictability about future tax and interest rates. See Faulkner, D and Leowald, C, 2008. “Policy change and Economic Growth: A Case Study of South Africa,” at https://bit.ly/2MFKKtl, pg. 12.

This logic continued to dominate the Treasury's approach to economic and monetary policy during the 5th Parliament. This is despite the Constitution placing the achievement of substantive equality and the realisation of socio-economic rights as core government obligations.

As a result, our economy continues to remain on a capital-intensive, monopolistic, rent-seeking, mining-centred and financialised development path, and dependent upon (increasingly outsourced) cheap, underskilled black labour. An active industrial policy to stimulate growth in labour absorbing industries is yet to be implemented at scale, and policies to raise domestic demand continue to be inert. **For South Africa to avoid further marginalisation in the global economy, it must develop a more ambitious industrial policy** that includes proactive measures by the state to prepare for the industry's of the 4th industrial revolution, such as data harvesting and analysis, electric cars, the internet of things, artificial intelligence and robot manufacturing. We should also be embracing a Green New Deal for addressing climate change and mass unemployment.

The Budget Reviews and Medium-Term Budget Policy Statements over the past five years have consistently noted that inflation and exchange rate depreciation pose risks to the economy, with the latter driving the former and raising the Rand value of foreign-denominated debt. While the political instability of the Zuma administration contributed to the credit downgrades, external factors were the main drivers of these trends. These included rising oil prices, US interest rates, fragilities in other emerging markets and environmental factors such as drought (which led to rising imports and hence prices of food). **Yet the chosen macroeconomic policy regime of "inflation targeting and a flexible exchange rate" (the latter without compensatory mechanisms) have exacerbated, not reduced these effects.**

A full review of macroeconomic policies is beyond the scope of this submission. It is worth noting however that conservative macroeconomic policy is a contributor to stagnant growth and rising unemployment. It is also tied to a conservative, narrowly focused fiscal policy.

4. FISCAL POLICY

Government's fiscal policy since at least 2014/15 can be described as one of austerity.[21] In it's finding of government's performance of its human rights obligations in late 2018, the UN Committee stated that it was "concerned that [South Africa] has introduced austerity measures to relieve the debt level".[22] Table 1 below highlights the key trends in this regard.

Table 1: Consolidated revenue, non-interest expenditure and population growth, 2014/15 - 2018/19 [23]

	2014/15	2015/16	2016/17	2017/18	2018/19	Average growth

[21] Austerity is defined in the Oxford English Dictionary as "difficult economic conditions created by government measures to reduce public expenditure." Available at https://en.oxforddictionaries.com/definition/austerity. Typically, austerity is implemented to allow the government to prioritise debt repayments in order to reduce government borrowing and debt exposure, measured in terms of the debt to GDP ratio.

[22] A video was made about the government's appearance before the UN Committee, highlighting the subsequent findings of the Committee. To view, visit: https://twitter.com/IEJ_SA/status/1098522871582797829.

[23] Consolidated budget revenue, National Treasury 2017-2019 Budget Review and own calculations. StatsSA Mid-Year Population Estimates.

Revenue growth	2.7%	5.1%	0.6%	-1.0%	2.7%	2.0%
Non-interest expenditure growth	1.7%	4.6%	-0.2%	0.3%	2.6%	1.8%
Population growth	1,6%	1,6%	1,6%	1,6%	1.6%	1.6%

Non-interest expenditure (i.e. all expenditure except for debt service costs) was cut in real terms in 2016/17, in per capita terms in 2017/18 and has grown at a slower rate than revenue growth in four of the past five years. This is a clear demonstration of austerity, as **a larger pool of available resources has not translated into a larger allocations to government departments**. The difference (between revenue and non-interest expenditure) has gone to debt service costs.

Average non-interest expenditure growth has barely kept up with population growth, This means that in real terms, non-interest expenditure has hardly grown at all in real terms during the 5th democratic administration.

In 2018, the National Treasury acknowledged that "since 2012, successive budgets have reduced the rate of expenditure growth and raised taxes," but nevertheless "debt continued to rise as a share of GDP as economic growth declined and new spending pressures emerged".[24] **Austerity is self-defeating during recessionary times**, as it multiplies the effect of shrinking private-sector expenditure. Despite growth not picking up, Treasury is committed to continuing this path, stating in its 2019 Medium-Term Expenditure Framework that:

> There are **NO** additional resources available for allocation over the 2019 Medium Term Expenditure Framework (MTEF) period within the expenditure ceiling set in the 2018 Budget. This means that additional allocations to a programme will need to be funded by reductions in funding for another programme, either within the department's budget, or from another department's budget. This may involve the scaling down of non-priority programmes and projects, changing service delivery models, using technology more effectively etc.[25]

Impact of austerity on the capacity of the state

The "expenditure ceilings" established by the Treasury cap payments by departments, often at arbitrary levels, despite the possibilities of increasing taxes and borrowing, as discussed below. It is particularly targeted at reducing personnel (public sector wage bill) costs through headcount reductions. The 2019 Budget Review states that 16 000 senior civil servants have taken up generous early retirement packages since 2015.[26] This reduction in the size of the civil service is not being implemented to improve efficiency, capacity or performance, but simply to reduce immediate operational costs of government.

Such change is particularly worrying since the total number of public employees has been decreasing in the five past years by more than 35 000 at a provincial level where core service

[24] National Treasury of the Republic of South Africa, 2018. "Budget Review."
[25] National Treasury of the Republic of South Africa, 2018. "2019 MTEF Technical Guidelines" pg. 1.2 (original emphasis).
[26] National Treasury 2019 Budget Review at …

delivery functions are undertaken[27]. This policy promoting immediate cost cuttings over effective service delivery has meant provincial departments had to severely understaff critical departments such as the departments of health and education. In the past 5 years, the provinces of the Eastern Cape, of the Free State, of Kwazulu-Natal and Limpopo all had to cut their personnel by approximately 10%[28]. This has had a terrible impact on service delivery quality.

Overall, the modest 1.2 percentage point increase in the last 10 years of employee compensations as a share of total expenditure[29] does not justify the undermining of State capacity currently taking place. We submit that the approach of implementing generous severance packages and early-retirement schemes without a plan for improving capacity will **worsen the performance of government** at the precise moment when we need all (and especially the most experienced) hands on deck. More than likely, the state will start re-hiring the lost experience as consultants, further undermining its capacity. This policy will further expose the State to corruption and looting by making it increasingly reliant on private service providers to deliver on its core mandates.

Ultimately, we believe these choices regarding the evolution of the Public Sector Wage bill pose a threat to our economy and could push South Africa further into recession and undermine the capacity of the state.

Austerity and tax policy

The increase in the VAT rate from 14% to 15% with effect from April 2018 represented a clearly retrogressive austerity measure and has resulted in less revenue, negating the ability of the state to justify its actions. The government is aware, noting in the 2019 Budget that "the tax revenue estimate for 2018/19 has been revised down by R15.4 billion, relative to the 2018 MTBPS. The revision reflects a weaker economic outlook, and further increases to value-added tax refunds".[30] It is also important to note that the Treasury is not providing any additional funds to compensate departments for additional costs incurred through the rise in VAT. This is likely to lead to additional strains in goods and services budgets.

We would add that unnecessary self-imposed austerity is compounding stagnant median wages[31] and falling per capita incomes (see Indicator 1 above). Since a large share of public expenditure is geared towards lower-income groups, **this is having retrogressive and discriminatory impacts, as noted by the UN Committee.**

Impact of austerity on health

[27]https://s27o365-my.sharepoint.com/personal/mclaren_section27_org_za/Documents/Documents/Jobs%20and%20Work/SA/Section27/Misc/Intl%20Covenant%20on%20Economic%20Social%20and%20Cultural%20Rights/S27%20IEJ%20CESCR%20Submission/CESR-S27-IEJ%20submission%20FINAL%20repaired.docx#_ftn1
[28] MTBPS 2018, Annexure B, Compensation data, table B.2, p.54
[29] MTBPS 2018, Annexure B – Compensation data, p51;
[30] National Treasury of the Republic of South Africa, 2019. "Budget Review."
[31] McLaren, D, 2017. "Indicators to Monitor the Progressive Realization of the Right to Decent Work in South Africa," SPII Working Paper 15 pg. 109-110.

Austere expenditure ceilings are affecting local, provincial and national government departments across the country, and every service area from water to electricity to housing and social development. Two areas in which the Coalition has watched the effects of austerity very closely are health and education.

In its recommendations to government, the UN Committee found that the austerity measures being introduced in South Africa "may further worsen inequalities … and even reverse the gains made, particularly in the health and education sectors."[32] Spending on health care is already highly unequal, with a similar amount spent on private treatment for 20% of the population as the amount that is spent on public health for 80% of people.[33] This inequality is maintained in part by medical aid subsidies (tax breaks), which allow people earning incomes to access private medical care. This represents an obscene subsidisation of private systems for the middle class and elites at the expense of the majority of users of state services.

It is crucial to note that this inequality is being entrenched by austerity measures. The 2019 Budget proposes a mere 6.6% nominal increase in spending on health. When average (CPI) inflation of 5.2% and population growth of 1.6% are taken into account, this represents a **real per capita decline in health care funding**. This is not even accounting for the fact that medical price inflation is generally higher than standard inflation.[34] Moreover, the 2019 Budget proposes that **R700 million less will be spent on health in 2019/20** compared to the 2018 MTBPS estimate.[35]

This decline is despite the government's own White Paper[36] recognising that spending on health will have to double if quality healthcare is to be provided to all through the National Health Insurance (NHI).

In addition to sustaining iniquity between the quality of services available in public and private health care, under-funding of public health has many impacts, of which we will mention two. The first is that deteriorating quality and availability of health services increases the likelihood of medico-legal claims. Here, austerity shoots itself directly in the foot. The 2019 Budget states that **medico-legal claims have grown from R28.6 billion in March 2015 to R80.4 billion in March 2018**. In many provinces, these claims (and their associated legal defence costs) now equate to **more than half the annual provincial health budget**.[37]

The 2019 budget does propose improvements in the state's strategy to deal with this crisis in medico-legal claims by for instance, improving care in areas like gynaecology and obstetrics that account for large portions of claims and amending legislation to do away with hefty lump sum payouts and instead move to periodic payments. It has also proposed referring fraudulent cases to the Special Investigations Unit.

But Treasury officials also admit that they are considering how to hide the escalating contingent liabilities from the state's balance sheet and the department of health is largely focused on improving it's legal defence strategies. These avoidance and distraction methods typify the worst

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[32] UN Commiteee on Economic, Social and Cultural Rights, Concluding Observations to South Africa. Available at: https://tbinternet.ohchr.org/_layouts/treatybodyexternal/SessionDetails1.aspx?SessionID=1200&Lang=en.
[33] 4.1% of GDP is spent on public healthcare, while 4.4% is spent on private healthcare. Department of Planning, Monitoring and Evaluation, 2017. "Final Impact Assessment (Phase 2): White Paper on National Health Insurance."
[34] https://econex.co.za/unpacking-health-inflation-in-south-africa/.
[35] National Treasury 2019 Budget Review and 2018 MTBPS, available at www.vulekamali.gov.za.
[36] Available at: www.health.gov.za/index.php/nhi?download=2257:white-paper-nhi-2017.
[37] National Treasury 2019 Budget Review.

aspects of the 2019 budget. **They do not get to the heart of the problem, which is about the quality of services that are available to people**. In the absence of a strategy for widespread quality improvement, the National Treasury will continue to seek ways to plaster over the cracks of ailing public health services, while denying the funding necessary to build the integrated national health system that has been continuously promised to the people of South África.

The second impact of budget cuts on health is on the employment conditions of doctors, nurses, specialists and other health personnel. In recent years, tens of thousands[38] of public health posts have been vacant. This is resulting in **critical staff shortages** and hampering the expansion of health professionals necessary to improve levels of care and prepare the country for the transition to NHI. The fact that the capacity of departments is being eroded in order to save immediate in-year costs to reduce the budget deficit, is having deleterious and counter-productive consequences in many government departments and is resulting in retrogressive health outcomes and rights deprivations.

[38] Russell Rensburg 'What to do about South Africa's unemployed doctors' *Bhekisisa* 21 Feb 2019. Available at: https://bhekisisa.org/article/2019-02-20-budget-speech-2019-unemployed-doctors-health-spending-austerity .

THE IMPACTS OF AUSTERITY ON THE RIGHT TO HEALTH: THE ILLUSTRATIVE CASE OF THE GAUTENG DEPARTMENT OF HEALTH

Evidence of “a system on the verge of collapse”, as the nation's Health Ombud recently described South Africa’s public health system, abounds.[39] The North West Department of Health was placed under national government administration in April 2018.[40] An Intervention Task Team was established in late 2017 to develop a strategy for turning around the cash-strapped and crisis-ridden Gauteng Department of Health (GDoH), which oversaw the Life Esidimeni disaster from 2014 - 2017, in the country’s richest province.[41]

In early 2018, senior clinicians from the GDoH approached SECTION27, determined to avert a large-scale crisis in the department. They provided first-hand evidence of how an unofficial and unplanned hiring freeze was being implemented in a desperate attempt to cut the wage bill to meet expenditure targets, with disastrous consequences both for the overworked staff that remained and for the services being provided to patients.

The doctors attributed the following impacts to the post-freeze:

- An increase in the neonatal (newborn) mortality rate to 30% at a large district hospital, well above the national average of 3%.
- A scaling back of cardiology services at a number of health facilities
- Downscaling the availability of out-patient services by 10%.
- Increasing waiting times for women to see a gynaecologist.
- Some hospitals, including Helen Joseph, which has a catchment population of one million people, frequently closing their accident and emergency wards to walk-ins.

Further, the deteriorating quality of care was resulting in a significant rise in financially damaging medico-legal claims, the liabilities from which have now reached more than half of the department’s annual budget.[42] Despite their commitment to improving public health, the doctors described how medical professionals were moving to the private sector in return for working conditions that did not pose imminent health and safety risks to them an their patients. Strikes for, among others, overdue overtime payments have become a regular occurrence in the province and in some cases have resulted in health facilities, including Johannesburg General Hospital, being effectively shut down, with patients denied access to treatment.[43]

The 2019 Budget includes proposals for funding to ensure that ‘critical health posts’ are filled. Yet no timeline is provided for filling these posts. The criteria for determining which posts are deemed to be ‘critical’ has also not been published. Does it include cleaners? Administrative staff? Are doctors’ working conditions going to be improved if they have extra reports to write because of a lack of administrative support? It is hard to discern what posts in a health facility are not critical, and we are concerned that the definition that is being applied may not be wide enough. **What is**

[39] ENCA, 2018. “SA healthcare system on verge of collapse: Health Ombudsman”, at https://bit.ly/2MFqEPL.
[40] Gerber, J, 2018. “Cabinet places North West health dept under administration”, News24, April 26 2018.
[41] Nicolson, G, 2017. “Gauteng Health: Team to save provincial department announced”, Daily Maverick, November 27, 2017.
[42] Gauteng Department of Health, 2017. “2016/17 Annual Report.”
[43] Nicolson, G and Nthatep, A 2018. *“Charlotte Maxeke hospital protests could have been avoided had government acted,”* Daily Maverick, June 01, 2018.

needed is for all vacant posts in the health sector to be filled according to a rational and up-to-date Human Resources for Health Strategy. The current version expired in 2016/17 and has still not been replaced.

Impact of austerity on basic education

The right to basic education is immediately realisable in South Africa. This places an immediate positive obligation on the state to ensure that education of an acceptable quality is provided to every learner regardless of race, class, language or other ground. This means that schooling must be treated as a public good to which all are entitled, and basic education must be prioritised in government budgets.

Current levels of investment in basic education are not enough to ensure adherence to minimum norms and standards in school funding or in school infrastructure, let alone to rebalance gross inherited inequalities. This is evidenced in the fact that the majority of children attending public schools are failing to meet basic curriculum standards, literacy and numeracy milestones, as well as facing the daily indignity of unsafe, unsanitary and illegal pit toilets.

Data collected over the past decade show that:[44]

- Grade 4 children in South Africa scored the lowest of 50 countries that participating in reading tests
- 78% of Grade 4 students cannot read for meaning
- Rural provinces performed worst: 91% of Grade 4 children in Limpopo cannot read for meaning, with similarly high percentages in the Eastern Cape (85%) and Mpumalanga (83%). In Gauteng the result was 69% and in the Western Cape it was 55%.
- Disparities relate to mother-tongue language: 93% of Grade 4 students tested in Sepedi could not read for meaning with similarly large percentages for Setswana (90%), Tshivenda (89%), isiXhosa (88%), Xitsonga (88%), isiZulu (87%) and isiNdebele (87%) Grade 4 learners.

Similarly, the Department of Basic Education admits that 2 400 schools still have unsafe, unimproved pit latrines, despite its own minimum norms and standards for school infrastructure requiring that these be eliminated by November 2016.

It is inconceivable that reductions in funding for basic education will improve these outcomes, yet that is what is happening. According to National Treasury, real basic education spending per learner has plateaued since 2011/12.[45] However, further analysis has found that **per learner spending has actually declined by 10% since 2010**, once factors such as a spike in birth rates, an increase in public school enrollments, and above inflation increases to teacher salaries are accounted for. As a result, real annual per learner spending fell from R17 822 in 2010 to R16 435 in 2017, and, on current budget estimates, will continue to drop to R15 963 by 2019 (in 2017 Rands).[46]

Evidence of the growing shortfall in funds is increasingly showing up in the funding provided to individual schools. For example, **in KwaZulu-Natal, the department of education has failed to**

[44] National Center for Educational Statistic, 2017. The Progress in International Reading Literacy Study (PIRLS) 2017.
[45] Sachs M, 2016. Presentation at civil society roundtable discussion on budget analysis for advancing socioeconomic rights at https://bit.ly/2MJaXrb.
[46] Spaull, N, 2018. "Basic education thrown under the bus – and it shows up in test results," Business Day, April 16, 2018.

fund schools at the minimum per-learner threshold for four years in a row.[47] Funding for schools in the lowest-income communities in the province has been cut by 15% since 2015/16.[48] The Department of Basic Education confirmed in a recent Parliamentary hearing that this story is repeated across the country:

> Provinces like Mpumalanga are collapsing because they do not have funds for running costs and KZN is not far behind … The decline [in spending] impacts the quality of education [and] has become much more profound … it was reversing all the gains made in education.[49]

Other examples include the average Grade 4 class size increasing from 40 in 2011 to 45 in 2016, with the largest increases occurring at the poorest schools.[50] Meanwhile, international assessments show that there has been no improvement in reading outcomes across the country during this period.[51]

<u>Cuts to school infrastructure expenditure are discriminatory and aggravate violations of a number of Constitutionally protected rights</u>

In the 2018 Budget, National Treasury announced that it was reducing the funding available for school infrastructure by a total of R7.2 billion over the next three years.[52] **These cuts are discriminatory, disproportionately impacting poor schools with infrastructure backlogs**. Under apartheid, ten times more money was allocated to white schools, compared to black schools.[53] This created inequalities throughout the education system perhaps most visible in school infrastructure.

During the 5th Parliament, infrastructure backlogs remained a major obstacle to the realisation of the right to basic education for millions of learners. According to the latest government statistics: of 23,471 public ordinary schools, 20,071 have no laboratory, 18,019 have no library, 16,897 have no internet connectivity, 9,956 have no sports facilities, 4,358 have only illegal plain (often unventilated) pit latrines for sanitation, 1,027 have no perimeter fencing, 269 have no electricity and 37 have **no** sanitation facilities.[54]

In holding the state responsible and liable for the tragic death of Michael Komape, the High Court of Limpopo found that the department's argument that it lacked the resources necessary to provide safe sanitation to all schools was refuted by the fact that it "displayed a total lack of urgency or commitment to use the funds allocated for specific programs foreshadowed in the budget"[55].

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[47] Regulations called the Minimum Norms and Standards for School Funding set out the minimum per learner funding provinces must provide to each school. Schools are ranked from quintile 1 to quintile 5, with quintile 1 to 3 schools located in the poorest communities and not allowed to charge fees. These schools are therefore totally dependent upon the minimum per learner subsidy from government.

[48] Province of KwaZulu-Natal, 2018. 2018 Estimates of Provincial Revenue and Expenditure (EPRE), KwaZulu-Natal, Vote 5 Education, pg. 199 The minimum school funding threshold for the poorest (no fee quintile 1-3) schools in 2018 is R1 316 per learner, yet the KZN education department is only funding these schools at R955 per learner.

[49] Portfolio Committee on Basic Education, 2018. "Minutes of Meeting held on 17 April 2018 Department of Basic Education 2018/19 Budget and Annual Performance Plan at https://bit.ly/2wv0u8j.

[50] Spaull, N, 2018. "Basic education thrown under the bus and it shows up in test results," Business Day, April 16, 2018.

[51] Ibid.

[52] National Treasury of the Republic of South Africa, 2018. "Budget Review," pg. 25. This includes a R3.57 billion reduction to the School Infrastructure Backlogs Grant (ASIDI) and a R3.58 billion reduction to the Education Infrastructure Grant. The total allocation to these grants in 2018/19 is R13.4 billion.

[53] Budlender G, 2016. "Whites should admit they gained from a monstrous system," GroundUp, May 19, 2016.

[54] Department of Basic Education of the Republic of South Africa, 2018. National Education Infrastructure Management System at https://bit.ly/2MJn5bq.

[55] Dyantyi, H, 2018. "The indignity of pit toilet deaths: Michael Komape in 2014, now Lumka Mthethwa" at https://bit.ly/2CgXL87. Section 27, 2018. "Judge GC Muller ruling on Section 27 application for leave to appeal" at https://bit.ly/2PpESRU at para. 25.

Cutting school infrastructure spending is not going to help provinces such as Limpopo to eradicate pit latrines. 25 years into democracy, it is time that Parliament held the executive fully to account for its abrogation of its constitutional responsibility to provide access to a quality basic education to everyone in South Africa.

5. REVENUE AND THE TAX MIX

5.1 Evolution of the tax mix

While South Africa's tax structure is progressive overall, meaning richer households generally contribute a higher percentage of their income in tax than poorer ones, regressive trends have contributed towards a failure to optimally raise sufficient resources. These include:

- **Personal income tax** (PIT) rates have fallen since 1997. For example, someone earning R1 million annually (in 2018 prices), paid an effective tax rate of 41% in that year. By 2018, this had fallen to 31%. The progressivity of personal income tax rates in South Africa is the lowest of comparable peer countries Brazil, Peru, Mexico, Ethiopia, Uruguay and Armenia.[56] If we welcome the partial freezing of PIT brackets that will allow R12.9 billion in extra taxes to be collected, the reestablishment of previous level of PIT should be proactive and not rely solely on inflation to restore the redistributive power of this particular tax.

- **Corporate income tax** (CIT) rates have also fallen dramatically, from 50% in 1990 to 28% in 2018. According to the World Bank and Price Waterhouse Cooper measure— which takes account of all taxes facing an average middle-sized firm as a percentage of profits— South Africa ranks 172 out of 213 countries, where 1 has the highest company tax and 213 the lowest. By this measure, South Africa also has the lowest corporate tax rate in Africa and is in the bottom quarter of emerging markets.

- **The VAT** change from 14% to 15% increased the taxes paid by poor and low-income households disproportionately higher due to its flat rate, reducing their ability to afford foodstuffs and other essential goods and services necessary for rights realization through lowering disposable incomes. Any retrogressive step taken, according to the UN CESCR, needs to be justified and needs to be taken for a limited period with clear steps outlined to mitigate the impact on the poor. We do not believe that government has effectively met its obligations in terms of the these obligations, particularly the first two.

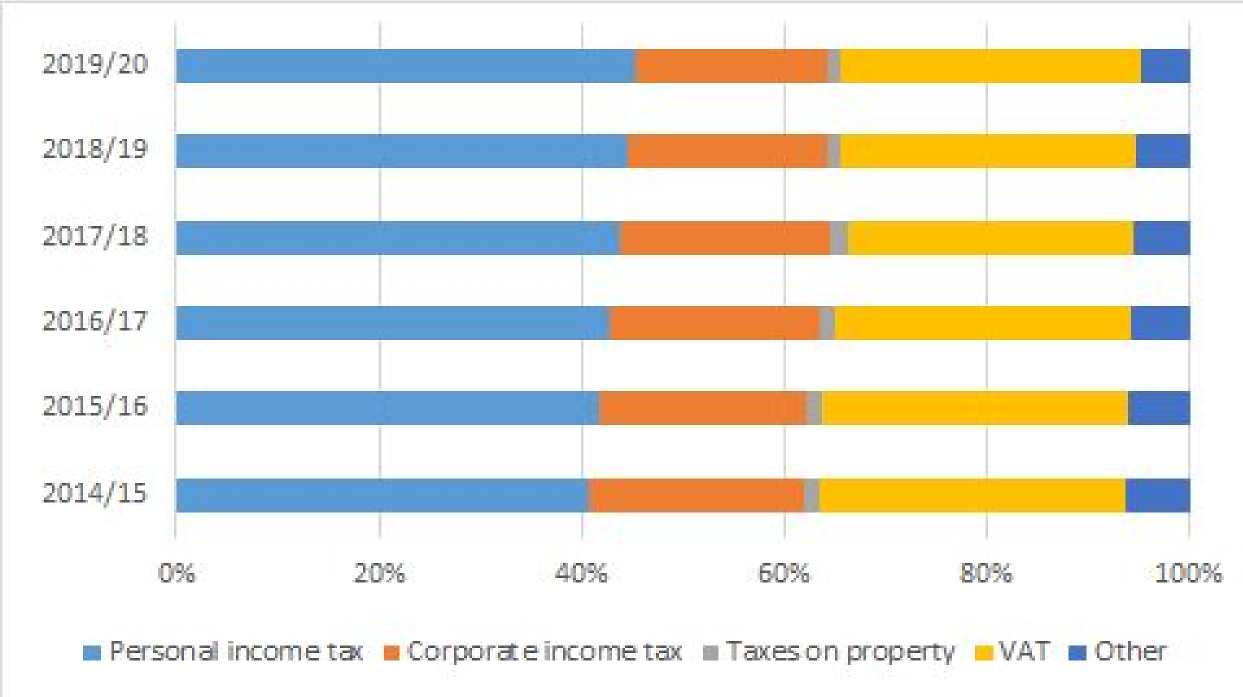
- Annual increases in **the fuel levy** (a tax paid on petrol and diesel that are otherwise VAT exempt) places additional burdens on poor and low-income households. Transport costs for these households are particularly onerous given South Africa's history of apartheid spatial planning, in which poor communities were/ are located on the periphery of cities with

[56] Inchauste, G et al., 2015. "The Distributional Impact of Fiscal Policy in South Africa," World Bank Group Policy Research working paper, pg.17.

inadequate public transportation.[57] In real terms, increases to the fuel levy have well outstripped increases to the most important social grants over the previous nine years.[58]

Over the last five years, only PIT has increased as a proportion of gross tax revenue from 35.8% to 38.9%. The other forms of tax have declined as a share of the tax mix. PIT has remained South Africa's largest source of revenue while the higher VAT rate increased the share of VAT in the mix..

Figure 1: South Africa's tax mix, 2014/15 – 2019/20



Source: National Treasury

5.2 Tax evasion, tax avoidance and tax buoyancy

With the exception of 2017/18, South Africa’s responsiveness of tax revenue to the economic growth (tax buoyancy) has been satisfactory. The values of buoyancy were greater than 1, indicating that tax revenue grew at a faster rate than economic growth.

Table 2: Tax buoyancy, 2014/15 – 2019/20

	Audited Outcome				**Revised estimate**	**Estimate**
As percentage of GDP	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Tax revenue	*25,5%*	*26,0%*	*26,0%*	*25,9%*	*26,8%*	*27,0%*
Main budget revenue	*25,0%*	*26,1%*	*25,8%*	*25,4%*	*26,3%*	*26,5%*

[57] Goderhart, S & Pernegger, L, 2017. “Townships in the South African Geographic Landscape – Physical and Social Legacies and Challenges.”
[58] National Treasury of the Republic of South Africa, 2018. “Budget Review;” See also South African Reserve Bank, 2017. “Tax Chronology of South Africa 1979-2016.”

GDP (R billion)	*3867,9*	*4122,6*	*4404,5*	*4699,4*	*5025,4*	*5390,1*
Tax buoyancy	*1,37*	*1,29*	*1,01*	*0,96*	*1,51*	*1,13*

Source: National Treasury

Former South African Revenue Service (SARS) commissioner Oupa Magashula, highlighted the **issue of tax evasion** (illegal ways of reducing tax owed),stating in 2012 that SARS had "detected an increase in the use of cross-border structuring and transfer pricing manipulations by businesses to unfairly and illegally reduce their local tax liabilities". The Davis Tax Committee (the DTC) was created in 2013 to "assess our tax policy framework and its role in supporting the objectives of inclusive growth, employment, development and fiscal sustainability." The government has made some progress to recuperate revenue lost through evasion and avoidance, however it is still not sufficient to address the magnitude of the problem.

One of the key outcomes from the DTC has been the implementation of new policy to t**ackle of offshore income and assets**. Starting in October 2016, those with undeclared offshore income and assets would have had a six-month period in which to regularise their affairs without facing prosecution. Despite the DTC recommendations, tax evasion remains a challenge in South Africa.

In 2014, by the **SARS estimated the tax gap** (caused by tax avoidance) to be between 15% and 30% of tax revenues. In 2019/20 fiscal year, this means a loss of tax revenue between R213bn and R426bn.

Regarding **profit shifting** more specifically, the SA-Tied (Southern Africa — Towards Inclusive Economic Development) project suggests that 98% of the tax loss is linked to profit shifting by the biggest 10% of multinational corporations. It estimates that the country is losing about R7-billion in tax annually.

In both cases, this is revenue that could and should be redirected to social expenditures.

Another study by Global Financial Integrity (GFI) estimates that South Africa lost USD 107 billion (R1605 billion[59]) to illicit financial flows between 2005 and 2014[60]. Trade mispricing (misrepresenting the value of an international transaction), a tactic for avoiding or evading taxation, accounts for over 80% of illicit outflows from South Africa, according to GFI[61]. South Africa's large extractive industry is one factor that makes it vulnerable to illicit financial flows (IFF). The United Nations Conference on Trade and Development (UNCTAD) estimates that trade misinvoicing (misrepresenting the value or volume of an international transaction) of gold exports to South Africa's leading trading partners totaled USD 113.6 billion between 2000 and 2014[62], although there is some debate about how to interpret this figure.[63]

We accordingly welcome the Minister of Finance's budget speech in which he announced the reestablishment of the Large Business investigative center in SARS, the creation of an illicit trade

[59] For 1 US dollar = 15 South African rands
[60] Global Financial Integrity, 2017. "Illicit Financial Flows to and from Developing Countries: 2005-2014," pg. 35.
[61] African Monitor, 2016. "State of Illicit Financial Flows in South Africa: a scoping exercise," pg. 5.
[62] UNCTAD, 2016. "Trade misinvoicing in Primary Commodities in Developing Countries" pg. 28.
[63] Forstater, M, 2017. "Illicit Financial Flow and Trade Misinvoicing: Time to Reassess," at https://bit.ly/2Nw1646

unit and the appointment of a new executive director. This is good news if our national capacities to fight IFF and BEPS (base erosion & profit shifting) will be restored.

5.3 Tax Medical Expenditure

To strengthen the progressivity of the tax mix, another area needs to be investigated: the **potential extra revenue that could be raised by reforming the medical tax credit**. This tax credit benefits higher-income earners who can deduct part of their payment made to registered medical schemes (while insuring him/herself and his/her dependants), from their personal taxable income (PIT).

This scheme has been designed as an incentive to encourage high-income earners that can contribute to such medical schemes to subscribe to such insurances. The justification for this is the beneficial impact for the South African economy since its workforce can benefit from more affordable care services and is more likely to stay productive longer.

However this scheme is costly. R27.1 billion[64] were spent in medical tax expenditure in 2016/17. This represented 6.4% of the Personal Income Tax revenues in 2016/17. Projecting this figure for fiscal year 2019/20 means that R35.4 billion will be forgone for the fiscus as a result of this tax credit.

In addition to its price, the medical tax credit is also problematic because it creates an unfair and unequal distortion between South African citizens: under such scheme, the medical fees of high-income earners are de facto subsidized while many poorer families can't benefit from such preferential regime simply because they have no taxable income to be deducted of. In other words, instead of using these R35.4 billion to improve the general public health system by increasing its budget allocations by more than 60%[65], this tax incentive leads to the creation of a two-tier health system. On one side better off South Africans whose health expenses are partly covered through this tax credit and who can access well-funded private health institutions, and on the other side, poor South Africans that have to rely on poorly founded public health services.

Repealing or reducing such tax credit to allocate higher budgets to provincial health departments is therefore highly recommended.

5.4 Wealth Tax

Currently in South Africa, there are 4 forms of existing wealth taxes:

- Transfer duty
- Estate Duty
- Donations Tax
- Securities transfer tax

These four taxes raise respectively 0.6%, 0.1%, 0.0% and 0.5% of the total budget revenue. Their weight is therefore anecdotal with only R17,2 billion being raised in total.[66] Not only is their scope limited, but their rate and deductions are such that their efficiency is limited. **In almost all instances - and certainly for high-income households - the income derived from these**

[64] Budget Review 2019, Annexure B - Tax expenditure statement, pg.121
[65] Projected cost of the medical tax credit as a share of the PIT revenue for 2019/20 in comparison to the total budget of expenditure line 16 'Health' - Budget Review 2019, Statistical annexure, table 4, pg.199
[66] Budget Review 2019, Statistical annexure, table 2, pg.193-194

sources is effectively taxed at levels below the appropriate PIT bracket into which they would fall - there is no reason why income derived from holding or inherently wealth should be taxed less than income from labour.

In the current constrained fiscal framework, the implementation of a net wealth tax that would cover more comprehensively wealth ownership appears as very appealing for two simple reasons:

- it is a sustainable tax base that can raise substantial resources
- it has an important potential to reduce inequalities in wealth ownership. South Africa has a gini coefficient of 0.95 for wealth inequality which is much higher than the global average level, and much higher than already gini coefficient for income distribution (0.7)[67]

This is confirmed by the following tables that show how alarming the situation is currently:[68]

TABLE 3: NIDS – INCOME AND WEALTH DISTRIBUTION

	Top 1%	*Top 10%*	*Middle 40%*	*Bottom 50%*	*Gini*
Wealth					
Full sample	61	95	6	-1	0.98
Top 1% resampled, $\alpha = 1.0$	69	96	5	-1	0.93
Top 1% resampled, $\alpha = 1.5$	45	92	9	-1	0.87
Income					
Full sample	17	58	35	7	0.72

Note: Quantile shares, NIDS, 2010, in percent. Calculations based on weighted sample using adult-level data and post-stratified weights.

TABLE 4: PIT – INCOME AND WEALTH DISTRIBUTION

	Top 1%	*Top 10%*	*Gini*
Investment income			
Local interest*	84	98	0.98
Total investment*	88	99	0.99
Total investment & pensions*	61	96	0.96
Income			
Employment income	16	56	0.70

Note: Quantile shares, PIT, 2010. Results scaled to the total adult population (see Section 3.3.1). *Adjusted for tax-exempt interest income.

In other words, the implementation of a comprehensive net wealth tax can kill two birds with one stone: ease the management of the public finances by enhancing revenues, and help redress historical inequalities by building a transformed and more inclusive economy.

This conclusion has already been drawn in March 2018 in the Davis Tax Committee report 'Feasibility of Wealth Tax In South Africa'. It reads:

[67] Feasibility of a Wealth Tax In South Africa, Davis Tax Committee Final Reports, March 2018
[68] Wealth Inequalities in South Africa: Evidence from survey and tax data, Anna Orthofer, REDI3x3 Working paper n°15, June 2016, pg. 18

'Wealth inequality in South Africa is extremely high and poses a threat to social stability and inclusive growth. It is timely for South Africa to consider a range of ways in which wealth inequality can be reduced.'

A long term path: the introduction of a net wealth tax

The first and most obvious possibility is to **institute a permanent net wealth tax** in the international range of 0.5%-2.0%.

As shown in table 5 below, it could raise substantial revenues going from R10.5 billion in a low rate scenario, up to R42 billion in the high rate scenario, including a very generous rebate of R1 million per household.

Table 5: Net Wealth Tax: Revenue Raising Scenario

Net Wealth Tax: Revenue Raising Scenario			
			(in billions)
Total household net wealth (rands)[1]	7344.3		
Share of the top 20%[1]	72.70%		
Net wealth own by the top 20% (rands)	5339.3		
Number of households in South Africa[2]	0.0162		
Total deduction (1 million per household of the top 20%)	3240		
Net Wealth Tax base (rands)	2099.3		
Different possible rates for the wealth tax	0.50%	1.00%	2.00%
Net Wealth Tax revenues (rands)	10.5	21.0	42.0

1: Wealth Inequalities in South Africa: Evidence from survey and tax data, Anna Orthofer, REDI3x3 Working paper 15, June 2016
2: General Household Survey, Stat SA, June 2018, Table 2

Of course, a number of challenge arise from such proposal. The first is to evaluate precisely the net wealth of South Africans by undertaking a comprehensive assessment of household properties, both movable and immovable. We believe that this step is very necessary, if not overdue.

Not only will this step allows South Africa to implement a net wealth tax in the near future, but this will also help in increasing tax compliance by easing SARS work in matching income flows with individual taxpayers.

Once this step is undertaken, a debate will need to take place to assess what sort of wealth should be taxable. Should we for instance include pension fund assets in the calculation of the tax base? What legitimate deductions should be accounted for? How to efficiently avert capital flights? By having a national debate, the owners of wealth should be assured that their views will be taken into account in the making of the final policy decisions in this regard.

We therefore recommend to the Standing Committee on Finance to start this process this year to be able to implement a net wealth tax as soon as possible. The objective should be to implement it by the end of the current mid-term economic framework (2021/22)

Short-term measures building on existing wealth taxes:

As flagged by the Davis Tax Committee, by **building on existing wealth taxes or easily implementable new ones**, quick measures can be taken straight away.

According to the DTC: '*the First and Second estate duty reports of the DTC which, save for the introduction of section 7C of the Income Tax Act and the increase in the rate of estate duty in the 2018 Budget for estates in excess of R30 million, have not been implemented. For this reason, the DTC recommends that the focus should initially be on increasing estate duty collections given that the necessary administrative capacity already exists.*'[69]

An increase of the rates of the Estate duty from 20 and 25% to 24 and 30% would mean an increase in revenues by one fifth from R2 billion to R2.4 billion.

Investigations by SARS should also be enhanced to make sure all trust arrangements are examined on registration of trust arrangements and upon transfer of assets into trusts to ensure all taxpayers assets and income are accounted for properly. This should reduce aggressive tax planning and, at the same time, provide a level of assurance to taxpayers that their affairs are indeed in order.

Other options could also be explored and should be recommended too to improve the fairness and effectivity of wealth taxation in South Africa.

- Raising the CGT inclusion rate to 100% (so all capital gains are taxed) and the tax rate to comparative rates to PIT.
- Raise the STT rate and broaden applicability to include bond markets. Investigate the best modalities of a universal financial transactions tax (FTT).
- Institute a land property tax, particularly on vacant land, and a property rate or transfer duty surcharge for second and foreign owned homes.

6. THE MANAGEMENT OF PUBLIC DEBT

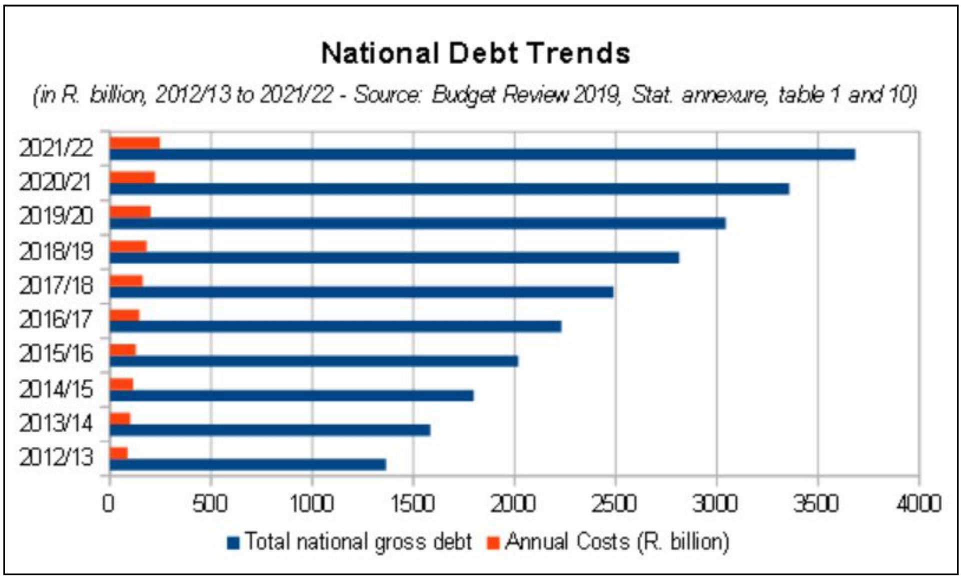
Eskom remains the only real debt crisis in the country. Years of failure to address the underlying faults and risks of Eskom (with more recent additions currently being investigated) has culminated in a R150 billion bailout being allocated to "save" Eskom over the next 10 years.

The new revised fiscal framework has revised the framework results to slightly higher debt-to-GDP ratio than was projected at the time of the 2018 MTBPS to address Eskom "risk". Gross debt-to-GDP stabilises at 60.2% of GDP in 2023/24, marginally above the MTBPS estimates. The government has mainly focused on the debt bogeyman notwithstanding being 8.6% below the IMF tipping point and below the emerging economy debt average. What the government has failed to tackle is the reallocation of resources towards bailout of state-owned enterprises (SOEs).

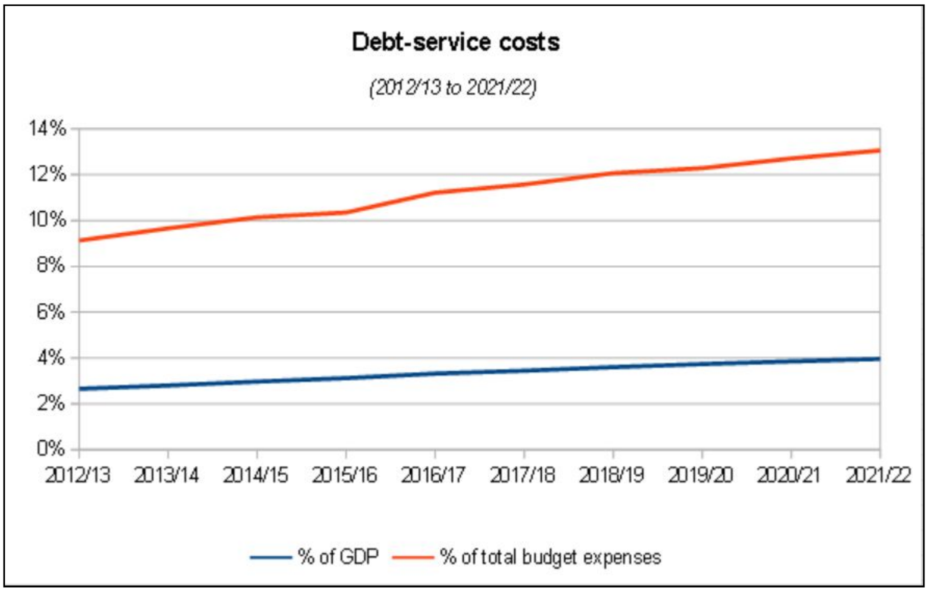
6.1 The increasing cost of the debt

Another major concern raised by Budget 2019 is the increasing cost of the debt. As illustrated below, the national gross debt is skyrocketing. From R1798 billion 5 years ago, it is now expected to reach the 3 trillion mark by the end of the current fiscal year.

[69] *Feasibility of a Wealth Tax In South Africa*, Davis Tax Committee Final Reports, March 2018, pg.68



Of course, the associated interest repayments are increasing alongside: from
3.0% of our GDP in 2014/15 financial year, they will cost South Africa 3.7% of its GDP this year, and will increase up to 4.0% by the end of the mid-term economic framework.
This is even more worrying when looking at the share of total budget expenditures going to debt repayment: it was at 10.1% in 2014/15, it is going to be at 12.3% this year and will increase up to 13.1% in 2021/22.



In concrete terms, that means that non-interest expenditure share of the budget is shrinking, resulting in austerity budgets and a decreasing social wage.

6.2 The effective utilisation of debt

While debt repayments do divert funds from other expenditure, it is critical to stress that debt, particularly at the moderate levels currently held, can have substantially positive benefits. It is widely accepted that if borrowing is effectively spent in a manner that stimulates the economy then it has both short- and long-run benefits. It is further able to reduce the debt-to-GDP ratio through both growth (the more GDP increases the more the debt levels fall even if the gross amount of debt increases) and the resulting increased taxation. By international norms, South Africa actually has the capacity to borrow more - if financed at sustainable rates - and to spend this on critical social and economic infrastructure in a manner that would be growth enhancing.

6.3 A range of debt management strategies

One of the solution to limit such financial costs is for South Africa to explore the full range of debt management strategies to limit the State's debt related expenses by raising debt outside of financial markets. For this purpose, two options exist to sustainably raise resources at a discounted interest rate:

- The redrafting of the mandate of the Government Employee Pension Fund
- The modification of private pension and provident funds investment obligations

In both cases, these options will allow the government to release the current financial impact its growing debt costs has on social expenditures without threatening the core mandate of these national institutions, the protection of our national pension systems. It is clear that the proposed National Social Security Fund will take a few years to establish, and in the interim this is a potential source to alleviate the stress of debt repayment.

6.3.1 The average funding cost of the national debt

Since the beginning of the year, the bond interest rates on financial markets over the last month are the following:[70]

- For 10 years bonds, between 9.08% and 9.46%
- For 5 to 10 years bonds, the rate vary between 8.57% and 8.92%
- For 3 to 5 years bonds, the rate varies between 7.74% and 8.09%

These interest rates reflect the current market value of South African national bonds according to the risk profile of the country.

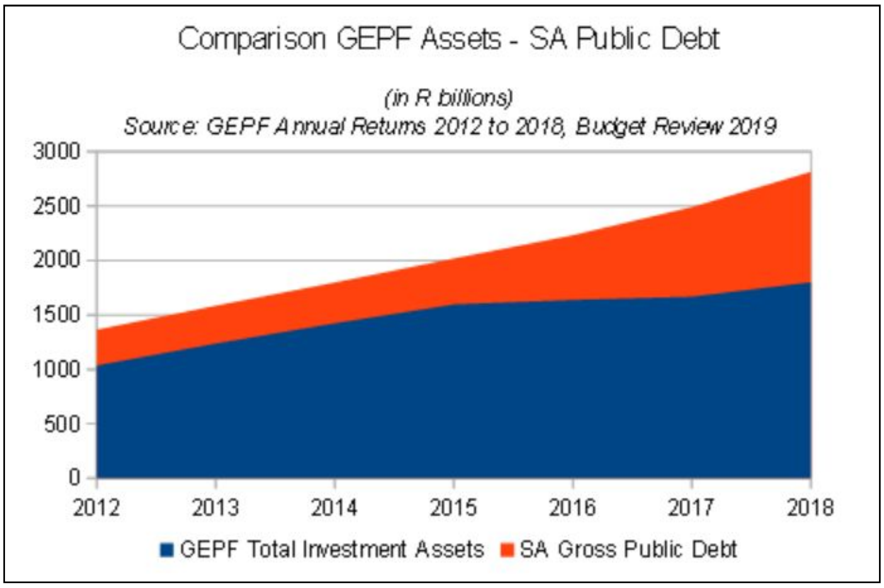
6.3.2 The mobilisation of the Government Employee Pension Fund

The Government Employee Pension Fund is a fund that manages the pension contributions of most South African public employees.

In 2018 it managed an investment portfolio of R1,800 billion which it invested in different financial instruments going from bonds to equity, both listed and unlisted as well as policy insurances.

It is interesting to note that currently, the GEPF is over funded: it receives more in contribution and investment income than it is paying in benefits to pensioners and exiting public employees. The result of such situation is visible in the table below: most of the South African public debt has been contracted artificially. If no decision to move from a pay-as-you-go public pension system to a fully-funded one, almost two-thirds of the current public debt would have been written off.

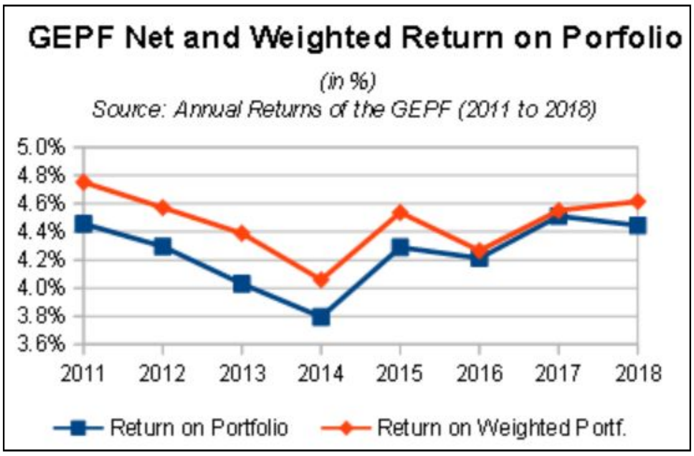
[70] South African Reserve Bank, daily average yield on government bonds within the 3 - 5 years maturity range, 5 - 10 maturity range, and over 10 years maturity range, period 18 January - 21 February 2018



For orthodox economists, this decision makes sense because the fully-funded system provides the insurance that even if the ratio between working population and retired persons diminishes in the future due to longer life expectancy and lower fertility rates, the equilibrium of the system will still be ensured.

However, the risk of such a system is that the sacrifices made by taxpayers in the form of higher debt-related payments can be wasted if the funds set aside are badly- or mis- managed.

The current returns on investment of the GEPF tend to show that the fund is not well managed: between to 2011 and 2018, the return on investment of the fund never went over the 4.8% mark. This is not even matching inflation, meaning the fund is currently losing value in real terms. (see table below)



This tends to show there is merit in considering a change in the manner the GEPF currently invests its assets. A radical choice could be to use the fund to write off a substantial part of the South African public debt (around two thirds) to limit its interest payments (R202 bn in 2019/20[71]) in exchange of a public guarantee public pensions would stay as high through a pay-as-you-go system.

[71] Budget Review 2019, Statistical Annexure, Table 1, pg. 189

Another possibility that could be a transitional solution is to force the fund to invest in government bonds with fixed interest rate lower than the current market one. This will ensure two things: government will pay less interest on its debt liabilities, and the GEPF will be granted higher returns on investment in order to guarantee the sustainability of the current pension system.

The rate of such bonds could be fixed at a rate that ensure both better return to the GEPF (over 5%) and lower than the current financial market rate (7.7% for short term bonds).
We recommend the Standing Committee of Finance to call for a modification of the GEPF investment regulation to make it compulsory for 10% of its funds to be invested in such bonds in the form of prescribed assets.

6.3.3 Private pension funds, pension tax expenditures and investment regulations

In addition to the GEPF, a number of private retirement funds and provident funds have accumulated substantial assets. According the the Financial Services Board, these private funds had accumulated R2420.3 billion by 2017, invested in diverse portfolios.[72] In 2017 and for the second following year, the average return on investment of such funds has however been extremely low (6.3% following a rate of 6.6% in 2016)[73]. This is lower than inflation rates (CPI of 6.4% in 2016 and 5.3% in 2017)[74]. This means that currently, these financial institutions, in spite of not being direct victim of the so-called State Capture, are still under-delivering.

Of course, this money is private and there is only limited legitimacy for the State to impose investment policies beyond normal regulations that must ensure the financial stability and sustainability of these funds.

However, the taxpayers indirectly subsidize these funds. Every year, massive amounts of tax expenditure occurs, limiting de facto our national revenue collection. In 2017, the tax credit existing for retirement fund contributions meant that R73 billion did not go into public coffers[75] and this number is growing.

Of course, this tax expenditure aims at increasing the saving ratio of South African individuals by offering such incentives. However, it is legitimate to question the opportunity of imposing on such private pension funds the same kind of low interest public bonds as proposed for the GEPF. There are however three main reasons that justify to do so:

- The State Capture situation means our public finances are facing a deep crisis. In such situation, all types of solution, even heterodox ones, must be considered.
- The current return on investment of these private funds is low. Imposing such kind of low-interest rate bonds won't impact the benefits paid to pensioners and guarantee minimal returns on investment for pensioners.
- The substantial amount of subsidies these funds are benefiting from in the form of tax rebates justify that the South African State has a say in the investment policy of these funds.

[72] Registrar of Pension Funds Annual Report 2017, Table 3.1 Statement of net assets and funds of Financial Services Board registered funds, pg. 41.
[73] Idem, graph 2.2, pg. 26
[74] StatSA, CPI History, January 2019, pg3.
[75] Budget Review 2019, Annexure B: Tax Expenditure Statement, pg. 121.

For these reasons, we recommend the Standing Committee on Finance consider changing the investment regulations applicable for private pension and provident funds that fall into the scope of the Financial Service Board. We recommend that 5% of their funds should be required to be invested in such public bonds with a guaranteed but low interest rate in the range of 6% - 6.5%.

6.4 Public audit of the bebt

The State is the urgent need to create a commission of enquiry to realize a public audit of both the State debt, and the debt of the main State-owned enterprises. Such a process must lead to both the prosecution of corrupt individuals and enablers of the State Capture national disaster, and the cancellation of odious and illegitimate debts.

This process has been undertaken by numerous countries when facing a public finance crisis. Its role will be to determine in what circumstances and under which conditions our current national debt has been subscribed. If it appears malpractices took place while negotiating State's and SOE's obligations, the decisions of the commission of enquiry can lead to the invalidity of the relevant debt obligations, and to the prosecution of those responsible of such behaviors.

7. ENSURING A CREDIBLE BUDGET PROCESS

What may mark the record of the fifth democratic administration, more than anything else, is how large parts of the state itself were captured by a network of nepotism and criminality that grew and grew under former President Jacob Zuma's administration. This complex system of corruption saw few individuals amass wealth at the expense of the majority of South Africans.

Large parts of Parliament - the body with oversight of the actions of the executive - apparently only awoke to the brewing crisis of governance throughout the state when the attacks on the very institutions that were set up post-apartheid to enforce and protect our progressive constitution - such as SARS, the Treasury, the Public Protector, NPA, SOEs, the FFC among many others - were no longer possible to conceal.

The National Treasury and the Finance Ministry have been affected by the vicissitudes of State Capture, although they have perhaps been more able than most to withstand it's encroachments. **There have been six changes of Finance Minister since 2014**. In its own particular struggle, the Treasury has found support from a range of allies who share a simple recognition: that a transparent and credible budget process is a central pillar of good governance. It is through the budget process that perhaps the most critical political question of all is debated and through the annual budget proposals, decided: how the wealth of our country is harvested and allocated.

It was the realisation that this most crucial of mechanisms was under threat that forced civil society organisations to come together to show their support for the Treasury. This wasn't easy for many, who have had long running disputes with the Treasury over issues ranging from macroeconomic to fiscal and social spending policies. The sting which drew the reaction was the resignation of the DDG and Head of the Budget Process, Michael Sachs.

According to an article carried in Huffington Post on 13 November 2017, Sachs was unable to continue to work with the President undermining the work of the Treasury by forcing through last minute, expensive and suspect policy interventions.[76] The most notable of these was the demand for up to R1 trillion for nuclear energy procurement, as well as the demand for an additional R50 billion to be allocated for higher education. The way in which Malusi Gigaba had proceeded to spread state capture to SOEs, procurement processes and budget oversight since taking up his new position was equally concerning.

The first statement of the concerned progressive non - governmental bodies that was to become the Budget Justice Coalition was issued in response to these events.[77] It is worth quoting from at length:

> Importantly, and irrespective of the merits and criticisms of budget allocations, Treasury has followed a specified procedure in the implementation of the budget, which includes ensuring that the budget is spent as planned and holding departments to account when it is not. Diverting budget allocations outside of the established processes opens the gate for arbitrary and irregular reallocations in the future. The resulting policy uncertainty, with its negative impact on the economy and fiscal framework, alongside actual reallocation (some reports indicated that funds would be shifted from housing and social grants to higher education), put the sustainability of social spending at risk.

In fact, we now know that funds were also shifted from education infrastructure grants to pay for the immediate implementation of free higher education and that VAT (a regressive tax despite zero-rating) was hiked to plug the remainder of the shortfall.

Despite the efforts of Finance Ministers Gordhan, Nene and Mboweni, as well as the staff at the Treasury, to maintain a credible budget process, the jury remains out on whether they have succeeded. **Since at least 2016, budget proposals and policy statements have become less and less convincing.** Revenue targets are consistently not met, GDP forecasts have been too high, debt-to-GDP and deficit targets have also been missed for at least three years in a row. Key posts in the Treasury including DDG: Budget Office, DDG: Economic Policy, the Chief Procurement Officer and the Accountant General are vacant and high levels of exhaustion among Treasury staff are palpable in interactions with them.

In order to rebuild convincing budget processes, transparency and participation must be enhanced. They are particularly weak in regards to decisions on revenue generation.

If South Africa continues to rank highly as having one of the most transparent budget processes in the world, in terms of transparency of information, actual use of information, and participation in the budget process by members of the public, South Africa ranks very poorly.[78] Budgets pass through Parliament at great speed with few members of the public able to attend hearings or grapple with the details. In addition, Parliament has proved reluctant to challenge the National Treasury, consistently failing to reject any measures proposed in the fiscal frameworks.

[76] www.huffingtonpost.co.za/2017/11/13/analysis-why-michael-sachs-resignation-from-treasury-is-a-bombshell_a_23275244.

[77] http://psam.org.za/wp-content/uploads/2017/11/CSO-Statement-on-the-Integrity-of-the-Budget-Process.pdf

[78] Kruuse, J, 2017. “South Africa leads on budget transparency but disappoints in fostering public participation in the budget process,” Public Service Accountability Monitor (PSAM) editorial at https://bit.ly/2C4Lqn1.

A good example of such lack of meaningful consultation has been the decision to raise VAT that was made without any public engagement and put forward in the 2018/19 National Budget as a *fait accompli* when none of the evidence the Treasury relied on has been made public. Civil society concerns presented during public hearings on the 2018/19 National Budget included the failure to widely advertise the opportunity for public input; the lack of comprehensive information available to the public; and the short timeframes for public input. The cumulative effect of this is that the majority of people affected by the budget, as well as the organizations representing their interests, do not have time to comprehend, communicate, consult and develop positions on the proposals. This undermines their ability to meaningfully participate and reduces accountability.[79]

The recent amendments made to the Money Bills Amendment Procedure and Related Matters Amendment Act is however going in the wrong direction. It has made it even more difficult for the public to participate.[80] Finance committees are expected to report to the National Assembly or the National Council of Provinces on the proposed fiscal framework for the next three financial years within 15 days (reduced from 30 days) or as soon as reasonably possible after the medium term budget policy statement has been tabled.[81] This means that the public has an even shorter timeframe within which to participate and itself has limited oversight capacity to analyse potential changes to the MTBPS.[82] The reduction in time for oversight of the medium-term fiscal frameworks, which are at the core of fiscal policy, directly contradicts the Constitutional requirement to 'encourage the public to participate in policy-making'.

The Budget Justice Coalition acknowledges current efforts towards reform in relation to fiscal transparency and public participation. Civil society organizations are partnering with National Treasury to develop an open budget data portal for South Africa, Vulekamali.gov.za. This is a unique project that presents an opportunity to improve public access to and use of budget information. We call on members of parliament and provincial legislature to contribute to and engage in this and similar platforms that seek to enhance the integrity and accountability of fiscal oversight processes.

8. CORRUPTION AND MISMANAGEMENT

Corruption and mismanagement are leading to extreme levels of unauthorized, irregular, fruitless and wasteful expenditure. It is a major concern to see no sufficient attempt to address this and sanction the officials involved.

The following elements lead us to consider that this problem should be treated with the utmost importance.

[79] Parliament Watch, 2018 "Submission presented to the 2018/19 Budget Public Hearings" at https://bit.ly/2MHroUQ.

[80] Act 13 of 2018. It came into effect on 17 January 2019.
[81] Section 6(5).
[82] Public Service Accountability Monitor, 2018 "Submission on proposed amendments to the Money Bills Amendment Procedure and Related Matters Act of 2009 (the "Act").

- Corruption continues to be a major threat to government's ability to ensure the progressive realisation of people's constitutional rights. It is the government's obligation to ensure that resources made available are neither being misused nor being used ineffectively and inefficiently.
- In 2017 the Department of Economic Development stated that corruption costs South Africa no less than R27 billion per year, while 76,000 jobs which could have been created are being lost through corruption.[83] The 2013 Corruption Perception Index (CPI) showed that South Africa dropped 34 places since 2001, with the decline of 17 places occurring in just five years of President Jacob Zuma's presidential administration.[84] In 2018 South Africa dropped a further two places to 73 out of 180, with a score of 43 out of 100.[85]

- Qualified and adverse audits against government departments, as well as public entities such as state-owned enterprises (SOEs) are also rising.[86] The most recent Auditor General's report found that nationally in 2017/18:[87]
    - Unauthorized expenditure (not in accordance with the purpose for which funds were budgeted) increased by 38% from the previous year at R2.1 billion. 86% of this results from overspending and this negatively impacts the budget because departments use money intended for other purposes to cover expenses. Eight provincial departments mostly education and health and one national department (Water and Sanitation) contributed to 97% of unauthorized expenditure.
    - Irregular expenditure (not in accordance with procurement laws) makes up 4% of the 2017/18 budget at R51 billion. From this amount R37.9 billion was incurred in 2017/18 and the rest was expenditure from the previous year that is only disclosed in 207/18. The sectors with the highest irregular expenditure were Transport (KZN) with R5.5 billion, the Water Trading Entity (R4.6 billion) and Roads and Transport (GP) with R 2.1 billion. In 2016/17 the sectors with the highest irregular expenditure were Health (R11.8 billion), Transport (R6.4 billion) and Education (R6.1 billion).
    - Fruitless and wasteful expenditure (expenditure that could have been avoided) increased to R2.5 billion, which is 200% more than the R1 billion recorded in 2016/17.
    - A total of 17 public entities were identified as requiring intervention to avoid financial collapse.

This rising number of adverse audits is unacceptable. They are meant to be on the decline if the recommendations of the AG's office are being followed.

- Government bailouts for mismanaged and corrupt SOEs have resulted in cuts announced in the 2019 Budget of R50.3 billion from social expenditure over the MTEF.[88] Eskom's bailout has caused major adjustments to government spending with the cost of

[83] BusinessTech, 2017. "Corruption costs SA GDP at least R27 billion annually, and 76 000 jobs," BusinessTech, September 1, 2017.
[84] Corruption Watch, 2014. "Why is corruption getting worse in South Africa" at https://bit.ly/2gbAl5A.
[85] Transparency International, 2019. "Corruption Perceptions Index 2018", also see "Corruption Perceptions Index 2017" for comparison.
[86] 28% of auditees do not respond to the calls for data by the Office of the Auditor General. Only 99 (25%) of the auditees managed to produce quality financial statements and performance reports and to comply with key legislation, thereby receiving a clean audit. This is compared to 2014-15 figures of 121 auditees with clean audits.
[87] Auditor General of South Africa, 2017. "Consolidated General Report on National and Provincial Audit Outcomes 2016/17."
[88] 2019 Budget Review pg 47.

reconfiguring the SOE estimated at R23 billion per year.[89] Corruption and mismanagement at Eskom have been the subject of inquiries by both National Treasury and Parliament. Eskom's total irregular expenditure now stands at more than R20 billion and it is more than R600 billion in debt, with this debt burden being a primary justification for austerity measures.[90] Government bailouts in 2017/18 included R10 billion for South African Airways and a R3.7 billion for the South African Post Office.[91] That same year, capital (infrastructure) expenditure by government was cut by R16.8 billion and spending on housing and community services was cut by R3.3 billion, to give only two examples of cuts that were made.

- Public sector corruption is reliant upon and exacerbated by corruption in the private sector, which is also widespread. High profile law firms, consultancies and public relations agencies, and auditors, have all been implicated in the country's biggest corruption scandals, the most notorious examples involving the Gupta family and BOSASA. The consolidation of political power among a network of economic elites, commonly referred to as "state capture," has allowed for the "repurposing" of state institutions at all levels—central, provincial and municipal—to become vehicles of enrichment rather than service delivery.[92] **No new measures were announced by Treasury to ensure the accountability of corrupt government officials and private actors that facilitated state capture yet thousands of civil servants face the risk of early retirement.**
- While significant challenges remain in monitoring and prosecuting corruption, there are recent signs of progress.[93] Increasing transparency has taken the form of "opening up" financial statements and annual reports. It is still particularly concerning how state capture has undermined the state institutions and economic agencies tasked with combating corruption, including the South African Revenue Service, Financial Intelligence Centre, the National Prosecuting Authority and the Competition Commission of South Africa, as well as the South African Police Service and its investigative units.
- Public procurement has been grossly abused with the government having been described as "a massive, tender-generating machine," with its core functions almost completely outsourced.[94] Procurement has become increasingly politicized, leading to illegal rent-seeking that undermines the ability of South Africa's public administration to deliver the services that are essential for the realization of constitutional rights. The Auditor General's report acknowledged this:[95]

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

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[89] 2019 Budget Review pg 47.
[90] De Villers, J., 2018. "Eskom's debt is now more than SA's total budget for health and education - here are 4 things you should know about its shocking numbers," Business Insider SA, July 23, 2018.
[91] National Treasury of the Republic of South Africa, 2018. "Budget Review," pg. 90.
[92] Public Affairs Research Institute, 2017. "Betrayal of the Promise: how South Africa is being stolen;" See also, Office of the Public Protector, 2016. "The State of Capture: a report of the Public Protector."
[93] In December 2017, for example, the National Prosecuting Authority's Asset Forfeiture Unit (AFU) obtained preservation orders worth R1.6 billion against global consultancy firm McKinsey and Gupta-linked Trillian, for illegally gained payments that the companies received from Eskom. According to the acting head of the AFU, the NPA is pursuing 17 such matters, to the estimated value of around R50 billion. Cowan, K, 2018. "R50-billion: The price state capture crooks will have to pay," Times Live, January 16, 2018. The Nugent Commission of Inquiry has been established to investigate the issues which led to the undermining of the revenue services (SARS), while a Commission of Inquiry into State Capture is underway, headed by Deputy-Chief Justice Raymond Zondo.
[94] Over the past 20 years, the value of goods and services the government purchases, largely from the private sector, has reached between R400 billion and R500 billion per year. Public Affairs Research Institute, 2017. "Plundering the state in the name of change will only perpetuate inequality."
[95] Auditor General of South Africa, 2018. "Consolidated General Report on National and Provincial Audit Outcomes 2017/18."

9. RECOMMENDATIONS

The Budget Justice Coalition urges Parliament to hold the executive accountable to the recommendations of the UN Committee on Economic, Social and Cultural Rights. We therefore include its final report as an Annexure to this submission and repeat key recommendations for each area covered in this submission verbatim, since these recommendations carry legal force on the government.

<u>MACROECONOMIC POLICY</u> - RECOMMENDATIONS

- More awareness of the ‘quality’ of the economic growth that is aimed for (i.e. is it job-rich? is it inclusive and based on redistributing both opportunity and access?)

- Much greater focus on employment and economic growth in monetary policy, including a investigating new approaches to interest rates, exchange rates and inflation targeting that are best suited to the social and economic conditions facing South Africa

- Much greater policy coherence and more active collaboration between the National Treasury with the Departments of Trade and Industry, Economic Development Labour, Social Development and the Reserve Bank, and

- As per the UN Committee Recommendation 17(e): Re-examine its growth model in order to move towards a more inclusive development pathway.

<u>FISCAL POLICY</u> - RECOMMENDATIONS

UN Committee Recommendations to the Government of South Africa on fiscal policy:[96]

> **17.** The Committee recommends that the State party:
>
> (a) Review its fiscal policy in order to improve its capacity to mobilize the domestic resources required to bridge existing gaps and to increase its redistributive effect;
>
> (b) Consider revising the Provincial and Local Government Equitable Share Formulas to reduce regional disparities in the enjoyment of the Covenant rights
>
> **19.** The Committee insists the State party show that should it consider austerity measures unavoidable, they should be **temporary**, covering only the period of the crisis; necessary and proportionate; **not result in discrimination and increased inequalities**; and ensure that the rights of disadvantaged and marginalized individuals and groups are **not disproportionately** affected.
>
> 20. The Committee recommends that the State party:

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[96] Available at:

(a) Increase the level of funding in social security, health and education;
(b) Task the Department of Planning, Monitoring and Evaluation, with ensuring that public policies are directed towards the realization of the rights of the Covenant;
(c) Ensure the Standing Committee on Public Accounts in the national parliament[97] (and its equivalents in provincial parliaments) take such rights into consideration in assessing the budgetary choices of the national and provincial governments respectively.

21. The Committee refers the State party to its open letter of 16 May 2012 to States parties on economic, social and cultural rights in the context of the economic and financial crisis.

Further to these recommendations, **the Budget Justice Coalition calls on Treasury to take action to end austerity by, inter alia:**

- Ensuring real per capita annual increases in non-interest government expenditure over the medium-term expenditure framework.

- Measuring the cumulative impact of previous and existing budget cuts on rights enjoyment by disadvantaged and marginalized individuals and groups, in particular women, children and persons with disabilities.

- Instituting, where necessary, cost-containment measures that comply with the human rights standards of equity, non-retrogression and minimum core obligations, while supporting departments to contain costs in a manner that enhances rather than undermines service delivery.

<u>REVENUE AND DEBT MANAGEMENT POLICY</u> - RECOMMENDATIONS

Review the tax regime, in a transparent and participatory manner, with a view to increasing fiscal revenue and advancing a more equitable distribution of resources, including by:

- Increasing tax rates on personal income, corporate income, and wealth.
- Instituting a permanent annual net wealth tax, set at a rate within the international range of 0.5%- 2.0%.
- Raising the capital gains tax inclusion rate to 100% (so all capital gains are taxed) and setting the tax rate to comparative rates to personal income tax.
- Instituting a land property tax, particularly on vacant land, and a property rate or transfer duty surcharge for second and foreign owned homes.
- Significantly raising the estate duty tax and closing loopholes.
- Ensuring basic food and non-food items identified as essential for rights, dignity and gender equality are VAT exempt and returning VAT to 14% within the next three years.
- Reducing tax breaks for higher-income households (such as on pensions and medical aid).
- Reducing the rate of increase for the fuel and road accident fund levies
- Implementing recommendations proposed by the Davis Tax Committee to curb tax evasion and avoidance.

[97] The assumed intention of the Committee here was to refer to the Committees on Finance, on Appropriations, and on Public Accounts.

- Increase the government financial leeway to implement counter-cyclical economic policy by exploring heterodox strategies of public debt management by mobilizing the resources hold within public and private financial institutions and to reduce long term debt-costs

More ambitious reforms are needed to deal with tax evasion, not least to close legal loopholes still existing in our tax law. We therefore call on government to implement without delay::

- The immediate creation of a public registry of beneficial ownership for all kinds of companies operating in South Africa as well as for Trusts and similar legal arrangements.
- The creation of a minimum corporate tax rate for foreign and home-grown multinational companies to limit the scope of tax avoidance strategies.
- Demand the replacement of the current arm's-length principle by a global apportionment formula as a base of the international tax system.
- The creation of a digital service tax as a short term remedy to the unfair competition our local online service providers are facing from international e-giants, and
- The creation of a special investigative unit focused on multinational companies of the mining and extractive industries to make sure these actors pay their fair share of taxes and ensure the depletion of our natural resources benefits South African people.

On debt management, we call for government to embark on processes towards:

- The redrafting of the mandate of the Government Employee Pension Fund
- The modification of private pension and provident funds investment obligations

STATE CAPACITY - RECOMMENDATIONS

- Be transparent about whether reductions to the number of people employed in local, provincial and national spheres of government is official policy and detailing by how many, within what timeframes, and according to what policy directive this is being implemented.

- Undertake public service employment rationalisation only as a means of *improving* efficiencies and capacity so that delivery and performance by the state of its functions is improved rather than further compromised. This should include human resources audits of government departments starting with those most affected by state capture. No post in the public service should be lost that will hamper service delivery and performance in any way.

Rebuild the State's capacities to deliver its core mandate by putting an end to corruption and State Capture, by:

- Provide full budgetary support to the SAPS, SIU, NPA, Hawks and other crime fighting units to ensure their effectiveness

- Change procurement policy to strengthen transparency and oversight to curb corruption and the looting of public resources.

Tackle corruption by:

- We call on the Select and Standing Committees on Finance to motivate for the strengthening of state entities tackling corruption and maladministration by advocating for full budgetary support to the SAPS, SIU, NPA, Hawks and other crime fighting units to ensure their effectiveness

- In collaboration with the key civic actors and public entities, reform procurement policy to strengthen transparency and oversight to curb corruption and the looting of public resources .

THE BUDGET PROCESS - RECOMMENDATIONS

The Budget Justice Coalition wishes to see a revitalised Treasury, devoted to transparent processes and plays a progressive role in the development and oversight of national macroeconomic and fiscal policy. The Treasury must be able to carry though a vision for sustainable and inclusive growth, a coordinated attack on joblessness, poverty and inequality, and a vastly improved level of performance by government departments.

- All vacant posts in the National Treasury must be filled without further delay on merit.

- Parliament must improve its own capacity to scrutinise budget proposals by filling posts within its research units, especially the Parliamentary Budget Office.

- Providing social movements and civil society coalitions sufficient time and space to meaningfully engage in the co-construction of national, provincial and local budgets.

- Clarity from the Executive on the role of the Mandate Paper and the DPME in the budget process and implement recommendation 19(b) of the UN Committee on Economic, Social and Cultural Rights (UN Committee),[98] to:

  > Task the Department of Planning, Monitoring and Evaluation, with ensuring that public policies are directed towards the realization of the rights and obligations contained in the Constitution and the Covenant;

- Specifically, and without detracting from the implementation of all of the recommendations, implement recommendation 19(c) of the UN Committee, which is to:

  > Ensure the Committees in the national parliament (and its equivalents in provincial parliaments) take such rights into consideration in assessing the budgetary choices of the national and provincial governments respectively.

- Support the development of the vulekamali.gov.za open budget portal that is being built by National Treasury and civil society organisations under the banner of IMALI YETHU which aims to improve access to budget information. In particular, the portal aims to integrate performance and procurement information with budget information, which if successful, would be a huge boost for public and Parliamentary oversight of (and engagement with) the budget.

[98] Available at:
https://tbinternet.ohchr.org/_layouts/treatybodyexternal/SessionDetails1.aspx?SessionID=1200&Lang=en.

- Modify the Money Bills Amendment Procedure and Related Matters Amendment Act to ensure the time frame for engagement and debates within finance committees at all levels is reestablished to its previous standard of 30 days.

The Budget Justice Coalition thanks the committees for the opportunity to submit our inputs and engage further in relation to the submission.

ABOUT THE BUDGET JUSTICE COALITION

The Budget Justice Coalition (BJC) is a coalition of about twenty progressive civil society organisations who acknowledge that work to ensure substantive equality in our society is not possible without active engagement with, and transformation of, the budget.

WHO WE ARE

The **Alternative Information & Development Centre (AIDC)** is an activist think-tank that implements an integrated strategy that involves research, information dissemination, popular education, coalition building and advocacy. AIDC was formed in 1996 and has played a significant role in challenging corporate globalisation through supporting and coordinating campaigns for debt cancelation, against trade and financial liberalisation, for tax justice and against illicit capital flight. Over the years AIDC has had the capacity at a national, regional and international level to draw a broad range of movements into networks and coalitions around critical issues of development.

The **Children's Institute, University of Cape Town**, aims to contribute to policies, laws and interventions that promote equality and realise the rights and improve the conditions of all children in South Africa, through research, advocacy, education and technical support.

Equal Education (EE) is a movement of learners, parents, teachers and community members. EE works for quality and equality in South African education, through research, analysis and evidence based activism. EE's head office is in the Western Cape, with satellite offices in Gauteng and the Eastern Cape, and a strong presence in KwaZulu-Natal and Limpopo. Since being founded in 2008, Equal Education has led campaigns aimed at the development of learning facilities; improved practice, content and access to teaching; the building of commitment and passion among teachers and learners; and improving the overall efficacy of South Africa's education system. Our focus and attention is directed by the interests of our members, drawn largely from working-class and poor communities.

The **Equal Education Law Centre** is a public interest law centre made up of activist lawyers and researchers working to advance the struggle for quality and equality in education through legal research, advocacy and strategic litigation.

The **Institute for Economic Justice (IEJ)** is a new progressive economic policy think-tank located in South Africa, and launched in 2018. IEJ's core objective is to provide policy makers and progressive social forces in South Africa with access to rigorous economic analysis, and well thought through policy options, as a basis for concrete interventions. Interventions proposed by the IEJ seek to advance social justice, promote equitable economic development that realises socio-economic rights, and ensure a thriving, democratic, environmentally sustainable, and inclusive economy that places the needs of the majority at the centre.

The **National Shelter Movement (NSM)** is an NGO established in 2008 to serve as a formalised body to represent shelters across South Africa. The NSM secretariat is based at the Nisaa Institute for Women's Development and comprises of 8 provincial representatives. The NSM has played a vital role in establishing and mentoring shelter movements in all 9 provinces; in monitoring of shelter service delivery and conducting assessments to understand the differing needs of women's shelters across the country and to facilitate relationships between shelters and provincial DSD's. The NSM also engages with other government departments and relevant stakeholders on any shelter and victim empowerment related topics.

Oxfam South Africa (OZA) is an independent organisation and the first African affiliate of the Oxfam Confederation. OZA's mission is to contribute lasting solutions to the injustice of poverty and inequality through mobilising the power of people, centring womxn and gender non-binary people to claim their rights and participate as full agents in their societies and lives, challenge systems which perpetuate poverty and inequality and participate fully in shaping decisions, policies and processes which affect their lives and hold power to account.

The **Pietermaritzburg Economic Justice & Dignity Group (PMEJD)** envisions a society of solidarity rooted in new forms of relationships based on a politics of love and universality for a new economy which serves society and provides justice, equity, and dignity for all. PMEJD was founded in 2018 in Pietermaritzburg, South Africa, in response to the unjust and unequal political economy of South Africa which is characterized by high levels of economic inequality, low baseline wages, high levels of unemployment, a household affordability crisis and an apartheid neoliberal capitalism that destroys human solidarity. PMEJD locates itself in solidarity with those who suffer the consequences of this unjust political economy; and in support of imagining and working towards a more just political economy which is dignified, just and inclusive.

The **Public Service Accountability Monitor (PSAM)** is a civil society organisation that aims to improve the provision of public services essential to the reduction of poverty by strengthening social accountability initiatives. The PSAM is specifically concerned with improving governance and public resource management in South Africa and sub-Saharan Africa. This is achieved through the activities of three interrelated programmes: the Monitoring and Advocacy Programme (MAP), the Regional Learning Programme (RLP) and the Advocacy Impact Programme (AIP). The PSAM was established in 1999 and is based at Rhodes University within the School of Journalism and Media Studies in the Eastern Cape. The Monitoring and Advocacy Programme of the PSAM seeks to contribute to the progressive realisation of the rights to housing, health and education. The programme also focusses on strengthening public accountability mechanisms in the areas of environmental governance and local government.

The **Rural Health Advocacy Project (RHAP)** is a leading health advocacy organisation based in Johannesburg, advocating for equitable access to quality health care for rural communities in the whole of South Africa. Informed by the voices of rural healthcare workers and communities on the ground, partner organisations, stakeholders and research, RHAP conducts advocacy, generates debate, monitors implementation of health policies in rural areas, supports pro-equity government interventions, and rural-proofs policies to ensure that they are in tune with rural realities. RHAP's vision is a health system where rural communities access equitable, quality health care services.

SECTION27 is a public interest law centre that seeks to achieve structural change and accountability in the health care and education sectors in particular to ensure the dignity and equality of everyone under the Constitution.

The **Studies in Poverty and Inequality Institute (SPII)** is an independent research and advocacy think-tank that focuses on generating new knowledge, information and analysis in the field of poverty and inequality studies. SPII's objective is the realisation of the transformative principles enshrined in the South African Constitution through advancement of the socio-economic rights (SERs) contained under the Bill of Rights. SPII acts to achieve this overarching objective through an applied use of research – policy and budget analysis, and quantitative indicators to provide tools for rigorous time- specific analysis, building qualitative research through community participatory active research, and promoting participation in social dialogues to achieve the change we seek. SPII has conducted human rights budget analysis for over a decade, working with civil society, the executive, and oversight bodies including Chapter Nine institutions and the legislature.

The **Women and Democracy Initiative**, based at the **Dullah Omar Institute (DOI)** focusses on realising the rights of women and other marginalised people through strengthened democratic systems. The DOI started its work under the name 'Community Law Centre', an organisation borne out of the struggle against apartheid. The Community Law Centre opened its doors in 1990, Adv Dullah Omar, a human rights lawyer, was its first director. The Centre played a major role in the negotiations towards a democratic South Africa. The Institute works in five research areas, namely children's rights, socio-economic rights, multilevel government, criminal justice reform and women's rights.