

UNICEF South Africa Submission on the Medium-Term Budget Policy Statement 2020

27 November 2020

Honourable Buthelezi, Chairperson of the Standing Committee on Appropriations in the National Assembly and Honourable Mahlangu, Chairperson of the Select Committee on Appropriations in the National Council of Provinces

Honourable members of the Joint Committee on Appropriations

Officials in the National Treasury and all other government departments

Ladies and gentlemen

Thank you very much for the opportunity to make a formal input in the public hearings that deal with the Medium-Term Budget Policy Statement (MTBPS) and the Second Adjusted Estimates for 2020.

2020 has presented South Africa and the globe with immense challenges, especially around the ability of countries to address the ravages brought about by the COVID-19 pandemic. The country has responded with remarkable alacrity to the challenges of the pandemic and set aside substantial public funds to address the immediate social, health and economic consequences of the pandemic. Unlike natural disasters where the standard public finance advice is to respond early, “go big”, and target households, we do not know nearly enough about the virus and the pandemic to be totally prescriptive about how best the Government of South Africa should respond to the social and economic challenges that accompany this public health emergency. At a minimum, we would want the government to retain the flexibility to respond to the evolving pandemic as best as it sees fit in the context of the country’s strained public finance position.

UNICEF, as part of the United Nations family, and as a partner of the South African government, has continued to contribute to efforts at alleviating the burden of the pandemic¹. These include

- Supporting the Department of Social Development to make the argument for the top-ups to the social grants for children;
- Supporting the Department of Health to implement Childhood immunisation drive to catch up on all missed immunisations by the end of March 2021. This is part of its strategic focus to ensure routine child health and nutrition services are maintained during and after the COVID-19 pandemic.
- UNICEF integrated its COVID-19 prevention messaging with crucial health communication promoting the continued safe use of health services on-the-ground, services which have continued to function and provide critical lifesaving support
- Supporting the Department of Basic Education (DBE) to scale up mass e-learning, online and app-based access with private sector input;
- Supporting the Department of Social Development with a large-scale evaluation initiative to better understand the extent to which the DSD has enabled and supported vulnerable children and families during the COVID-19 crisis;
- Through UNICEF's water, sanitation and hygiene response (WASH), more than 130 handwashing stations with soap have been erected across 9 provinces, alongside the ongoing distribution of 10,000 WASH kits, containing soap, sanitiser, masks and cleaning products for vulnerable households; and
- In supporting the Department of Basic Education (DBE), a total of 120 schools across 7 provinces will receive improved access to handwashing facilities, a critical response to help keep schools safe and open.

During these unprecedented times, how best do we frame the public finance and human dignity challenges? And what does all this mean for our core constituency, namely children? In 2020, Statistics South Africa and UNICEF South Africa released

¹ UNICEF South Africa's contributions are summarised in an online document that can be accessed here: <https://www.unicef.org/southafrica/reports/how-covid-19-changing-childhood-south-africa>

the first-ever multidimensional poverty study for children.² This is the result of a three-year long collaboration between our agencies. The results of that baseline Sustainable Development Goal (SDG) study were startling:

- 62.1% of our children are considered multi-dimensionally poor.³
- 42% of our children suffer both income poverty and multidimensional poverty.
- Almost two-thirds of children who live in rural areas are both income poor and multidimensionally poor.
- Key determinants of children's multidimensional poverty are poor social infrastructure in health and basic education, poor waste disposal practices in communities, poor and variable access to early childhood education and children who progress much slower at the upper end of the schooling system.

The country's baseline results on the SDGs for multidimensional poverty measures for children point to the need to maintain consistent and quality public services. Given the country's commitment to secure its future human capital and the growing importance of its prevention and early intervention agenda, public finance decisions should be deliberate in maintaining the "social wage" for children, even though we acknowledge that very difficult policy decisions must be made to restore stability to the country's public finances.

Whilst it is acknowledged that South Africa has exceedingly high levels of urbanisation, child poverty has a distinctly rural face. Investment in rural social infrastructure (schools and health clinics) must remain top of the government's funding agenda. It is encouraging to note, therefore, that the MTBPS 2020 indicates that changes to the country's provincial equitable shares formula will now recognise the differences in service delivery costs for rural and urban areas. This is a welcome development, which UNICEF South Africa supports in full.

² See **Child Poverty in South Africa: A Multiple Deprivation Overlapping Analysis Summary:** <https://www.unicef.org/southafrica/reports/child-poverty-south-africa-summary>

³ Children who are deprived in three or more dimensions are considered multi-dimensionally poor. The dimensions used included access to water and sanitation, housing, nutrition, protection, health, child development, basic education, and information.

The special adjusted budget⁴, which was tabled in June 2020, held tremendous promise for children. Not only did the country witness the introduction of top-up grants for children, we also saw the introduction of the first-ever COVID-19 grant, which provided immediate relief to thousands of households. The latest NIDS CRAM⁵ results suggest that the social grants are well-targeted (equity-achieving), and while they have not prevented hunger in all instances, the evidence is clear that these grants were/are life-saving and vital.

The pandemic not only challenges the country's education, health, social protection and public finance systems, but it has also helped researchers explode the myth of dependency on social grants as the only form of income for poor and vulnerable South Africans. The NIDS-CRAM research shows that the loss of labour market income not only affected middle-income households, but grant-receiving households were equally hard hit. This places the spotlight on the overall adequacy of the social grants and the realisation that social grant income is one of many income streams for poor and vulnerable households. It is vital that households in the lower- and middle-income deciles find work again because the alternative, as the NIDS-CRAM research shows, is an expanded list of beneficiaries who qualify for social assistance.

As far as the MTBPS 2020 is concerned, there are a number of really encouraging developments for children. These include

- The continued provision of adequate personal protective equipment for educators and a strong commitment to ensure that schools remain safe places (regular cleaning and sanitization);
- The imminent introduction of school assistants intended to alleviate the administrative burden on educators, thus increasing the actual teaching contact time;

⁴ The UNICEF South Africa annual budget series has information on trends in the national budget and a number of sector budgets such as basic education, health, social development, and social protection: <https://www.unicef.org/southafrica/reports/budget-brief-series-202021>

⁵ The National Income Dynamics Study-Coronavirus Rapid Mobile Survey (NIDS-CRAM) COVID is a nationally-representative panel survey of 7000 South African individuals. Each person is phoned monthly and asked a range of questions on their income and employment, their household welfare, receipt of grants, and about their knowledge and behaviour-related to COVID-19. See <https://cramsurvey.org/>

- The extension of the COVID-19 grant until the end of January 2021, providing further relief to distressed families;
- The continued provision of food relief to families in need; and
- The continued investment in community health workers as one of the most efficient and equitable ways to expand access to primary healthcare.

The MTBPS 2020 also presents stark spending choices and proposes to reduce overall non-interest expenditure by more than R300 billion over the next three years. To put this into perspective, the proposed cuts are equivalent to the entire government's expenditure on capital for the next three years. By any standards, this level of fiscal adjustment is going to challenge policymakers to continue to deliver services for children, while finding innovative ways of preserving benefits that were taken for granted and had a positive impact on child wellbeing in the past.

What is of concern to us is that provinces, which deliver key services in basic education, health and social development, are hard hit and have their unconditional share of national revenue reduced by 4 per cent in real terms on average over the next three years. This will require a level of internal trade-offs that will be difficult for most provincial education, health and social development departments. The intended cuts are largely dependent on the government's trimming of the public sector wage bill, but there are concerns that should this fail, then further and deeper cuts into activities and programmes that benefit children may become unavoidable.

The "social wage" for children will come under severe pressure over the next three years, thus further reducing the fiscal space needed to realise children's social and economic rights. Expenditure on basic education is projected to decline in real terms by 3.5% annually for the next three years; expenditure on health is projected to decline by 1.5% in real terms over the same period, while expenditure on social development is projected to decline by 2.2% in real terms on average over the corresponding period.

In research that UNICEF South Africa has commissioned and that will be published soon, the preliminary results indicate that the government of South Africa has continued to prioritise the fiscal space for children. This is a commendable

achievement. However, the advent of COVID-19 has changed this overall level of investment and there are real dangers that the gains made for children during the last two decades could be severely challenged.

The introduction of zero-based budgeting practices could potentially help to facilitate some of the trade-offs within and between functions. This could also help to broaden the scope and remit for debate about national and provincial priorities and instead of being used as a technical tool only, could help facilitate sector-wide conversations about how best to approach spending prioritisation. UNICEF South Africa calls on all relevant stakeholders to join the debate on zero-based budgeting to help ensure that core spending on children's services is not negated during this time of fiscal adjustment.

In 2018, a UNICEF-sponsored recommendation about unpaid provincial invoices was adopted by the then Joint Appropriations Committee. The MTBPS 2020 continues to warn about the fiscal dangers inherent in unpaid provincial bills and indicates that unpaid bills may ruin and defer planned service delivery spending, which could be disastrous for communities that need these life-saving services. In the context of planned expenditure cuts, unpaid and accumulating spending arrears are clear and present dangers for our children and the present effort and emphasis placed on this matter by the National Treasury should be commended and further supported.

In view of the present public finance situation represented in the MTBPS 2020, UNICEF South Africa would like to make the following recommendations:

- The government should expedite the work on the reform to the provincial equitable shares formula so that rural provinces' needs are taken into account in the distribution of provincial funding;
- The Appropriations Committee should consider the possible extension of the Special Relief of Distress Grant (or COVID-19 grant) based on new information that emerges about employment and the country's economic growth;
- The national and provincial executives should accelerate the implementation and monitoring of work on unpaid provincial invoices and National Treasury should report back to Parliament on progress in reducing unpaid provincial invoices in basic education, health and social development;

- The national and provincial governments should arrest declines in spending on social infrastructure in basic education and health due to their poverty-inducing effects; and
- National and provincial government should use the zero-budgeting approach in both its technical and democratic senses so that reasonable spending decisions are made with the full input of various stakeholders in and outside of government.

South Africa has continued to lead the world in budget transparency⁶, its willingness to extend social assistance to those most in need, and in the large⁷ initial public finance response to address the immediate effects of COVID-19. What is needed now is a series of sensible national conversations about the best ways to continue the country's momentum to fight and defeat poverty and inequality.

Thank you very much for the opportunity to contribute to national debates on financing (for children) and I wish the committee all the best in its deliberations and final recommendations.

Yours sincerely,

Ms Christine Muhigana

UNICEF South Africa Country Representative

27 November 2020

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⁶ South Africa has continued to achieve pre-eminent status in the world around budget transparency. In the latest International Budget Partnership (IBP) Open Budget Index Survey, South Africa not only achieves the highest ranking in Africa, but also managed to achieve the joint highest budget transparency and openness ranking in the world. See <https://www.gov.za/speeches/treasury-south-africa-taking-first-place-2019-open-budget-index-survey-4-may-2020-0000> and <https://www.internationalbudget.org/open-budget-survey/country-results/2019/south-africa>

⁷ South Africa nominally committed to spend R500 billion on its immediate response to the pandemic, which equals roughly 10 per cent of the country's overall Gross Domestic Product (GDP).