Submission for the

DIVISION OF REVENUE

2022/23

FINANCIAL
AND FISCAL
COMMISSION

Submission for the 2022/23 Division of Revenue

For an Equitable Sharing of National Revenue

We, the Commissioners, hereby submit the Financial and Fiscal Commission's researched recommendations for the 2022/23 Division of Revenue in accordance with the obligations placed upon us by the Constitution of the Republic of South Africa

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ACRONYMS

ACRONYM	DEFINITION
AGSA	Auditor-General of South Africa
AIDS	Acquired Immunodeficiency Syndrome
BIG	Basic Income Grant
BOO	Build-own-operate
BOT	Build-operate-transfer
BROT	Build-rehabilitate-operate-transfer
CEDAW	Convention on the Elimination of All Forms of Discrimination against Women
CGE	Computable General Equilibrium
CGE	Commission on Gender Equality
CIMA	Chartered Institute of Management Accountants
CIT	Corporate Income Tax
CoGTA	Department of Cooperative Governance and Traditional Affairs
COVID-19	Novel Coronavirus Disease
CPI	Consumer Price Index
CRAM	Coronavirus Rapid Mobile
CSG	Child Support Grant
DALRRD	Department of Agriculture, Land Reform and Rural Development
DDM	District Development Model
DEA	Data Envelopment Analysis
DBE	Department of Basic Education
DEL	Department of Employment and Labour
DFFE	Department of Forestry, Fisheries and the Environment
DG	Disability Grant
DHA	Department of Home Affairs
DHET	Department of Higher Education and Training
DHSWS	Department of Human Settlements, Water and Sanitation
DJ&CD	Department of Justice and Constitutional Development
DMRE	Department of Mineral Resources and Energy
DMU	Decision-making Unit
DoH	Department of Health
DPME	Department of Planning, Monitoring and Evaluation
DPSA	Department of Public Service and Administration
DPWI	Department of Public Works and Infrastructure
DRDLR	Department of Rural Development and Land Reform
DSBD	Department of Small Business Development
DSD	Department of Social Development

ACRONYMS

ACRONYM	DEFINITION
DTIC	Department of Trade, Industry and Competition
DWS	Department of Water and Sanitation
DWYPD	Department of Women, Youth and Persons with Disabilities
ENE	Estimates of National Expenditure
ERRP	Economic Reconstruction and Recovery Plan
FAO	Food and Agriculture Organisation
FCG	Foster Care Grant
FFC	Financial and Fiscal Commission
FMG	Financial Management Grant
FPL	Food Poverty Line
FSPT	Free State Provincial Treasury
GBV	Gender-based Violence
GCIS	Government Communications and Information System
GDP	Gross Domestic Product
GET	General Education and Training
GHI	Global Hunger Index
GPF	Gender Policy Framework
GRB	Gender-responsive Budgeting
GRPBMEA	Gender Responsive Planning, Budgeting, Monitoring, Evaluation and Auditing Framework
GVA	Gross Value Addition
HDA	Housing Development Agency
HIV	Human Immunodeficiency Virus
HP filter	Hodrick-Prescott filter
HSDG	Human Settlements Development Grant
IDP	Integrated Development Plan
IFPRI	International Food Policy Research Institute
IGFR	Intergovernmental Fiscal Relations
ILO	International Labour Organisation
IMF	International Monetary Fund
IPP	Independent Power Producer
LBPL	Lower-bound Poverty Line
LCS	Living Conditions Survey
LED	Local Economic Development
LEXP	Log of Municipal Expenditure
LGFF	Local Government Fiscal Framework
LGVA	Log of Gross Value Addition

ACRONYMS

ACRONYM	DEFINITION
LHDI	Log of Human Development Index
LMI	Lower Middle Income
LOR	Log of Own Revenue
LPOP	Log of Population Growth
LUN	Log of the Unemployment Rate
IDP	Integrated Development Plan
KPI	Key Performance Indicator
MEC	Member of the Executive Council
MFIP	Municipal Financial Improvement Programme
MFMA	Municipal Finance Management Act
MINMEC	Ministerial and Member of the Executive Council
MSIG	Municipal Systems Improvement Grant
MTEF	Medium-term Expenditure Framework
MTSF	Medium-term Strategic Framework
NCoP	National Council of Provinces
NCS	National Curriculum Statement
NDP	National Development Plan
Nersa	National Energy Regulator of South Africa
NGM	National Gender Machinery
NIDS	National Income Dynamics Study
NIPFP	National Institute of Public Finance and Policy
NPM	New Public Management
NSC	National Senior Certificate
NYDA	National Youth Development Agency
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of the Petroleum Exporting Countries
OPG	Older Persons' Grant
OSW	Office on the Status of Women
PBB	Performance-based Budgeting
PEPUDA	Promotion of Equality and Prevention of Unfair Discrimination Act
PFMA	Public Finance Management Act
PIT	Personal Income Tax
PPBB	Programme and Performance-based Budgeting
PPE	Personal Protective Equipment
PPP	Public-private Partnership

ACRONYMS

ACRONYM	DEFINITION
PSN	Productive Safety Net
PSP	Private Sector Participation
RLT	Rehabilitate-lease-transfer
ROT	Rehabilitate-operate-transfer
QLFS	Quarterly Labour Force Survey
SADC	Southern African Development Community
SAHRC	South African Human Rights Commission
SALGA	South African Local Government Association
SAM	Social Accounting Matrix
SANRAL	South African National Road Agency Limited
SAPS	South African Police Service
SARB	South African Reserve Bank
SARS	South African Revenue Service
SDG	Sustainable Development Goals
SRD	Social Relief of Distress
SONA	State of the Nation Address
Stats SA	Statistics South Africa
STI	Sexually Transmitted Infections
SWIID	Standardised World Income Inequality Database
TB	Tuberculosis
TERS	Temporary Employer(ee) Relief Scheme
TFP	Total Factor Productivity
UBPL	Upper-bound Poverty Line
UIF	Unemployment Insurance Fund
UK WBG	United Kingdom Women's Budget Group
ULC	Unit Labour Cost
UMI	Upper Middle Income
UN	United Nations
UNIFEM	United Nations Women
USAID	United States Agency for International Development
USDG	Urban Settlements Development Grant
VAT	Value-added Tax
WBS	Women's Budget Statements
WHO	World Health Organisation
WSA	Water Service Authority
WSP	Water Service Provider

THE FINANCIAL AND FISCAL COMMISSION

The Commission is a body that makes recommendations and gives advice to organs of state on financial and fiscal matters. As an institution created in the Constitution, it is an independent, juristic person subject only to the Constitution itself, the Financial and Fiscal Commission Act, 1997 (Act No. 99 of 1997), as amended, and relevant legislative prescripts – and may perform its functions on its own initiative or on request of an organ of state.

The vision of the Commission is to provide influential advice for equitable, efficient and sustainable intergovernmental fiscal relations between the national, provincial and local spheres of government. This relates to the equitable division of government revenue among the three spheres of government and to the related service delivery of public services to South Africans.

Through focused research, the Commission aims to provide proactive, expert and independent advice on promoting the intergovernmental fiscal relations system, using evidence-based policy analysis to ensure the realisation of constitutional values. The Commission reports directly both to Parliament and the provincial legislatures, who hold government institutions to account. Government must respond to the Commission's recommendations and the extent to which they will be implemented at the tabling of the annual National Budget in February.

The Commission consists of women and men appointed by the President: the Chairperson and Deputy Chairperson, three representatives of provinces, two representatives of organised local government, and two other persons. The Commission pledges its commitment to the betterment of South Africa and South Africans in the execution of its duties.

Foreword

The Submission for Division of Revenue 2022/23 is tabled by the Financial and Fiscal Commission (FFC) in terms of section 214(1) of the Constitution of the Republic of South Africa, 1996 (as amended), Section 3 of the Financial and Fiscal Commission Act, 1997 (Act No. 99 of 1997), Section 9 of the Intergovernmental Fiscal Relations Act, 1997 (Act No. 97 of 1997) and Section 4(c) of the Money Bills and Related Matters Act, 2009 (Act No. 9 of 2009) (as amended). The FFC is an independent, juristic constitutional institution that reports directly to Parliament and provincial legislatures.

The mandate of the FFC is to act as a consultative body, make recommendations and give advice to the three spheres of government on the equitable division of revenue and on any other financial and fiscal matters. The FFC contributes towards the creation and maintenance of an effective, equitable and sustainable system of Intergovernmental Fiscal Relations (IGFR) through research, recommendations, policy advice and programmes.

Government takes into account the recommendations of the FFC as part of its constitutional oversight activities on the Executive and budget after the consultative legislative processes have been fulfilled.

This submission is dedicated to the late Prof Daniel Plaatjies, who passed away on 10 October 2020. The late Prof Plaatjies was appointed as a Commissioner on 1 September 2013, and as Chairperson to the FFC on 1 June 2017. Prof Plaatjies played an active role, from the concept stage of this submission, until the very last day of his untimely death.

The Commission would like to express its gratitude to all its stakeholders for the invaluable inputs provided during the preparation of this submission, including the Minister and MECs for Finance, the Secretariat and particularly the research staff of the FFC, whose faith, dedication and loyalty will always be appreciated.

We, the undersigned, hereby submit the Financial and Fiscal Commission's submission with recommendations for the 2022/23 Division of Revenue in accordance with the obligations placed upon us by the Constitution of the Republic of South Africa.

For and on behalf of the Commission

Mr Michael Sachs
Acting Chairperson/Deputy Chairperson
26 March 2021

CHAPTER 1:
Introduction

The Financial and Fiscal Commission (FFC) tables this Submission for the 2022/23 Division of Revenue slightly more than a year after the onset of the COVID-19 pandemic against a backdrop of a very fragile economic environment – amidst its second recession in a decade. This pandemic, which reached South Africa at the beginning of March 2020, has caused unprecedented shocks to the economy, the health sector and to people's livelihoods. The recession was a result of structural bottlenecks that severely constrained growth, ranging from intermittent energy supplies, corruption and policy uncertainties to the unsatisfactory implementation of policies, compounded by the loss of its last investment grade rating for the bonds it issues.

This submission's predecessor: Annual Submission for the 2021/22 Division of Revenue, which was concluded just five months into the crisis, provided some preliminary evidence of the socioeconomic implications of the COVID-19 pandemic. To date, the pandemic is still spreading relentlessly across the breadth and depth of the country, causing serious damage to the economy and livelihoods. The pandemic has posed many challenges, including the efficacy of the macro-fiscal system in accommodating the pandemic-induced challenges. It has intensified the existing inequalities and condemned many people into poverty and unemployment. Questions abound on the impact of the pandemic on one of the state's fundamental obligations: the progressive realisation of citizens' basic rights as enshrined in the Constitution. Such questions arise because the COVID-19 pandemic has brought to bear the inadequacies in access (both in terms of quantity and quality) to basic services and food, and has heightened imbalances and conflicts in society, especially along gender dimensions. It has further exposed inadequacies in the oversight, accountability and leadership mechanisms. The 2021/22 annual submission tabled in July 2020 could not possibly have captured the full socioeconomic impact of the evolving COVID-19 disaster and its various nuances. Hence, this Submission for the 2022/23 Division of Revenue follows up on these issues and provides a comprehensive assessment of the socioeconomic effects of the COVID-19 pandemic. The theme of the 2022/23 annual submission is: *The effects of COVID-19 and the changing architecture of subnational government financing in South Africa*. The Commission believes that a comprehensive and evidence-based analysis of the socioeconomic impact of the pandemic is key to developing a set of informed recommendations that would contribute to turning around the economy towards an inclusive and sustainable growth trajectory. Simply put, the Commission makes a number of recommendations that jointly seek a recovery process that is sustainable and "leaves no one behind".

The 2022/23 submission is divided into the following four parts:

- Part 1: The macroeconomic impact of the pandemic
- Part 2: The implications of the pandemic on local government finances
- Part 3: The COVID-19 pandemic and the progressive realisation of basic rights
- Part 4: Oversight and leadership

Part 1 of the submission contains two chapters (chapters 2 and 3) that respectively provide a comprehensive overview of the macroeconomic and fiscal impacts of the COVID-19 pandemic and the implications of the COVID-19 pandemic on public spending behaviour. Chapter 2 focuses on South Africa's macroeconomic environment, as well as its financial and fiscal position, taking into account the impact of the COVID-19 pandemic.

The pandemic has triggered the most significant recession ever recorded in South Africa's economic history, with dire socioeconomic consequences, especially for the poor. It has exposed many of the structural weaknesses in the domestic economy and increased the risk of a public debt spiral, which is undermining the country's fiscal credibility. Simply put, the current economic outlook is unlike any situation experienced before, and requires policy to be informed and strategic. Tangible steps towards structural transformation are needed. In order to inform appropriate policy design, Chapter 2 relies on a quantitative approach of financial programming, descriptive analysis and macroeconometric time-series techniques using the most recent empirical data to measure the impact of COVID-19 on the South African economy. Two interrelated topics are covered in Chapter 2. First, the macroeconomic impacts of the pandemic are analysed by considering the contributors of economic growth, particularly in terms of supply, productivity and aggregated demand, together as the long-run potential output and outcome of the South African economy. Second, the financial and fiscal impacts of the pandemic are measured by relying on macro-financial stability and fiscal indicators, such as, inter alia, price indices, public revenues, the fiscal impulse and the determinants of fiscal debt. The latter part of this analysis includes a first-of-its-kind model on the intergovernmental determinants of fiscal debt, for the purpose of identifying markers of fiscal and financial credibility in the South African context. Recommendations for economic and fiscal policy are made based on the findings presented in this chapter.

Chapter 3 considers the effectiveness of public expenditure in South Africa, in light of South Africa's programme and performance-based budgeting (PPBB) system and the utmost urgency for effective and efficient expenditure controls being put in place since the onset of COVID-19. PPBB emphasises results, rather than inputs. It is widely accepted that PPBB enhances coordination, improves the efficiency and effectiveness of public service delivery, and promotes the transparency and accountability of governments. Nonetheless, in South Africa, the effectiveness of public spending, especially in terms of fostering economic growth, is still subject to debate. Chapter 3 considers the impact of the COVID-19 pandemic on public spending behaviour and social welfare interventions. This chapter employs rolling regression to compute fiscal multipliers to investigate the effect of government expenditure on economic growth, unemployment and poverty. In the second section, efficiency performance is analysed using a unit cost indicator calculation for the purpose of evaluating the effectiveness of government departments' performance indicators. In order to uncover the size and shape of the wage bill, relative to delivering public value, the third section examines the growth of the wage bill over time, as well as areas where expenditure was particularly concentrated. The fourth section investigates the effect of PPBB in South Africa by computing efficiency scores using both data envelope analysis and a tobit regression technique. The chapter makes recommendations on how the effectiveness of public spending can be improved.

Part 2 of the submission contains one chapter (Chapter 4), which examines the implications of COVID-19 on local government economies and finances. Municipalities are the closest sphere of government to the people, and thus experience the devastating effects of the pandemic first-hand. The negative impact of the crisis on municipal economies and local economic development is certain, but the relative size, scale and extent of this impact is unknown. Chapter 4 provides empirical evidence on the relative magnitude and severity of the COVID-19 pandemic on local economies. An understanding of the impact of the pandemic on municipalities is crucial for designing and implementing appropriate recovery strategies. The findings in Chapter 4 show that the pandemic is causing significant dislocations in virtually all municipal revenue streams, which gives rise to liquidity crises of huge proportions. Capital expenditure was at a higher risk of deferment compared to operational expenditure. While revenue collection rates have fallen far below the norm, there are some glimpses of rebounding in the metro and intermediate city municipal categories. This quick rebounding for some categories of municipalities suggests some financial resilience. The COVID-19 crisis has also condemned more municipalities into debt. The increase in consumer debt has rendered a significant proportion of municipalities unable to service their debt, especially to utilities such as Eskom and

the water boards. Overall, the devastating effects of the pandemic across the entire spectrum of municipal finances and economies calls for municipalities to move away from the status quo and challenge the traditional way of doing things.

Part 3 of the submission has four chapters (chapters 5 to 8). It takes its cue from the Bill of Rights and examines how COVID-19 has affected the progressive realisation of people's basic rights. This part begins by discussing gender equality through budgeting: one of the key principles of the South Africa Constitution. Considering that the pandemic has amplified individual and household vulnerability, Chapter 6 examines the effectiveness of the current system of means-tested social grants in targeting vulnerable individuals and households. Part 3 of the submission ends by discussing the implication of the pandemic on water and food security – the core pillars of the Bill of Rights.

Chapter 5 looks at the effectiveness of the departmental budgeting processes in addressing gender disparities. Gender inequality is a serious problem in South Africa. The COVID-19 pandemic has also seen a proliferation of gendered tensions in general, and gender-based violence in particular. The government has committed itself to addressing gender inequality through changes in legislation, policies and creating institutions to bring about the needed change. There is a well-established link between gender equality and improved economic efficiency and productivity. Improving women's opportunities in education, access to appropriate healthcare, and the ability to participate in paid employment are crucial elements for economic growth and addressing poverty and inequality. Our research shows that, although various pieces of legislation, policies and institutional frameworks are in place, evidence on the ground shows that budgeting processes remain weak on mainstreaming women empowerment and gender equality issues.

Chapter 6 is concerned with whether the current means-testing approach is sufficient to ensure that the eligible poor can access social grants and that there is no significant leakage to those who are not eligible. Using micro-data from the 2017 National Income Dynamics Study (NIDS) and additional data from the 2020 NIDS-Coronavirus Rapid Mobile (CRAM) surveys, research indicates that the COVID-19 means-testing approach ensures that deserving individuals access social grants. However, the strong progressivity in the coverage of social grants may be of concern as around 80% of individuals who live in the poorest half of the income distribution either personally receive a grant or co-reside with a recipient, and this percentage is increasing. The impact of the COVID-19 Social Relief of Distress Grant for those previously not receiving any form of assistance was found to be positive. Overall, Chapter 6 shows that grant income significantly lowers the rates of both poverty and inequality.

In Chapter 7 of the submission, the Commission examines the question of food security in the context of the COVID-19 pandemic. A nationwide lockdown in response to the COVID-19 outbreak caused massive job losses and concerns about household food security in South Africa. The pandemic also disrupted the supply chain of food sytems across the country. Research discusses the implications of the COVID-19 pandemic on food security and shows that lockdown-induced job losses caused an increase in child hunger by 28.7 percentage points. The likelihood of households running out of money for food purchases increased by 28.5 percentage points, and the recurrence of household hunger escalated by 7.94 percentage points. The study also found that the Older Persons' Grant (OPG) and the COVID-19 Grant proved to be effective instruments in protecting households against the COVID-19-induced welfare reversal.

Following the chapter on food security in the context of COVID-19 pandemic, the Commission examines the impact of COVID-19 on access to water and sanitation in South Africa in Chapter 8. Although the government has made significant strides in the provision of safe drinking water and sanitation, the COVID-19 pandemic has escalated the need for clean drinking water and sanitation. The results of Chapter 8 indicate that the COVID-19 crisis has resulted in a slight decrease in access to safe, clean drinking water

in South Africa at -2.0%. The pandemic has also exposed inequalities in access to drinking water and sanitation, particularly in rural and urban informal sectors. Additional revenue pressures coming from inefficient operations such as high non-revenue water, such as leakages, water theft and uncollected revenue are concerning.

Part 4 of the submission has two chapters (chapters 9 and 10). These chapters unpack the challenges characterising two critical aspects related to the performance of municipalities. The first aspect and the focus of Chapter 9 relates to the aspect of intergovernmental oversight and support provided by national and provincial governments.[1] The oversight and support functions provided by these spheres are critical to strengthening the early warning system within the local government sphere in the sense that, through monitoring, potential challenges should be identified and addressed through support. The intention is that these two processes work in tandem and help to minimise the need for more direct intervention in a municipality via section 139 of the Constitution. That the South African local government sphere has been characterised by a growing number of interventions brings the effectiveness of this system of intergovernmental oversight and support into question. Chapter 9 thus evaluates the current system of monitoring and support, and highlights aspects that need to be addressed if this role of national and provincial governments is to be optimised, especially in the current context where the efficiency and effectiveness of municipal operations are of paramount importance.

Chapter 10 looks inward, at the municipality itself, and evaluates the impact that municipal leadership, management and governance has had on sustainable service delivery, particularly as it relates to infrastructure development. The main thrust of Chapter 10 is that, to facilitate the improved delivery of services, an appropriate and effective leadership and governance framework is required. Indeed, effective leadership is a critical ingredient to successfully navigate the effects of the pandemic, not only for households as end users of municipal services, but also organisationally as municipalities need to adjust to a new way of operating, interfacing with their communities and – ultimately – delivering basic services. While the focus of Chapter 10 is the municipal space, the lessons derived from this chapter are relevant to leadership, management and governance practice at all spheres of our multi-level system of government.

Recommendations

With respect to countering the economic and fiscal impacts of the COVID-19 pandemic, the Commission makes the following recommendations:

1. *The Commission calls for active engagements between the three spheres of government, led by the Department of Planning, Monitoring and Evaluation (DPME), to ensure the formalisation and alignment of provincial and local government economic reconstruction and development plans with the Economic Reconstruction and Recovery Plan (ERRP), with resource commitments in the 2022/23 Division of Revenue.*

2. *The 2022/23 Division of Revenue should, in promoting economic growth, be more specific in supporting local demand and localised product procurement in order to support value chains, as endorsed by the President in the State of the Nation Address (SONA) towards economic transformation and development. The Minister of Finance should explore the use of the budget as an instrument to incentivise localised product procurement.*

[1] Included in this chapter is a brief look at the conceptual roles and responsibilities of district municipalities in terms of the District Development Model (DDM). However, the Commission determines that more research will have to be done on the subject.

The Commission, in its 2021/22 Annual Submission for the Division of Revenue (Chapter 3, Recommendation 2), also recommended the concept of a localised product value chain approach towards growth. This was further agreed to in the 2021 W1 Annexure: Explanatory Memorandum to the Division of Revenue.

3. *The Commission advises the Minister of Finance to continue strengthening the effort to eliminate fiscal leakages and inefficiencies that are undermining fiscal credibility. The Commission noted that citizens do not receive adequate returns from public spending (Budget Review 2021). These issues must be addressed by the following:*
   i. *A decisive and coherent strategy and approach of fiscal reprioritisation*
   ii. *The implementation of fiscal consolidation, targeting cuts in areas of underspending and questionable performance*
   iii. *The eradication of duplication of function (i.e. the merging and downsizing of departments and public entities)*
   iv. *Investment in the use of technology and related areas to improve the capability of public sector personnel*
   v. *The eradication of contract mismanagement and procurement irregularities*

With respect to measuring the effectiveness of government expenditure, the Commission makes the following recommendations:

1. *With regard to the alignment and effectiveness of government's performance indicators, the Minister of Finance should ensure that departments enhance the consistency and coherency of their key performance indicators (KPIs) to the financial commitments of their budgets, via the Medium-term Expenditure Framework (MTEF) Technical Guidelines. Indicators that incentivise a target that is costed are encouraged as opposed to merely indicating progress on a specific objective.*

2. *With regard to the size and shape of the wage bill that impacts on the Division of Revenue, the Minister of Finance should review the public sector wage bill across all spheres of government with the view to reduce expenditure on non-core functions, for there is researched justification for the consolidation of the wage bill.*

3. *With regard to the fiscal multiplier effect, the currently low returns or multiplier effect of expenditure on the gross domestic product (GDP) is of concern. This needs further investigation by the Minister of Finance, especially as the economic environment going forward due to COVID-19 is still changing.*

With respect to the impact of the COVID-19 pandemic on the local economy, the Commission makes the following recommendations:

1. *Municipalities should undertake a detailed and unbiased analysis of the services they provide to align their responsibilities, services and programmes to their financial capabilities. National and provincial treasuries, the Department of Cooperative Governance and Traditional Affairs (CoGTA) and the South African Local Government Association (SALGA) should ensure that municipal organograms, staffing levels and the compensation of employee budgets are set at levels that do not crowd out service delivery expenditures. In addition, these roleplayers should ensure that municipal budgets are credible and based on realistic revenue collection rates. National and provincial treasuries, CoGTA and SALGA should support and monitor progress in this regard.*

2. *Municipalities should stimulate local economic growth by creating investment-friendly conditions and streamlining regulations that impede investments within their jurisdictions.*

3. *Municipalities should consider additional revenue-enhancing strategies, such as the selling of redundant assets and creating new revenue-generating infrastructure.*

4. *National Treasury, through the Municipal Systems Improvement Grant (MSIG), should support municipalities to embrace e-government (digitalisation) and diversify their revenue mix as part of building the financial resilience of local government.*

With respect to addressing gender inequality through gender budgeting in the public sector, the Commission makes the following recommendations:

1. *The Department of Women, Youth and Persons with Disabilities (DWYPD) and the DPME should finalise the institutionalisation of gender-responsive planning throughout national and provincial government as envisaged by the Gender Responsive Planning, Budgeting, Monitoring, Evaluation and Auditing Framework (GRPBMEA).*

2. *National Treasury, together with the DWYPD and the DPME, should spearhead the implementation of gender-responsive budgeting (GRB) and mainstreaming GRB throughout the entire scope of the budget process as it applies to national and provincial government. In collaboration with CoGTA, GRB implementation and mainstreaming should be extended to the local government sector.*

3. *National Treasury should create an enabling environment to institutionalise the GRPBMEA. This may include the development of an overall budget framework for the model to be implemented across the budget cycle and MTEF processes, including the revision of the format of Estimates of National Expenditure (ENE) to give specific expression to the advancement of gender equality.*

4. *National Treasury and the DWYPD should consider the introduction of a formal gender auditing process to be conducted by a relevant independent institution in respect of the non-financial performance information of departments, entities and municipalities.*

5. *The DWYPD should coordinate and spearhead initiatives focused on the capacity building of political and administrative leadership on gender-responsive planning, budgeting, monitoring, evaluation and auditing at all levels of government. Such initiatives are to include the training of budget officers on GRB and the use of gender disaggregated data in the budget process.*

6. *The DWYPD should, on an annual basis, prepare a comprehensive report on how the Division of Revenue Bill responds to gender inequality and how fiscal policies translate government's gender equality commitments. The report should be tabled for consideration by the relevant committees of Parliament.*

7. *The DWYPD, together with Statistics South Africa (Stats SA), should provide explicit guidelines for collecting and integrating gender disaggregated data to ensure the visibility of girls and women in government programme execution and in budgeting processes within government. The Department should also invest in statistical capacity building in government to improve the measurement of gender equality indicators and the collection of gender disaggregated data.*

With respect to the existing social grant system, the Commission makes the following recommendations:

1. *On social grants and COVID-19: The Minister of Finance, in the Division of Revenue, should continue monitoring the outcome of the existing social grant system that appears to be effective and pro-poor. The social grant system was used effectively to protect vulnerable households from some of the negative effects of COVID-19 in the short term. Receipt of the Social Relief of Distress (SRD) Grant has been concentrated among the poor.*

2. *On eligibility: The Minister of Social Development, with the Minister of Finance, should investigate the reasons for the exclusion of those persons who are eligible to receive an income grant, but do not receive it, and develop and implement appropriate remedial action.*

3. *On alternative means-testing regimes: It is advised that the Minister of Finance, together with the Minister of Social Development, should consider alternative means-testing regimes of the social grant system, such as an asset-based system of means-testing.*

4. *On the COVID-19 SRD Grant being a precursor to a Basic Income Grant (BIG): The experience of the COVID-19 lockdown and the implementation of the SRD Grant have provided some impetus for the discussion of a BIG. The current iteration of the debate is still new, but the Minister of Finance should consider the fiscal impact of such a grant.*

With respect to food security during the COVID-19 pandemic, the Commission makes the following recommendations:

1. *The Minister of Finance, in the Division of Revenue, should incentivise the Department of Social Development (DSD) to engage and involve local governments and non-profit organisations to collect more detailed tracking information on vulnerable individuals and households to improve targeted delivery and food assistance during pandemic times such as COVID-19. This will create a more comprehensive, updated government registry, as this can be used for future social assistance programmes.*

2. *The Minister of Finance, in the Division of Revenue, should continue supporting the Department of Basic Education (DBE) in school-feeding programmes during COVID-19.*

With respect to water and sanitation access, distribution efficiencies and tariff setting, the Commission makes the following recommendations:

1. *Municipalities, advised by SALGA, should approach tariff adjustment, taking account of the poor during the duration of the COVID-19 crisis.*

2. *The Department of Water and Sanitation (DWS) should establish a benchmarking of water service providers' service level agreements, aligned to the Department's performance indicators in terms of infrastructure, socio-political and financial indicators.*

3. *The Minister of Finance should ensure that water and sanitation projects also form part of the economic stimulus to help mitigate the impact of the COVID-19 crisis.*

4. *The Minister of Finance and the Minister of Water and Sanitation, together with the municipalities, should systematically develop water investment by structuring mechanisms to de-risk private investments. However, long-term sustainability depends on the capacity of water service providers, governance mechanisms to safeguard corruption and the ability of the private sector to manage both higher-level government demands and possible public opposition.*

With respect to the role of intergovernmental oversight and support in avoiding a section 139 intervention, the Commission makes the following recommendations:

1. *As part of National Treasury's review of capacity-building grants, financial support to build capacity and institutional systems (such as the Finance Management Grant and the Municipal Systems Improvement Grant):*
   i. *should be disproportionately directed at lesser-resourced, poorer and more rural municipalities;*
   ii. *should make every effort to ensure that capacity-building efforts are comprehensively consulted with and agreed to with a municipality;*
   iii. *should either link capacity-building efforts to a municipality-specific diagnosis of capacity challenges or deficits, or be specifically aimed at addressing challenges picked up through intergovernmental monitoring; and*
   iv. *should consider the consolidation of all capacity-building grants into one financial flow that is specifically linked to overall intergovernmental 'support' of municipalities. This will assist in reducing the administrative and reporting burden placed on both grant administrating departments and receiving municipalities, and will further assist in streamlining the overall conditional grant framework.*

2. *The Minister of Cooperative Governance and Traditional Affairs, in enacting the provisions of section 105(3) of the Municipal Systems Act, should implement mechanisms to undertake a critical evaluation of the impact of the regulations, monitoring and support provided to local government, with an emphasis on the explicit cost-benefit analyses when new legislation, regulations, monitoring and/or support initiatives are introduced across the supervisory framework.*
   The cost-benefit analysis should do the following:
   i. *Assess not only the outcomes/performance related to the oversight and support framework (e.g. whether there are more funded budgets), but also whether monitoring and support is provided in the most efficient and effective manner (i.e. minimising the burden placed on municipalities).*
   ii. *Consider the DPME, which is based at The Presidency, for this role. Such evaluations should be undertaken periodically with larger reviews every five years.*

3. *Given that the current monitoring and support framework is applied uniformly across local government, government should reconsider its current approach to explore the principle of a differentiated method to municipalities when it comes to financial and non-financial reporting requirements, overall monitoring and support.*

4. *The Minister of Finance should ensure that provincial treasuries are effectively capacitated to undertake their oversight and support role of local government in terms of financial management. In addition, government should consider developing a common framework to guide provinces in their oversight and support role towards the delivery of basic services.*

5. *Government should review specific legislation that results in a duplication of the supervisory and regulatory roles of national and provincial government departments.*

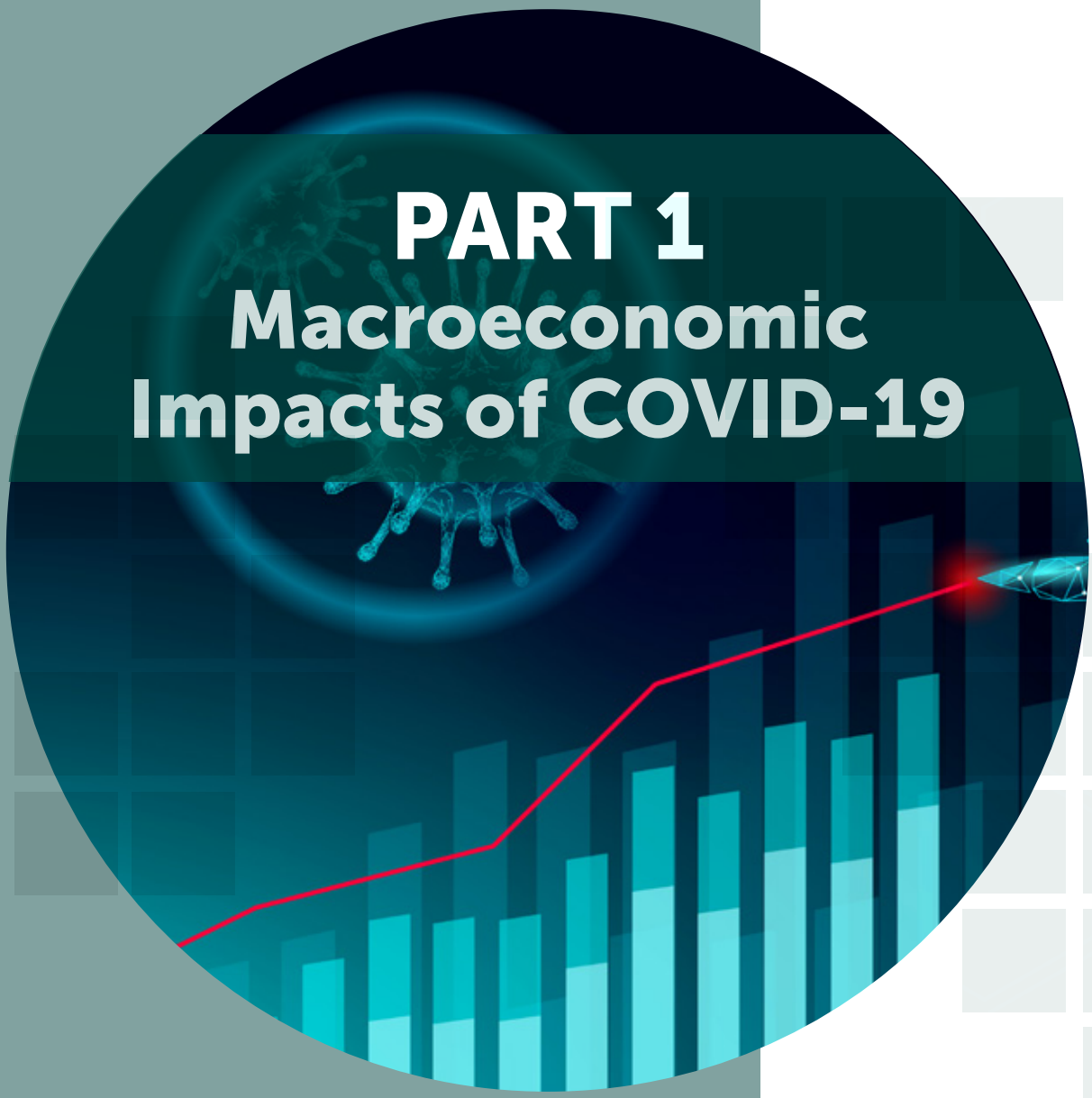
With respect to improving the delivery of infrastructure projects through effective leadership, the Commission makes the following recommendations:

1. *The Minister of Finance, in the Division of Revenue, should ensure that commitment to compliance with legislation and policy frameworks is formalised with all participants in an infrastructure project prior to the commencement of the project, with financial consequences for compliance failures clearly set out. This will ensure that policies and clear regulatory frameworks are in place to avoid judiciary involvement and pronouncing on what should be done on policy matters that could have been easily resolved through policy and legislation.*

2. *The Minister of Cooperative Governance and Traditional Affairs should review the intergovernmental coordination policy framework and consider strengthening intergovernmental coordination both vertically and horizontally. The intergovernmental relations arrangement clearly defines how the three spheres of government should work together in the implementation of a number of mandates, including infrastructure delivery, but is silent on how coordination between these spheres should be managed.*

3. *The Minister of Finance, in the Division of Revenue, should incentivise consequence management. This will ensure that all public office bearers are held legally and personally responsible when they transgress supply chain management policies in the implementation of infrastructure projects. The implementation of infrastructure projects, among other things, shows non-compliance with supply chain management policies, which results in a number of challenges that encompass project cost overruns, court interventions and project delays. Therefore, strict enforcement of various pieces of legislation, which seeks to provide for remedial action in ensuring and recovering losses suffered by the state, is necessary.*

PART 1
Macroeconomic Impacts of COVID-19



The pandemic has triggered the most significant economic recession ever recorded in South Africa's history, with considerable impacts on public finances and intergovernmental fiscal relations.

It is therefore crucial that Part 1 of the Annual Submission to the 2022/23 Division of Revenue examines how, and to what extent, the pandemic has altered the macroeconomic environment of South Africa. To that end, Part 1 measures, firstly, the impacts of the pandemic on South Africa's macroeconomic, financial and fiscal landscape, and secondly, the effectiveness of government expenditure within the programme and performance-based budgeting framework in South Africa.

The pandemic has exposed many of the structural weaknesses in the economy, and the erosion of the fiscus has undermined the country's credibility. At the same time, public expenditure is critical to boost economic growth and to provide pro-poor policy support. South Africa needs strategic policy interventions and structural transformation to overcome the many macroeconomic challenges that COVID-19 has created.

CHAPTER 2:
Measuring the Macroeconomic and Fiscal Impacts of COVID-19 in South Africa

2.1 Introduction

The COVID-19 pandemic and the sudden imposition of the nationwide lockdown have triggered the most significant recession ever recorded in South Africa's economic history. Real gross domestic product (GDP), measured by production at market prices, declined at an unprecedented annualised quarterly rate of -51.7% in the second quarter of 2020 (Stats SA, 2021b). This is more than eight times the decline of -6.1% witnessed in 2009 during the height of the financial crisis (IMF, 2021b). Before the onset of COVID-19, the South African economy was amidst a technical recession that started in the second quarter of 2019, influenced in part by the structural failures of state-owned monopolies, which rendered, for instance, Eskom unable to provide a reliable and quality supply of energy. Inefficiency in public sector service provision, combined with the pandemic's shock on overall productivity in the economy, has led to the country facing its highest level of unemployment, deepening poverty and escalating inequality. The sustainability risks of maintaining social transfers to the vulnerable, the previously disadvantaged and the marginalised groups are now materialising. The sudden halt in economic activities due to the nationwide shutdown exacerbated existing structural fragilities within the economic (and fiscal) architecture of South Africa. Not only has this caused significant uncertainty, but the momentum of addressing the socioeconomic legacies of apartheid since the county's transition to democracy has been disrupted.

During the peak of the nationwide lockdown, between April and June 2020 (in the second quarter), all but one industry (i.e. agriculture) suffered significant losses in output. The construction and mining industries were closed. Upstream and downstream factory plants for manufacturing goods and trade, as well as the logistics involved in moving these goods, also came to a halt. As people lost their jobs and income, and economic activity became restricted, finance operations became reluctant to move and release capital. Household demand patterns were disrupted and became conservative. In addition to this, there were closures of facilities such as hotels, restaurants and recreational facilities. Those most impacted by the shock of the COVID-19 pandemic are economically marginalised individuals – those without a secure and stable job and a means of income, and without access to services to meet their basic needs in terms of their socioeconomic rights, such as water, electricity, housing, healthcare and education.

Following the easing of the COVID-19 lockdown restrictions, economic activities slowly resumed, supported by demand, although from a lower base. As such, the South African economy recovered by an annualised quarterly rate of 67.3% in the third quarter of 2020. The fourth quarter of 2020 maintained this positive trajectory, growing at an annualised quarterly rate of 6.3%. This was bolstered mainly by the return of industrial activities in manufacturing and trade. However, compared to the same quarter of 2020, the overall change in outputs (measured by the real GDP at market prices) shows that the South African economy contracted by -7.0% in 2020 relative to 2019 (Stats SA, 2021b). Since the economy's size has shrunk, while population growth has continued, the GDP per capita decreased to a level equivalent to 2005 (Stats SA, 2021b).

South Africa's financial stability and fiscal position have also been affected by the onset of COVID-19, along with the commodity price cycle, currency depreciation and a reduction in profits and productivity, particularly in the mining and manufacturing sectors. In the decade preceding the onset of the pandemic, tax revenue was in a decline, and the sovereign credit rating was downgraded to sub-investment, causing

debt-servicing costs to escalate and public debt levels to soar. The underperformance of tax revenue has been particularly prevalent in tax collectables on corporate income, which diminished significantly prior to the impact of COVID-19.

Government was agile in facilitating the COVID-19 recovery, and identified four policy priorities, as announced by the President in his State of the Nation Address (SONA) in 2021:

- **First,** to defeat (contain and overcome) the Coronavirus pandemic by strengthening the health system and implementing a massive, agile vaccination programme.
- **Second**, to accelerate economic recovery in order to overcome poverty and hunger, joblessness and inequality.
- **Third,** to implement economic reforms that foster sustainable jobs and drive inclusive growth.
- **Fourth**, to fight corruption and strengthen the state.

There is great uncertainty about what the financial and fiscal roadmap should look like in order to ensure that these policy priorities are realised. Hence, an investigation into the economic, financial stability and fiscal position of South Africa, taking into account the impact of the COVID-19 pandemic, remains a crucial step in evaluating how effect can be given to these policy priorities within the current macroeconomic and fiscal environment.

With the onset of the COVID-19 pandemic, the government has been forced to balance, on the one hand, the need to implement policies aimed at protecting the health and safety of its population, and on the other, the need to minimise the negative economic consequences of the lockdown. Government's capacity, capability and adaptability have thus been put to the test to ensure the progressive realisation of the socioeconomic rights of its citizens.

The pandemic has also exposed many of the structural weaknesses in the economy that undermine the country's economic recovery. Access to basic public services, such as electricity and water, which are necessary to support factors of production (i.e. labour and capital) and growth, is lacking. The current economic outlook, which is beset with significant downside risks, is therefore unlike any situation experienced in South Africa before.

The potential new waves of the infection caused by variants of the virus, combined with the weakened fiscus, leaves the South African government little choice but to reprioritise in order to implement the vaccine rollout programme, as this will ensure the health and safety of individuals, and allow them to return to work.

However, reversing the downside risks and fostering economic recovery will require more than just the COVID-19 vaccine rollout, as such progress will only return potential output in the economy to pre-COVID-19 levels of production. Therefore, in order to overcome the current challenges and future risks that the pandemic has created, the government must undertake additional measures in the form of effective policy support interventions, and take tangible steps towards informed and strategic structural transformation.

Policies, systems and structures of the economy should all learn from the current experience of the pandemic in order to prepare for future possible public health outbreaks in the country and elsewhere in the world. For instance, the COVID-19 pandemic and the induced nationwide lockdown have demonstrated how information technology, social and economic infrastructure, and even the way of functioning and production (i.e. working remotely for specific industries) could be productivity preservers, or even multipliers. Relying on the most recent empirical data, this chapter aims to provide a first-hand examination of the economic impact of COVID-19 in order to inform policies for recovery in South Africa.

2.2 Research methodology and data

In order to analyse macroeconomic developments that inform the design of appropriate policies, a quantitative approach of financial programming, descriptive analysis and the macroeconometric techniques of simple time series on the determinants of productivity contributors towards economic growth is employed. In terms of data, the System of National Accounts of the South African Reserve Bank (SARB) and GDP data from Statistics South Africa (Stats SA) are used as the primary sources of information upon which a framework for interpreting economic growth is built. The model uses the Financial Programming and Policies Framework of the International Monetary Fund (IMF) as its base. This is an internationally recognised system of organising fundamental economic flows.

In analysing the financial and fiscal impact of COVID-19, the chapter adopts yet more quantitative methodologies of financial descriptives and econometric regressions to analyse South Africa's fiscal position. It highlights key macrofinancial stability and fiscal indicators that measure the impact of COVID-19, and ends by examining the determinants of public debt in order to identify some of the markers for fiscal and financial credibility in terms of our intergovernmental fiscal system.

Intergovernmental determinants of fiscal debt

First of its kind in the field of researching the determinants of fiscal debt in South Africa, in the final section of this chapter, the Commission presents an econometric analysis of fiscal debt by examining intergovernmental determinants. Here, the Commission considers, by testing for statistical significance, the impacts and coefficients of the operating cash balances of all spheres, entities and agencies of government as exogenous variables that determine fiscal debt. The functional form of this model is given by Equation 2.1.

Equation 2.1: Intergovernmental determinants of fiscal debt

$$d = f(c^j \mid g, i, \varepsilon, \pi)$$

Where c represents the operating cash balance of different spheres of government, state-owned entities and agencies of government (j) – where the latter includes national, provincial and local governments, extrabudgetary institutions,[1] social security funds, non-financial public enterprises and corporations,[2] as well as financial public enterprises and corporations.[3]

2.3 The macroeconomic impacts of COVID-19 in South Africa

Supply and productivity

Figure 2.1 presents the factor contributions of capital, labour and the estimated total factor productivity (TFP) to economic growth over time by deconstructing South Africa's economic growth or growth decomposition. The focus is on the estimated TFP as a proxy for residual productivity factors such as technology, institutions, policy certainty and governance in the growth process.

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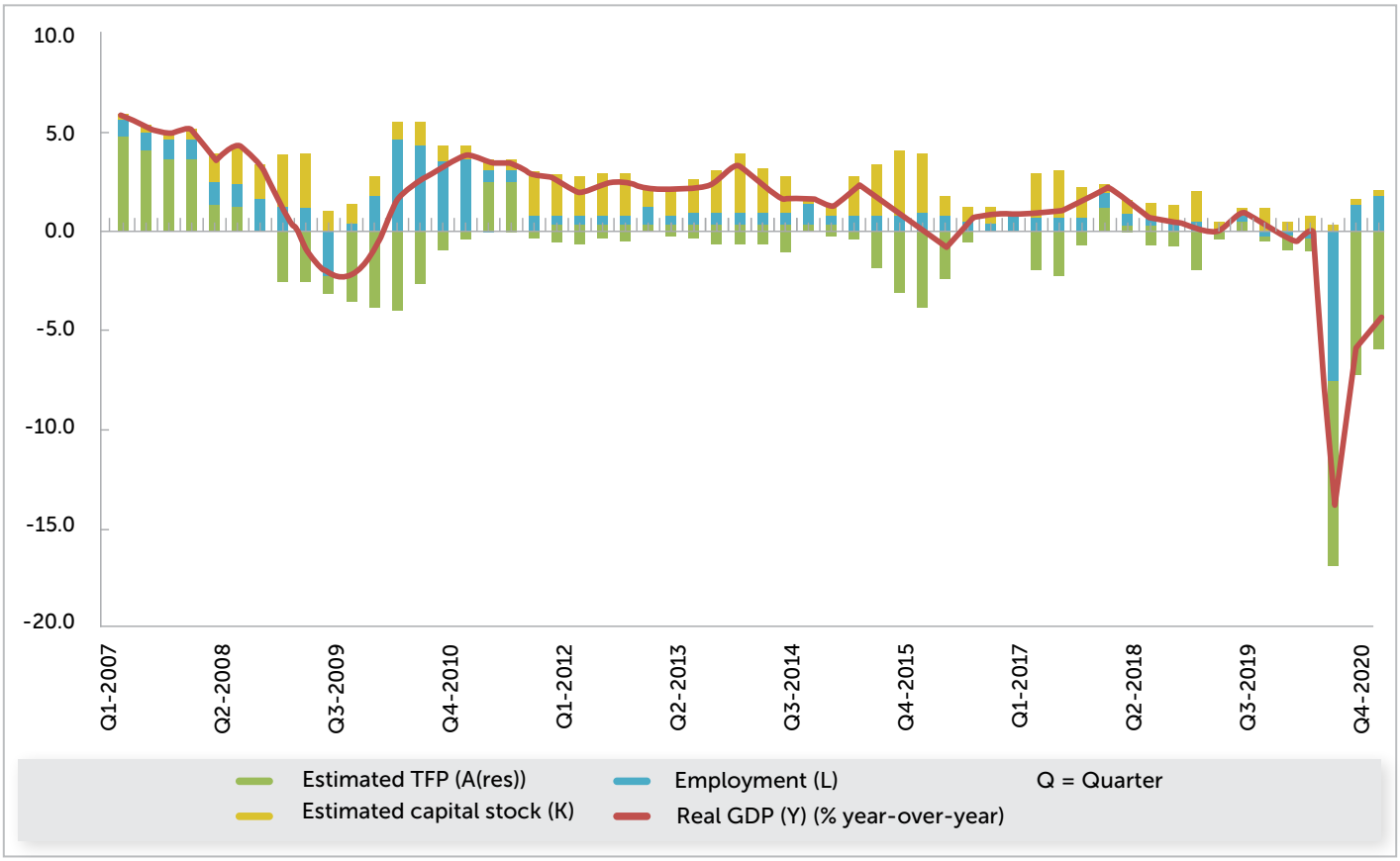
[1] The scope of the extrabudgetary accounts and funds encapsulates institutions of general public services, defence, public order and safety, education, health, social protection, housing and community amenities, recreation, culture and religion, environmental protection and economic affairs – over 230 organisations in total.

[2] Non-financial public enterprises and corporations include Eskom, Telkom, Transnet and the water boards.

[3] Financial public enterprises and corporations include the Industrial Development Corporation of South Africa Ltd. The South African Reserve Bank, the Corporation for Public Deposits, the Land Bank and the Postbank are not included because their statistics are covered in the monetary statistical pages.

Figure 2.1: Contributions to growth, Q1-2007 to Q4-2020 (in percentage, year-over-year)

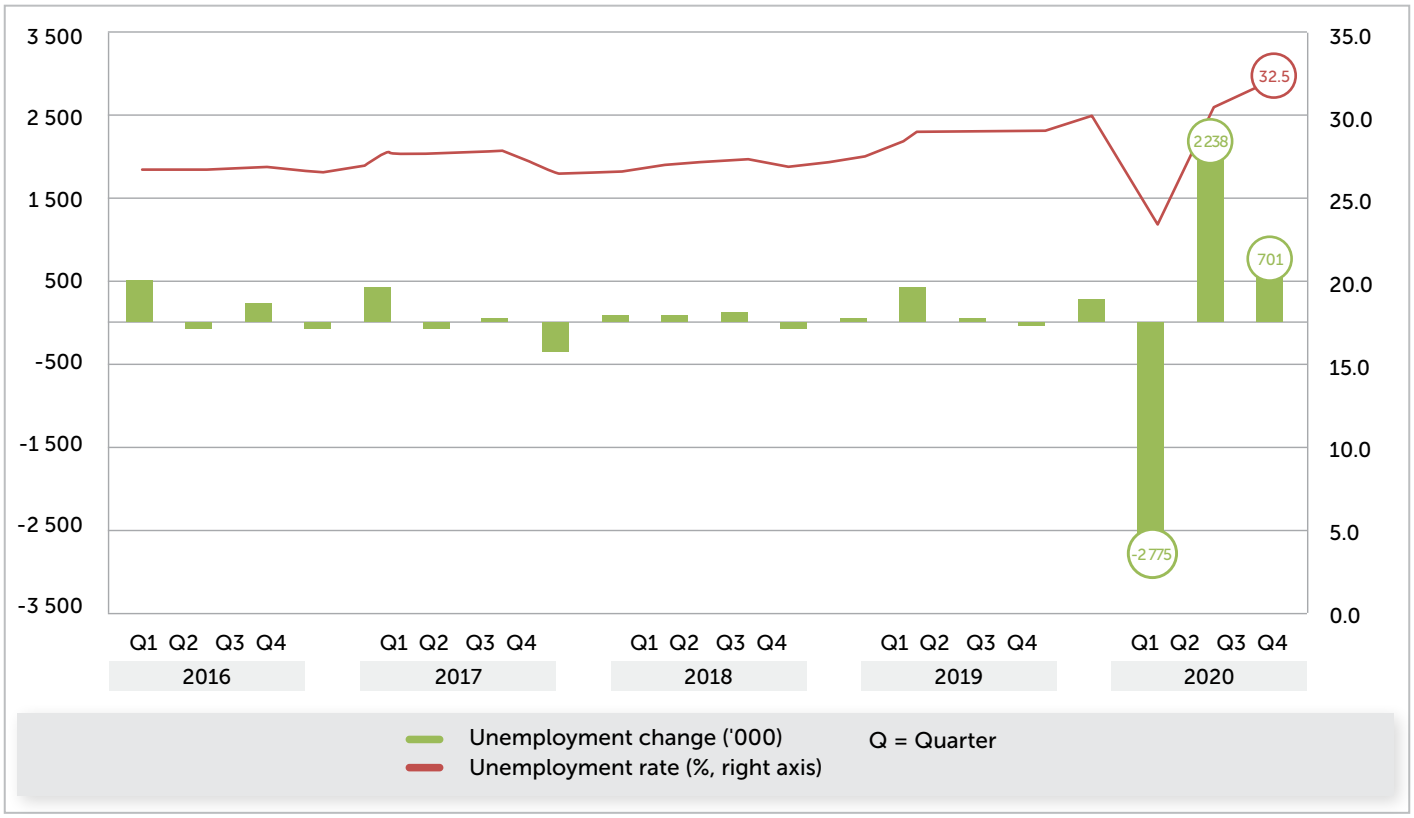


Source: South African Reserve Bank (2021) and Commission's calculations

According to the data, South Africa entered a prolonged period of structural decline before the onset of the COVID-19 crisis, especially around 2015 and 2016, represented by the decline in estimated TFP over that period. The onset of the COVID-19 pandemic drastically deepened the underlying structural vulnerabilities in TFP by roughly -7.5%, notwithstanding the collapse in labour productivity by -9.3%, in the second quarter of 2020 (Q2-2020). Due to the necessary nationwide lockdown to contain the spread of the virus, large-scale unemployment ensued as businesses halted their operations, causing people to lose their jobs and income. Restrictions on the movement of persons also limited people's ability to search for work, causing affected individuals to become economically inactive.

The TFP recovered positively in the third and fourth quarters of 2020 due to lockdown restrictions easing after the first wave of COVID-19 infections. Such easing coincided with the reopening of industries and trade in a phased manner. However, the improvement in productivity did not reverse the decline in overall economic growth because labour, as a factor of production, continued to decline, and this outweighed the growth in TFP. Furthermore, capital's contribution to growth decelerated to almost 0% since the onset of COVID-19, which compromised growth in terms of the supply of capital stock. A possible reason for the subdued growth contribution of capital as a factor of production is that, despite the reopening of the economy, firms remain risk-averse in investing in machinery and infrastructure. Furthermore, financial markets may have also taken a conservative outlook on lending liquidity to firms to accumulate the stock of physical capital. This would have undermined the growth trajectory.

Figure 2.2: Quarter-to-quarter changes in unemployment (thousands)



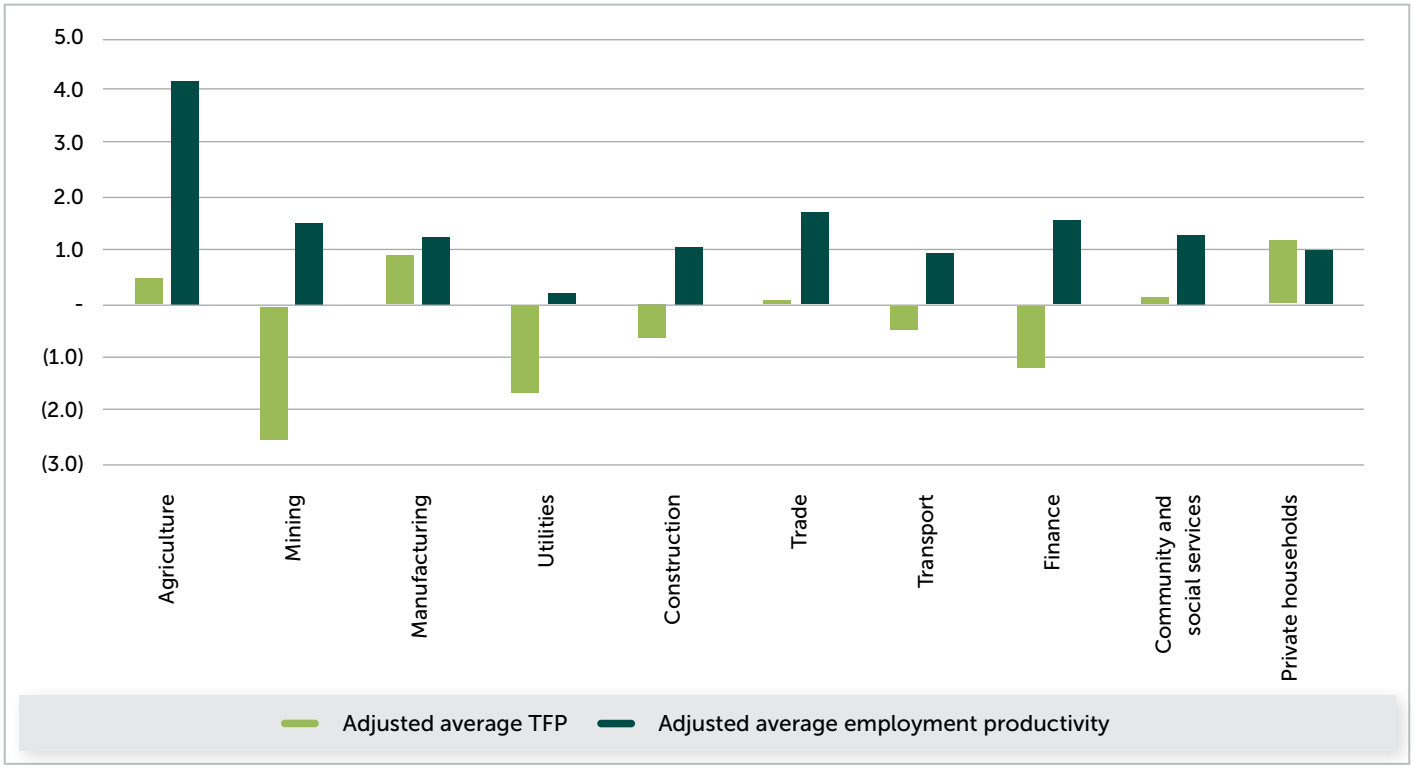
Source: Statistics South Africa (2021c)

A noteworthy structural trend that may be observed in the growth analysis is that growth in South Africa is capital-biased, as it is the only component to have sustained positive growth throughout the period under review. This fact also implies that South Africa's economic development has higher marginal productivity – or lower marginal cost of capital – relative to labour. On the labour side, due to active union movements, reservation wage rigidities and non-competitive labour policies, the marginal productivity of labour remained relatively low, and the marginal cost high. The result is a distortion in the productivity ratio between labour and capital, resulting in an inability to reach optimal competitive rates of productivity or minimum cost by input substitution. Simply put, the cost of labour has been kept high by decisions and policies, which has resulted in the economy being unable to pivot away from its historically skewed industrial structure (which relies heavily on capital) towards labour-inclusive economic growth.

Figure 2.2 shows the impact of the COVID-19-induced lockdown on the labour market. From the graph, mass unemployment is clearly the most noticeable impact of the pandemic. Following the restriction of people's movement in the second quarter of 2020 (Q2-2020), many job seekers were unable to look for employment, and became economically inactive, resulting in the unemployment rate declining temporarily to 23.3%.[4] With the easing of lockdown restrictions and people emerging from their homes to seek employment in the labour market, the number of economically active and unemployed people increased by more than 2.2 million in the third quarter of 2020 (Q3-2020), and by 701 000 individuals in the fourth quarter.

[4] The decline in the unemployment rate, notwithstanding mass job losses during this period are due to the fact that the official unemployment rate in South Africa (which is according to the strict or narrow definition) does not include discouraged work seekers, but only those individuals who are unemployed and actively seeking work, i.e. economically active.

Figure 2.3: Adjusted means of total factor productivity and employment elasticity, 2009 to present (in percentage)



Source: South African Reserve Bank (2021), Statistics South Africa (2021b, 2021c) and Commission's calculations
Note: Adjusted means are means corrected for the 95% confidence interval. Employment elasticity is calculated as the percentage growth rate of employment over the percentage growth rate of GDP growth in the respective industry.

The methodology of decomposing factor contributions to growth conducted thus far can also be applied at a disaggregated, sectoral level. This allows one to gain a more nuanced understanding of economic growth by its industrial productivity and construct. Figure 2.3 presents the adjusted means of TFP and employment elasticity of each sector, from the time of the global financial crisis of 2008–2009 to the present.

According to the data, agriculture, manufacturing and private households' adjusted means of TFP are positive, as are their average employment elasticities. This synchronisation indicates that these sectors' productivity gains correspond with employment growth, such that more employment in these sectors may result in more productivity and more economic growth. However, other sectors show a desynchronisation between sector productivity and employment elasticity, indicating structural inefficiencies in their productivity. In particular, mining's TFP contribution to growth is the lowest compared to other industries and corresponds negatively to growth, despite its high employment elasticity. Most concerning of all is that electricity, gas and water utilities – which are vital to both the country's social and its economic infrastructure for economic growth – also have a negative TFP, with a near-zero employment elasticity.

The worrying result observed in the utility industry can be attributed to the lack of competitive efficiency borne in the country's structural legacy and regulatory barriers to entry (Conradie & Messerschmidt, 2000). Over 95% of the power consumed in South Africa is produced by Eskom and the rest is produced by independent power producers (IPP) (Hlongwane, 2012). The regulatory environment is governed by the Eskom Amendment Act, Act No. 126 of 1998,[5] which was later repealed by the Eskom Conversion Act,

[5] The repealed Eskom Amendment Act, Act No. 126 of 1998, intended to amend the Eskom Act of 1987 [repealed in 2001] so as to vest the ownership of Eskom's owners equity in the state and to remove the exemption of Eskom from the payment of income tax, stamp duty, levies or fees; and to provide for matters connected therewith.

Act No. 13 of 2001.[6] The government's initial aim of establishing these regulations was to protect consumers and promote social justice and the general welfare of society. Despite intentions to incentivise innovation, advance technologies and improve productivity through a monopolistic structure and reduced competition, the latter conditions instead gave rise to inefficiency and wasteful expenditure, which may be attributed to corruption, maladministration and governance failure. This has collapsed the TFP of both the utility company and the sector as a whole.

In sum, the results show significant structural weaknesses in South African industries in terms of both productivity and employment. The country has three critical deficiencies that hold back TFP growth and efficiency: Firstly, the lack of employability-targeted education and appropriate in-demand skills training; secondly, inadequate and unreliable basic infrastructure and utilities to support households to supply labour; and thirdly, non-competitive, high-concentration market. South Africa's industries are highly concentrated and weak in competition, posing significant entry barriers for new, small businesses to enter the market (Kumar, Pacheco & Rossouw, 2010). Competition in the product market is a particularly crucial incentive for productivity gains. On the upside, South Africa has some well-forged institutions, an open economy, and a sophisticated financial and private sector that can be used as leverage to enhance its productivity and growth. Taking into consideration the structural decline in TFP over the last decade, the government should take these factors into account when making informed decisions to implement structural transformation to countering the negative impacts of the COVID-19 pandemic.

Analysing aggregate demand

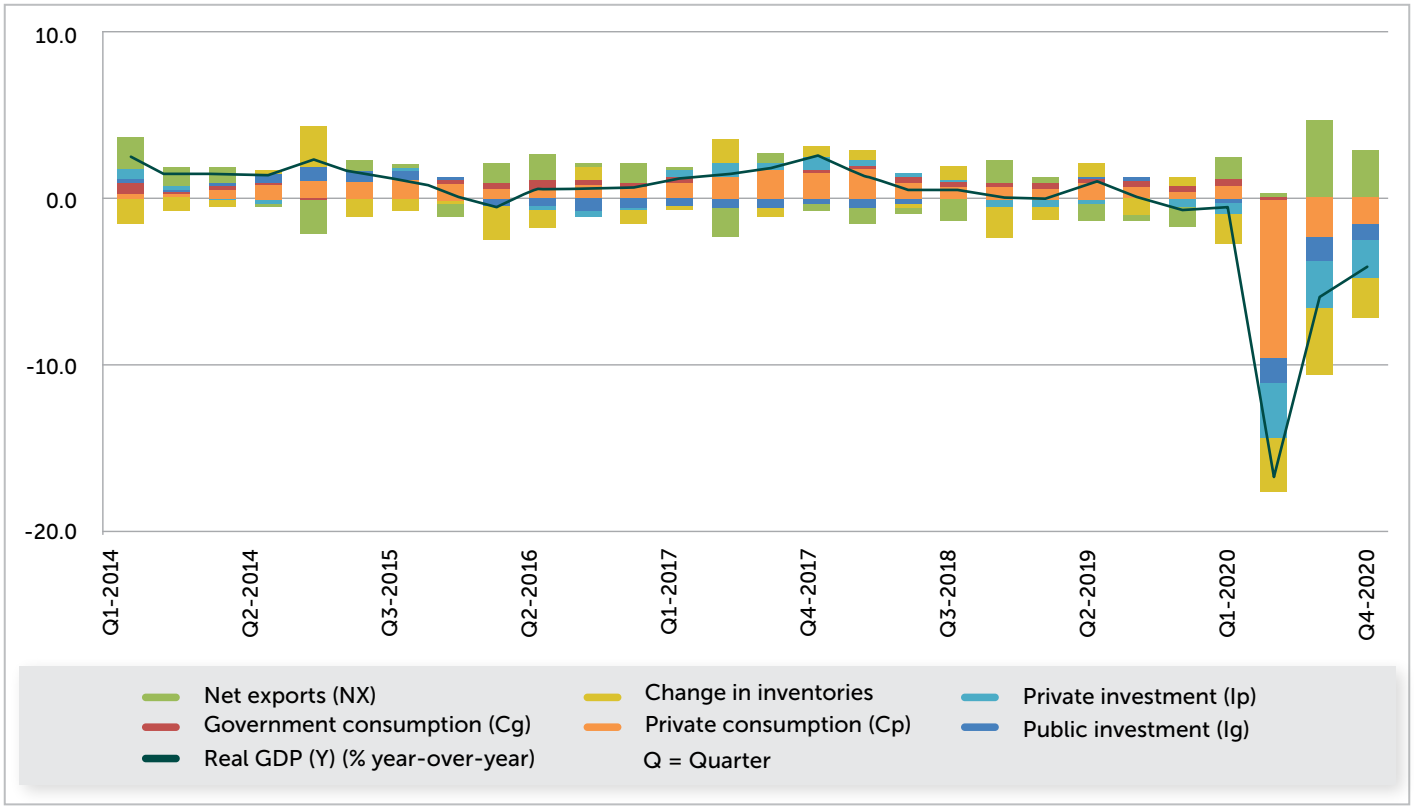
The COVID-19-induced lockdown has, without a doubt, disrupted the composition and productivity in production factors of both labour and capital for economic growth. However, due to changes in output, people's consumption patterns, investment decisions and imports were also impacted on the demand side. There are three main channels through which the COVID-19 pandemic impacted the economy through its demand activities. Firstly, the lockdown led to drastic changes in household demand for goods and services. Secondly, the increased levels of uncertainty impacted investment decisions. Finally, the disrupted global production and supply chain affected South African imports and exports.

Figure 2.4 presents the decomposition of aggregate demand, which contributes to real GDP growth. The data shows that, before the onset of COVID-19, South Africa's economic growth was predominantly a consumption-driven economy, as private and public consumption remained positive for most of the period under review. Public and private investments behaved erratically, as did the terms of trade in exports and imports, which affected inventory stock and aggregate demand for growth.

In the second quarter of 2020, with the onset of the COVID-19 pandemic and the nationwide lockdown in place, Figure 2.4 shows that the contribution of private consumption to aggregate demand and GDP decreased by -9.6%, while that of private investment decreased by -3.2%. Similarly, public investment and change in inventories declined by -1.7% and -3.3%, respectively. The only component of demand that remained positive, although minuscule, was government consumption. In the first quarter of 2020, there was no contribution of growth through the aggregate demand of net export.

[6] The Eskom Conversion Act, Act No. 13 of 2001, intends to provide for the conversion of Eskom into a public company having a share capital incorporated in terms of the Companies Act; and to provide for matters connected therewith.

Figure 2.4: Contributions to demand growth, Q1-2014 to Q4-2020 (in percentage, year-over-year)

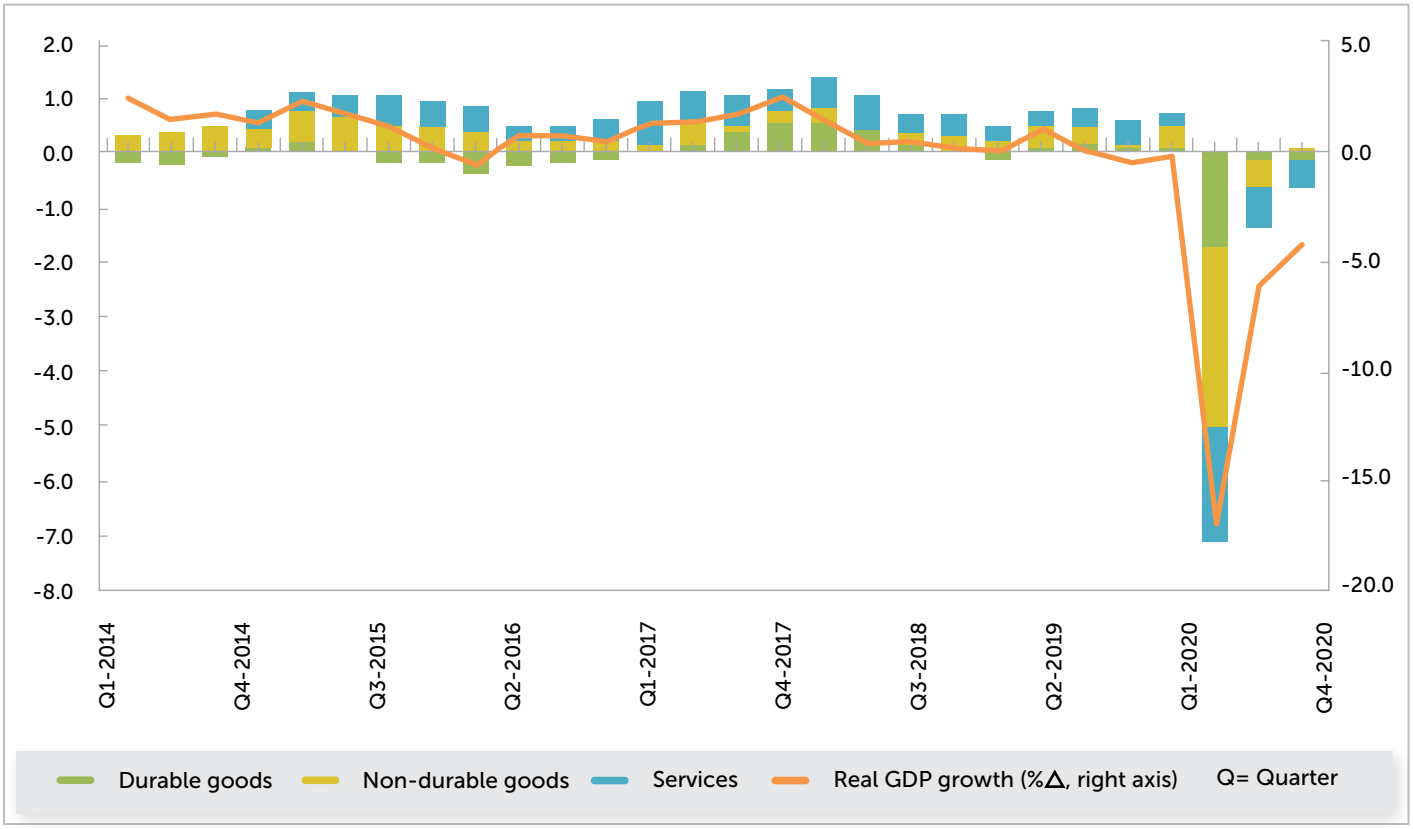


Source: South African Reserve Bank (2021) and Commission's calculations

As South Africa eased its lockdown restrictions and firms gradually reopened for business, the third and fourth quarters of 2020 showed a significant recovery in private consumption, although still negative. The same marginal increase may be observed for investment (private and public) and change in inventories. This suggests that the economy is slowly returning to its regular consumption and investment patterns, although still at a lower level of aggregate demand relative to the pre-COVID-19 period. In 2020, net exports increased by 4.6% in the third quarter and 2.8% in the fourth quarter, which suggests that, with trade resuming, South Africa is exporting more than it is importing. However, the lack of imports and continued depletion of inventory stock may undermine the potential for a quick recovery in short-term GDP growth by consumption of inventories. Furthermore, the risk of a protracted economic recovery is compounded by the slow and marginal increase in private and public investment. The only component that remained positive throughout the pandemic is government consumption, although this may crowd out other demand consumptions.

The COVID-19 shock also affected the consumption patterns of private households and aggregate demand in terms of durable and non-durable goods and services. Figure 2.5 shows that the contributions of consumption for all types of goods and services declined with aggregate demand of GDP in the second quarter of 2020, with the demand for non-durable goods impacted most severely at -3.3%. It is evident that the loss of income caused by the pandemic has reduced household consumption.

Figure 2.5: GDP growth vs. consumption contributions to growth (in percentage)



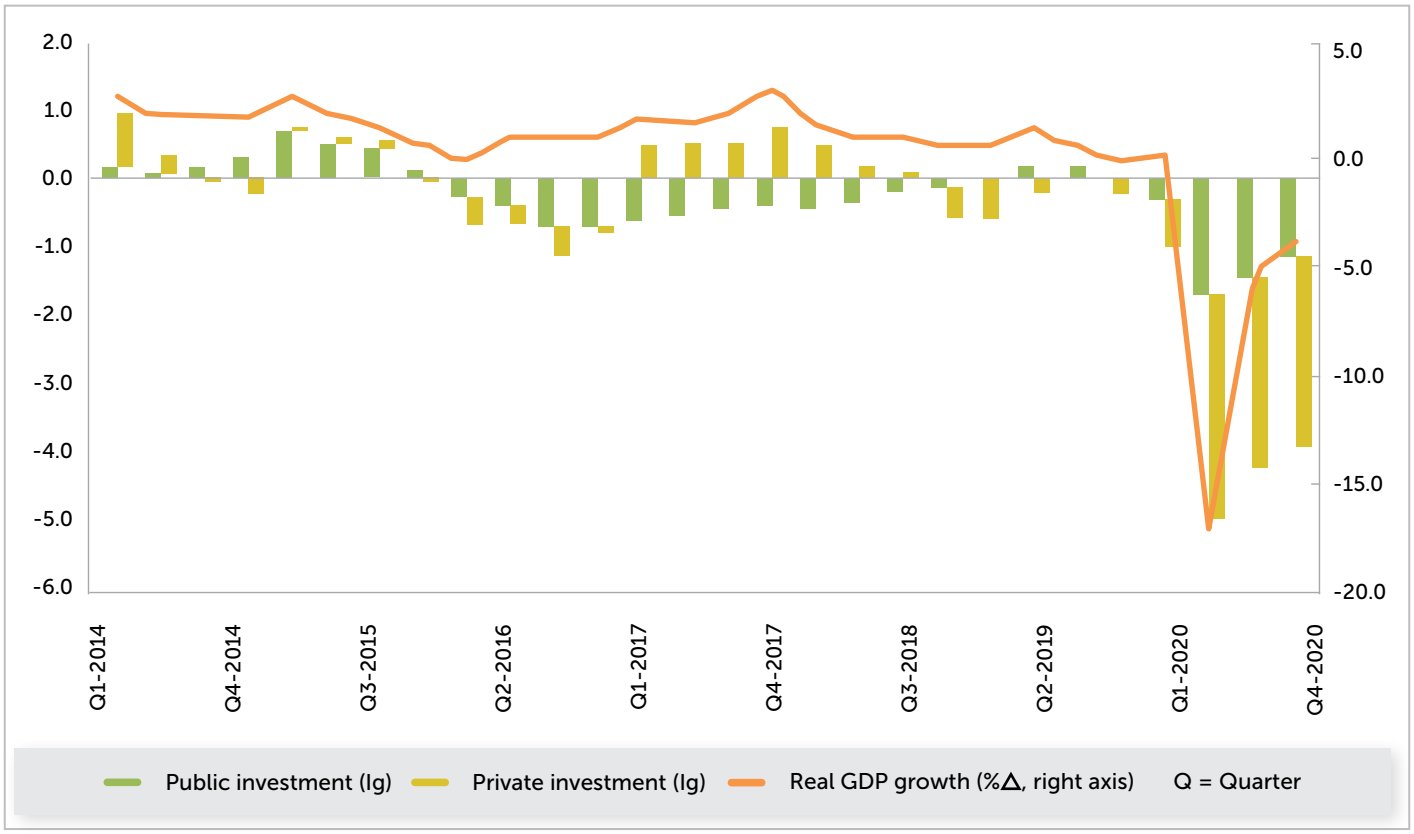
Source: South African Reserve Bank (2021) and Commission's calculations

By the third and fourth quarters of 2020, households began to consume again, prioritising non-durable goods, then durable goods and services. However, consumption of these goods and services is still lower than a year ago. In particular, since becoming the most prominent negative contributor of the three components in the third quarter, the reduced consumption of services may delay recovery of demand in the services sector for growth. This could mean that, despite the reopening of businesses and easing of the lockdown restrictions, confidence in the sector is still hampered as services struggle to return to their pre-COVID-19 levels.

The evidence of sharp declines in the consumption of non-durable and durable goods, combined with the outcome of the earlier analysis that showed a depletion of inventories for consumption, confirms that the possibility of a strong rebound sustaining towards a positive economic outlook is highly implausible. The prospect of demand for services to spring back to life also remains questionable with the rise of the virus's local variant, resulting in South Africa's second wave towards the end of 2020, which lasted until January 2021. Furthermore, the uncertainty surrounding the vaccine's efficacy and the efficiency of the rollout compels one to conclude that South Africa's road to economic recovery, at least from the perspective of consumption, will be unlikely to follow an optimistic projection.

Looking at the potential for long-term growth, the data in Figure 2.6 shows the extent to which both public and private investments contributed to the decline in aggregate demand and economic growth in the second quarter of 2020, and how both have recovered at a slow pace, though still negative. Investment is vital for accumulating capital and improving infrastructure, as buildings (residential and non-residential), machinery and other equipment, transportation equipment and communication networks all influence future production and future potential growth. It is worth noting that such investments – infrastructure build, capital machinery and other equipment – are complementary across private-public lines. Hence, the forging of public-private partnerships for these investments may enhance the efficiency of utilisation and boost returns on investment, which may, in turn, elevate the future potential growth path onto a higher level.

Figure 2.6: GDP growth and the contribution of public and private investment to growth



Source: South African Reserve Bank (2021) and Commission's calculations

Public sector investment in infrastructure, in particular, plays a critical role in generating complementary value for factor productivity for economic growth in the long run through improvements in access to water and electricity, as well as improvements in communication networks and roads. The pausing of construction due to the COVID-19-induced lockdown significantly affected investment and spending on infrastructure, thereby impacting the future potential growth of the South African economy. Investment decisions are also affected by the uncertain economic outlook, as risk-averse and conservative investors readjust their investment strategies, seeking alternative assets and investment havens.

The decline in public sector investment is corroborated in the statistics on public capital expenditure (Stats SA, 2020),[7] which identifies the state-owned company and sole utility power producer, Eskom, as the most significant infrastructure capital spender. At 21%, Eskom was responsible for more than a fifth (or R48.3 billion) of total public sector capital expenditure in 2019. Eskom reduced its capital spending by R15 billion due to budget cuts, the reconciliation of build projects and the termination of contracts. Second after Eskom in terms of capital spending on infrastructure is Transnet, which registered a decrease of R4.5 billion due to spending reprioritisation from machinery and equipment towards new construction works in order to maintain its rail and ports divisions. The third-largest contributor, the South African National Roads Agency Limited (SANRAL), reduced its spending as it cut back on road construction.

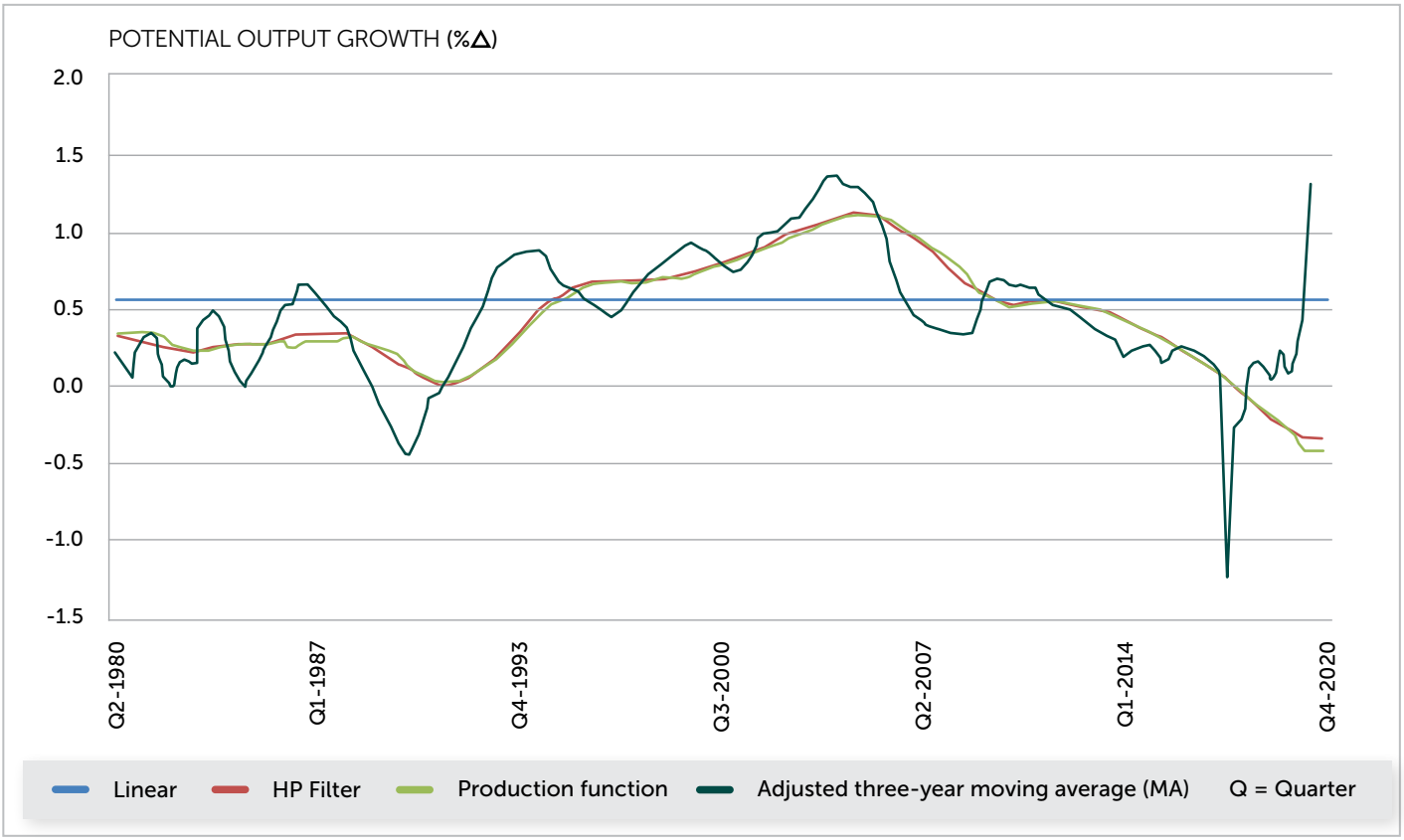
[7] The public sector, in this context, is comprised of national and provincial government departments, municipalities, public corporations, higher education institutions and extrabudgetary accounts and funds.

Long-run, potential output

This section of the chapter examines the South African economy's potential output, which represents the long-term output levels that the economy is likely to sustain. Under normal circumstances, analysing the economy's growth potential against its actual output can provide powerful insights for policymakers, which allows them to gain an understanding of the macroeconomic environment. Where actual output exceeds potential output (i.e. a positive output gap), the economy is deemed to have excess demand beyond its sustainable means of supply. This overheats the economy and results in growth instability. Conversely, a negative output gap (i.e. the actual output is lower than the potential output) suggests that the economy is under-employed or under-utilised, and thus expansionary policies are encouraged (Fedderke & Mengisteab, 2017).

However, due to the significant shock of the COVID-19 pandemic on South Africa's economic output, the analysis of output gaps would not yield much meaning. Hence, this section examines the long-run potential growth using parametric (i.e. linear, statistical filters and production function), as well as non-parametric methods of moving averages, in order to construct a range of possible scenarios for potential output growth. Estimates in Figure 2.7 show close estimations of potential output using the production function and HP filters,[8] which project a downward trend of economic growth into the recession territory at -0.5% as potential growth. Even the optimistically naïve, linear projection of potential growth shows a long-term average of 0.6% growth for the period under review. The adjusted (limiting to non-outliers) three-year forward-moving average shows that – at best – potential long-term growth is to be at 1.3%.

Figure 2.7: Long-run, potential GDP growth, linear, HP filter, production function and three-year forward-moving average, Q2-1980 to Q4-2020



Source: South African Reserve Bank (2021) and Commission's calculations

[8] The Hodrick-Prescott filter (a data-smoothing technique applied during analysis).

2.4 The financial and fiscal impacts of COVID-19 in South Africa

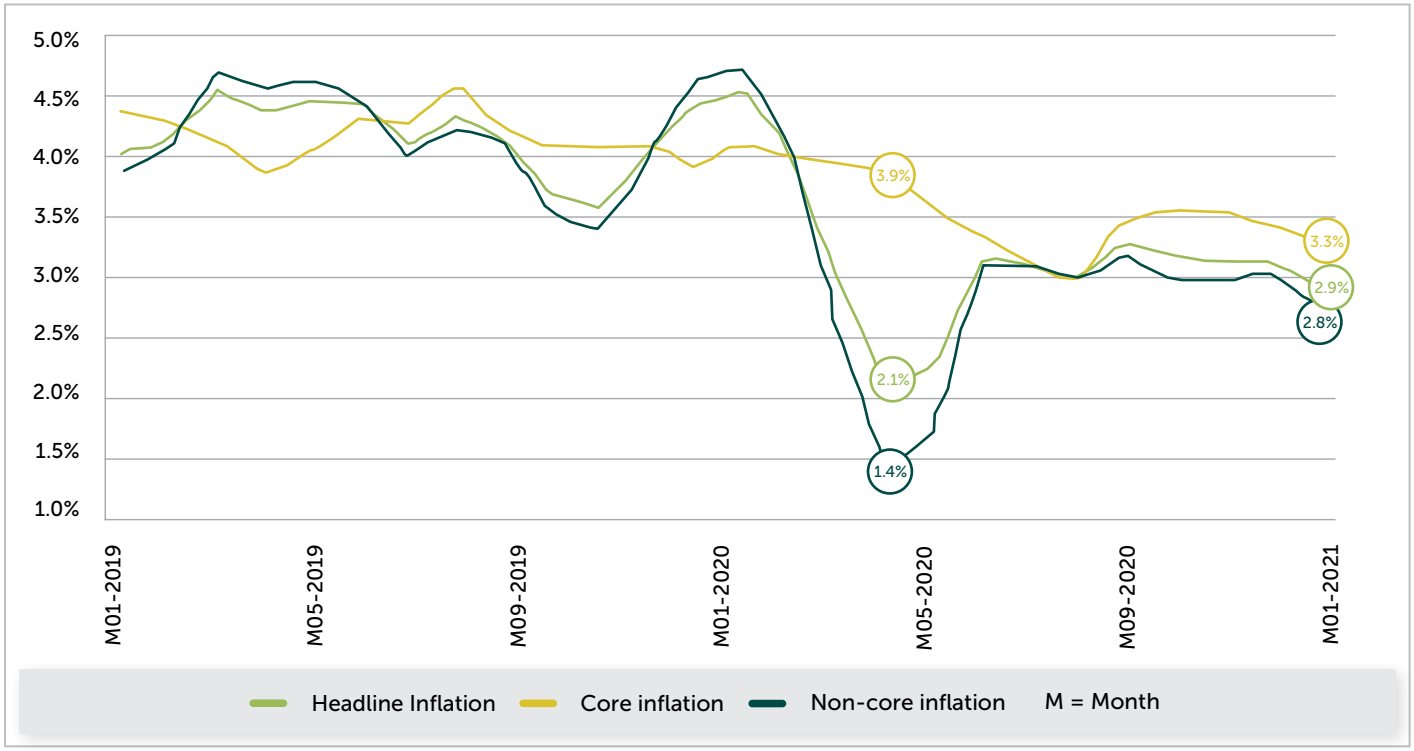
Financial stability

a) Consumer Price Index

In terms of financial stability, South Africa's Consumer Price Index (CPI), represented in Figure 2.8, shows the shifts in price volatility, as well as the divergence in the consumer prices of core[9] and non-core[10] items. This price divergence affects consumer behaviour as the marginal propensity to choose between consuming and saving. In an ideal situation, prices would be both low (i.e. affordable and cost-efficient) and stable (i.e. consistent with expectations). High inflation, combined with low growth in income and GDP, means that people's purchasing power is eroded by the rising prices of goods and services.

According to the data, the general increase in the consumer prices of goods and services – represented by the headline inflation (captured in the CPI) – declined as a result of COVID-19, from its peak at 4.5% in February 2020 to 2.1% merely three months later. Despite the moderation in headline inflation, the cost of core (or essential) items remained relatively high at 3.9%. This suggests that the financial impact of COVID-19 has been detrimental to people's livelihoods, not only through the income effect (i.e. jobs and income), but also through the price effect (i.e. the affordability of goods). This diverging trend between core and non-core inflation reemerged in the first few months of 2021, according to recent data. This trend is shown by the 2.8% increase in non-core inflation relative to core inflation, which increased by 3.3% in February 2021. The persistent gap between the core and non-core CPI indicates the lasting effect that COVID-19 has had on people's income and price affordability, and brings to light the fact that the pandemic has affected households of different income levels to varying degrees. More specifically, impoverished households – whose budget is dominated more by consuming core items – face higher inflation than affluent households who can afford both core and luxury items.

Figure 2.8: Core vs non-core inflation, January 2019 to February 2021



Source: Statistics SA (2021a) and Commission's calculation

[9] Core consumer goods and services include food, non-alcoholic beverages, clothes, footwear, housing and utilities, healthcare, public transport, communication and education.

[10] Non-core consumer goods and services include goods such as alcoholic beverages, household contents and services, the purchase of private transport operations, recreation and culture, restaurants and hotels, and miscellaneous goods and services.

The financial impact of COVID-19 illustrated above shows that the rate of erosion on people's purchasing power to acquire essential items is faster than for non-essential items. This negative impact is more significant on those individuals who are dependent on the social grant system in South Africa, as their need to rely on additional support measures is likely to be greater than it would have been before COVID-19. In other words, the pandemic has exacerbated the reliance that less affluent households place on social grants. Aware of this fact, government implemented direct transfers of the Temporary Employer(ee) Relief Scheme (TERS), the Special COVID-19 Social Relief of Distress (SRD) Grant, as well as temporary boosts to some of the existing social grants to the vulnerable. The SARB also implemented the expansionary monetary policy to boost the economy's liquidity. This was done by lowering the interest rate from 6.5% at the beginning of 2020 to 3.5% in 2021, following the onset of the COVID-19 pandemic.

With the higher price increases of core items relative to non-core items, the risk of headline inflation increasing may be higher due to cost-push rather than demand-pull inflation. Furthermore, the massive liquidity injected by the SARB through expansionary monetary policy to lower interest rates, combined with the COVID-19 response's fiscal stimulus package for economic revival, may cause prices to inflate in order to absorb excess liquidity. The SARB has committed to staying within its inflation target range throughout the pandemic, ensuring price stability. This ensures financial stability and credibility.

Policy considerations should now be aimed at creating the economic base and momentum for inclusive, pro-poor growth, particularly by creating job opportunities for the youth. Only by expanding employment to increase productivity and incomes in South Africa will the economy be able to grow and escape the current downward spiral of a deteriorating fiscus and household affordability.

b) Producer Price Index

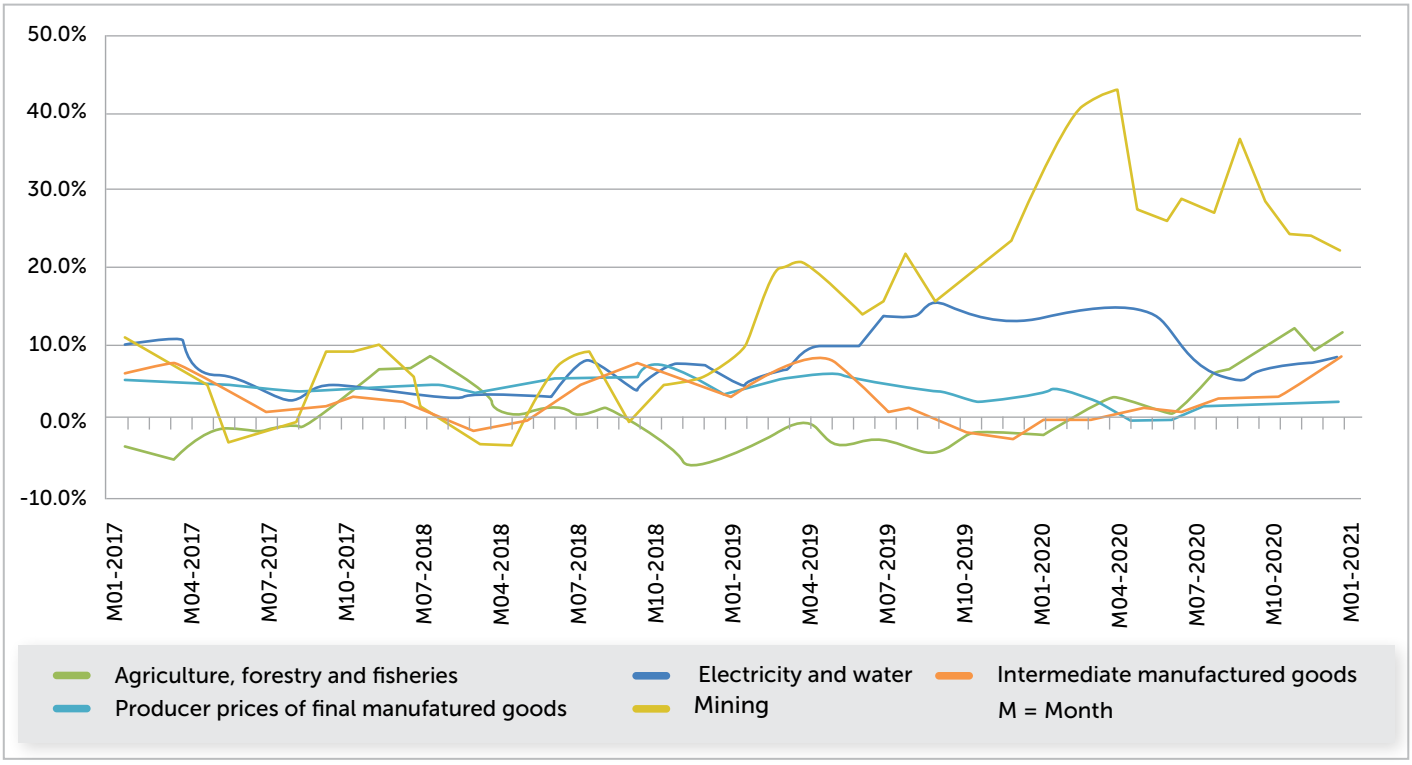
Figure 2.9 shows that, shortly before the COVID-19 pandemic, there was a heightened degree of price volatility and uncertainty in the costs of production, especially in the mining industry. In February 2020, a month prior to the nationwide lockdown, the supply of mining decreased relative to its demand, resulting in an increase in the price of mining to over 40%. The rising prices of non-ferrous metal ores, gold and other metals (i.e. the commodity price increase) led to higher cost and – through price markups – generated higher revenue for local mining firms (Stats SA, 2021a). However, this change in prices also created uncertainty for firms to change their production behaviour and productivity, resulting in future price increases.

By May 2020, the producer price inflation of mining gave a moment of reprieve as the lockdown was eased and some economic activity resumed. This only lasted until September, as COVID-19 variants caused the infection rate to rise again, thereby increasing the risk of retightening lockdown restrictions. The spike in the producer price for non-ferrous, precious metals (e.g. gold and platinum) also signifies the market's wariness against inflation after world economies embarked on extraordinary expansionary fiscal measures and monetary policies to stimulate the economy.

The data further shows that the producer price of electricity and water has increased since 2017. This is mostly due to years of governance failure, financial mismanagement, as well as the operational and performance failure of the state-owned enterprises in charge of these products and services. The country's sole electricity producer, transmitter and – in some cases – distributor, Eskom, is still unable to generate sufficient power supply, causing prices to escalate. This is despite decreased demand for energy due to the COVID-19-induced economic lockdown.

As a result, local municipalities have become trapped in debt spirals as the rising prices of basic bulk services for water and electricity have become increasingly unaffordable.

Figure 2.9: Producer price inflation of domestic output by industry, January 2017 to 2021



Source: South African Reserve Bank (2021) and Commission's calculations

Producer prices in the agriculture, fishing and forestry industry show that – thanks to a favourable season and productive yields in the sector during the first three quarters of 2020 – prices were relatively stable during this period.[11]

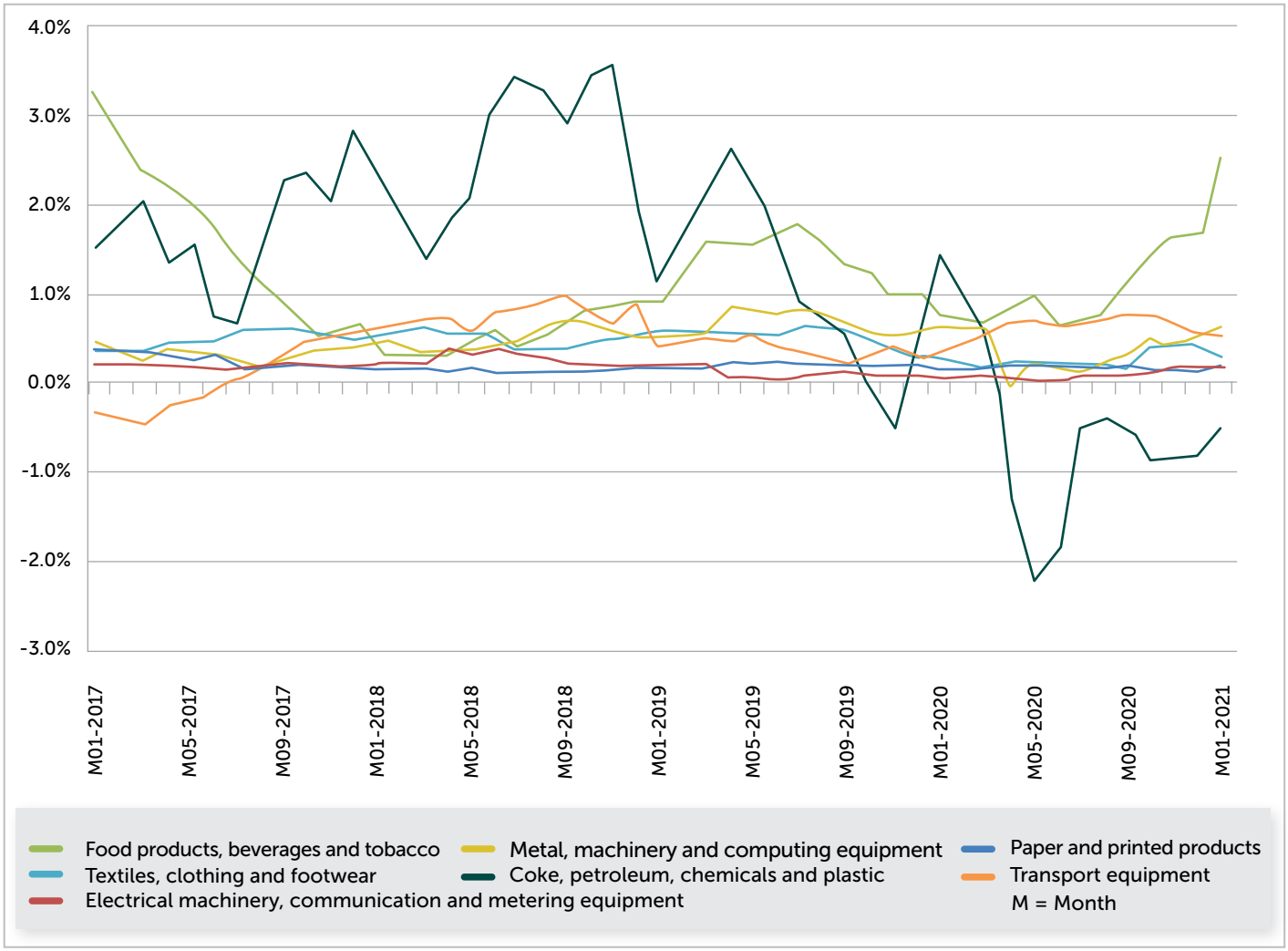
The producer price of final manufactured goods as a composite index, illustrated in Figure 2.9, exhibited a stable trend in its cost of production. However, data decomposition by different product items, illustrated in Figure 2.10, shows the difference in the cost of manufacturing final goods as a result of the pandemic. In particular, the impact of the COVID-19 pandemic on the price of manufacturing final goods of coke, petroleum, chemical, rubber and plastic products (shown by the red line) is represented by a reduction to -2% in May 2020.

The sudden drop in the producer price inflation of these items is likely caused by the glut in crude oil as its input material, as well as the lockdown that reduced the demand for its associated final goods. With the development of the COVID-19 vaccines and the supply agreement between Russia and the Organisation of the Petroleum Exporting Countries (OPEC) on oil production on 9 April 2020 (OPEC, 2020), the cost of manufacturing these final products is expected to rise as demand resumes with the reopening of the economy.

It is of concern that the cost of production for final manufactured goods of food products, beverages, as well as tobacco and transport equipment, increased to a greater degree compared to other final manufactured goods, due to disruptions caused in the chain of production and logistics by the pandemic (OECD, 2020). Furthermore, these rises in costs are likely to be passed on by markups to affect the retail price of these final manufactured goods, thereby affecting consumers' cost of living and households' ability and purchasing power to pay for essential food items. Again, the effect will be particularly harsh on poorer households in terms of the affordability of necessary household goods, thereby exacerbating already unacceptably high levels of inequality in the country.

[11] In the first three quarters of 2020, the agriculture, fishing and forestry industry increased at 35.9%, 19.6% and 18.5%, respectively, in the annualised percentage change in the seasonally adjusted quarterly GDP (Stats SA, 2021b).

Figure 2.10: Producer price inflation of final manufactured goods, January 2017 to 2021



Source: South African Reserve Bank (2021) and Commission's calculations

Fiscal policy

a) Public revenues

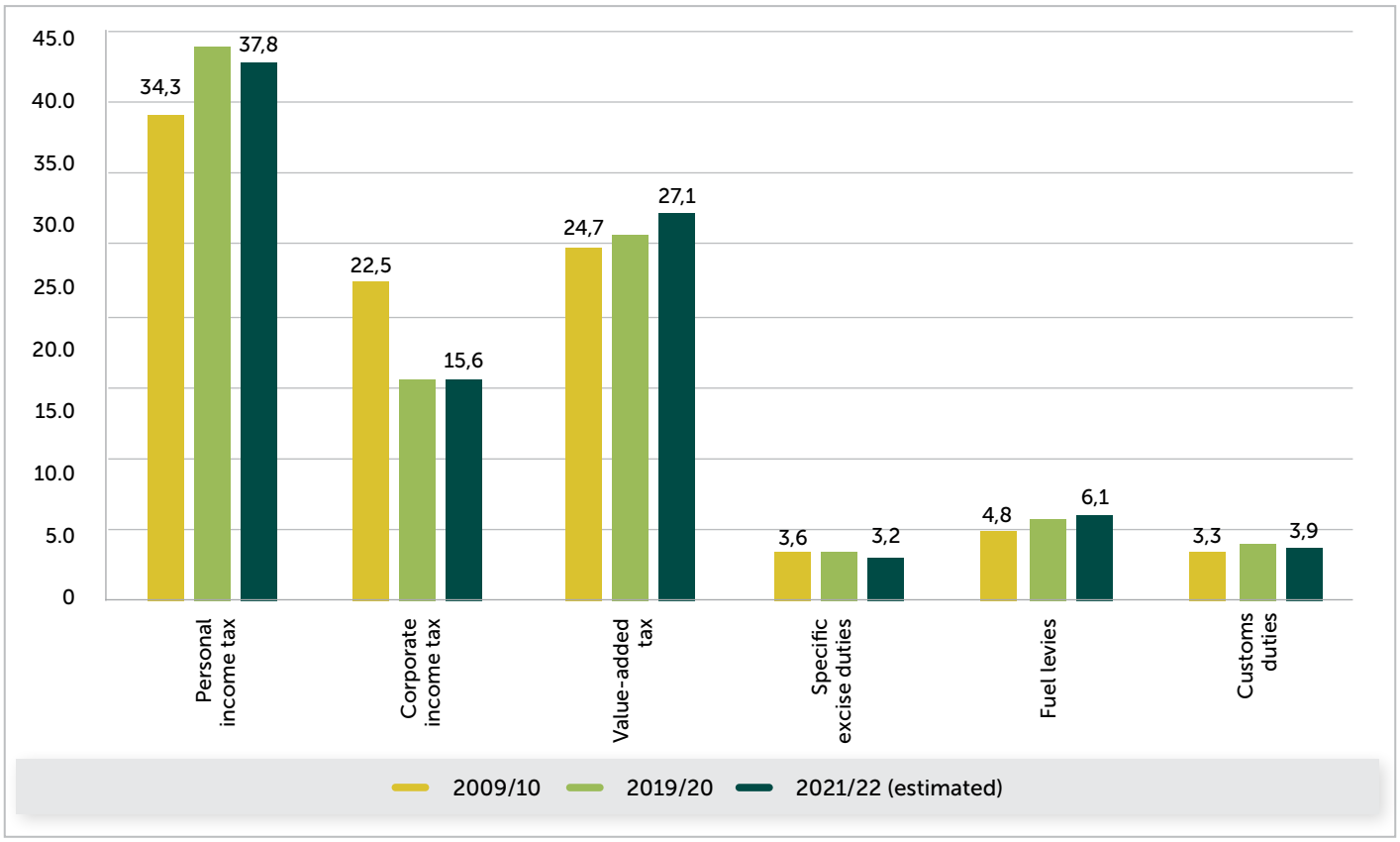
Turning to the composition, trend and determinants of fiscal revenue, Figure 2.11 presents the proportion of tax revenue by classification over a decade between 2009/10 and 2019/20, as well as the estimated revenue budgets after-tax proposals for the 2021/22 financial year.

The data indicates that there has been a drastic substitution effect of corporate income tax (CIT) with personal income tax (PIT) and domestic (consumption) taxes on goods and services. More specifically, CIT receded significantly in the proportion of total tax revenue from 22.5% in 2008/09 to 15.6% a decade later in 2019/20.

Replacing these gaps in revenue was PIT at 38.2% in 2019/20 (from 34.3% in 2009/10) and value-added tax (VAT) on goods and services at 25.6% (from 24.7% in 2009/10). This result suggests that, over the past decade, South Africa's fiscus has become more dependent on labour and household income, as well as activities in consumption.

According to reports by the Davis Tax Committee, revenue from corporate income generally moves in line with the economy and is particularly volatile (Davis Tax Committee, 2018). The Committee noted that, prior to 2009, CIT revenue grew strongly with improved tax compliance and economic growth. However, after the global financial crisis, CIT revenue declined due to reductions in companies' profits induced by the fall in global and domestic demand, especially in the mining sector.

Figure 2.11: Share of total tax revenue (top 90%, in percentage)



Source: National Treasury (2021a) and Commission's calculations

Furthermore, economic disruptions resulting from labour disputes and declines in prices of commodities in 2015/16 also contributed to the CIT revenue shortfall.

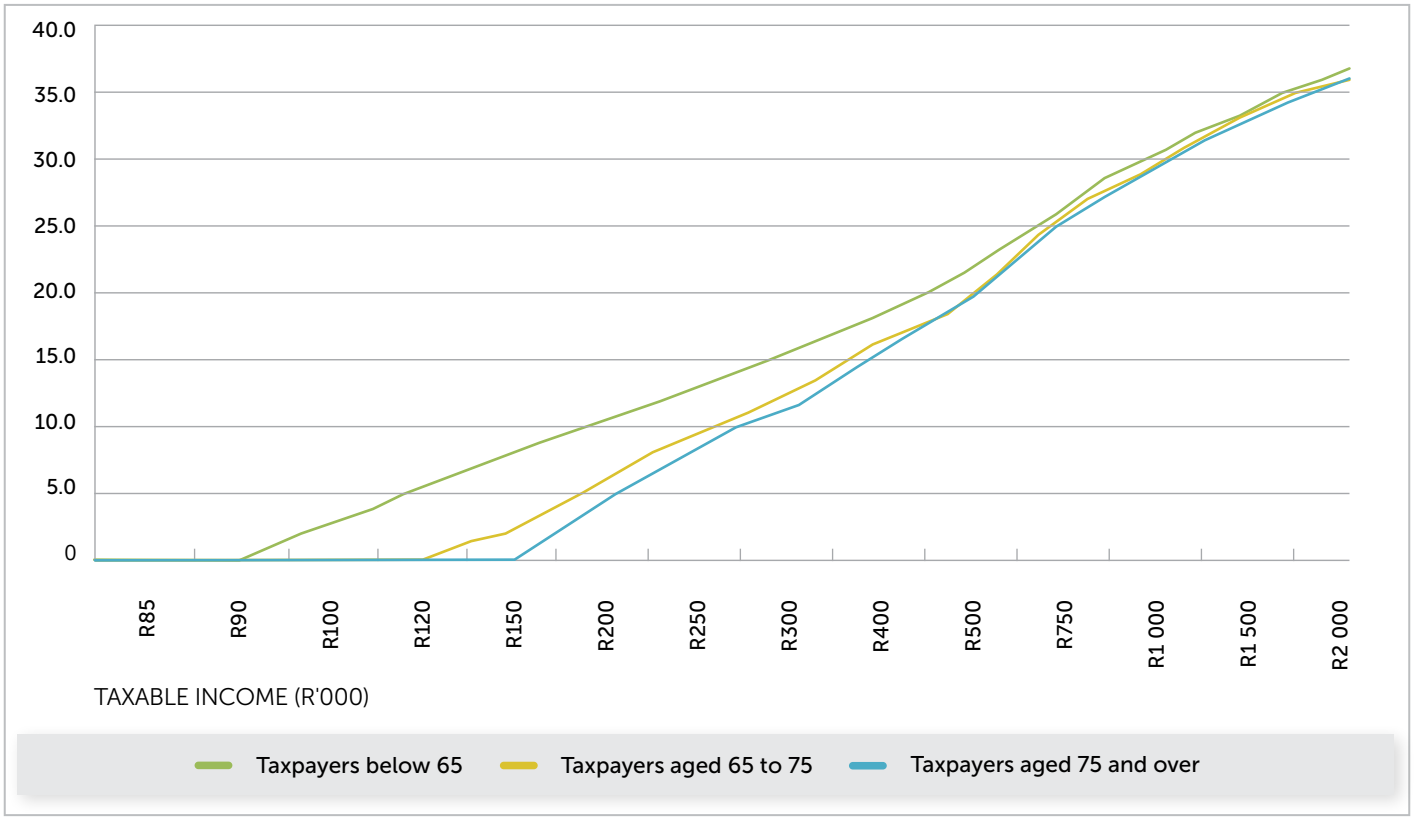
In efforts to fill the gap in the total tax revenue, additional resources had to be raised from alternative means of taxes. In terms of PIT, National Treasury introduced a new income tax bracket at 45% for taxable income above R1.5 million per year and increased the dividend withholding tax from 15% to 20% in 2017 (National Treasury, 2017). Taxes on the domestic consumption of goods and services saw an increase of 1% in the indirect taxation of VAT in 2018 (National Treasury, 2018). Vigilant of the reductions in CIT in its 2020 Budget Review, National Treasury indicated plans to restructure its fiscal policy to broaden the tax base of companies by simplifying the tax code and reducing the rate (National Treasury, 2020a). Notwithstanding these measures, the extent of damage done at the tax administration of the South African Revenue Service (SARS), resulting from mismanagement, governance failure and the loss of trust in the institution from as early as 2014 should be acknowledged (Nugent Commission, 2018).

The increase in the concentration and dependence on PIT and VAT for public revenue generation has made fiscal revenue more vulnerable to COVID-19, especially due to the impact that the pandemic has had on household income and consumption behaviour. The COVID-19-induced lockdown has left millions of people unemployed, thus the PIT-concentrated tax base will absorb the full impact of the lost income. In terms of consumption, although the government provided the special COVID-19 living allowance grant (R350 per person per month), its impact is negligible when compared to individual loss of income and reduced spending power. Government should also take cognisance of its fiscal sustainability when overspending in order to smoothen people's consumption pattern.

To avoid adding pressure on the economy suffering under COVID-19, government has withdrawn its initial proposal to increase taxes in the 2021 budget. Instead, tax relief was issued through the higher-than-inflation adjustment in the tax brackets for PIT at 5%.

It is anticipated that the tax relief created will encourage spending and stimulate economic growth with some returns on VAT so that government can meet its expenditure needs. According to Figure 2.12, taxpayers under the age of 65 carry the tax burden across the income tax scale relative to older taxpayers. Taxpayers over the ages of 65 and 75 also have a higher income threshold. For people over the age of 75, the threshold is R120 000 per annum, while for people over the age of 75, the threshold for PIT is R150 000. It is also worth noting that, as taxpayers' earned income increases, all three age categories face a converging effective average tax rate, such that if over roughly R1 million is earned per annum, the effective tax burden becomes virtually identical, irrespective of which age group the taxpayer belongs to.

Figure 2.12: Effective average tax rates for 2021/22 (in percentage)



Source: National Treasury (2021b) and Commission's calculations

Figure 2.13 examines the change in the effective tax rate by income level between the 2020 and the 2021 revenue proposals. The annual change between the tax proposals is generally implemented by adjusting the income tax brackets to account for inflation. This provides valuable insight into whether the tax policy is consistent and progressive in structure. The data shows three interesting facts about the revenue proposal of 2021 relative to the 2020 proposal, notwithstanding COVID-19. Firstly, as confirmed in Figure 2.12, taxpayers in the older age cohorts have a higher tax threshold than those below the age of 65 and only start paying taxes on an income over R120 000 per annum. Secondly, older taxpayers receive more tax relief for the same income relative to taxpayers under the age of 65, although this difference narrows as income rises. Thirdly, and most crucially in terms of tax structure, as a general trend, tax relief decreases as income rises. This suggests that the new tax proposal is progressive, as higher-income earners receive less tax relief and pay more taxes. However, the lack of uniformity and consistency of tax relief could be a matter of concern. In particular, income earners in the highest income category, who earn at least R2 million per annum, receive more tax relief than those who earn less than R2 million, resulting in a regressive or counter-progressive trend between the two income groups. Therefore, to maintain structural progressivity, consistency and – ultimately – the overall effectiveness of the tax system, it is advisable for the tax relief system to follow a more uniform approach with a consistent trend in the revenue proposals' tax relief.

Figure 2.13: Effective average tax relief (in percentage), 2020 vs 2021's revenue proposal

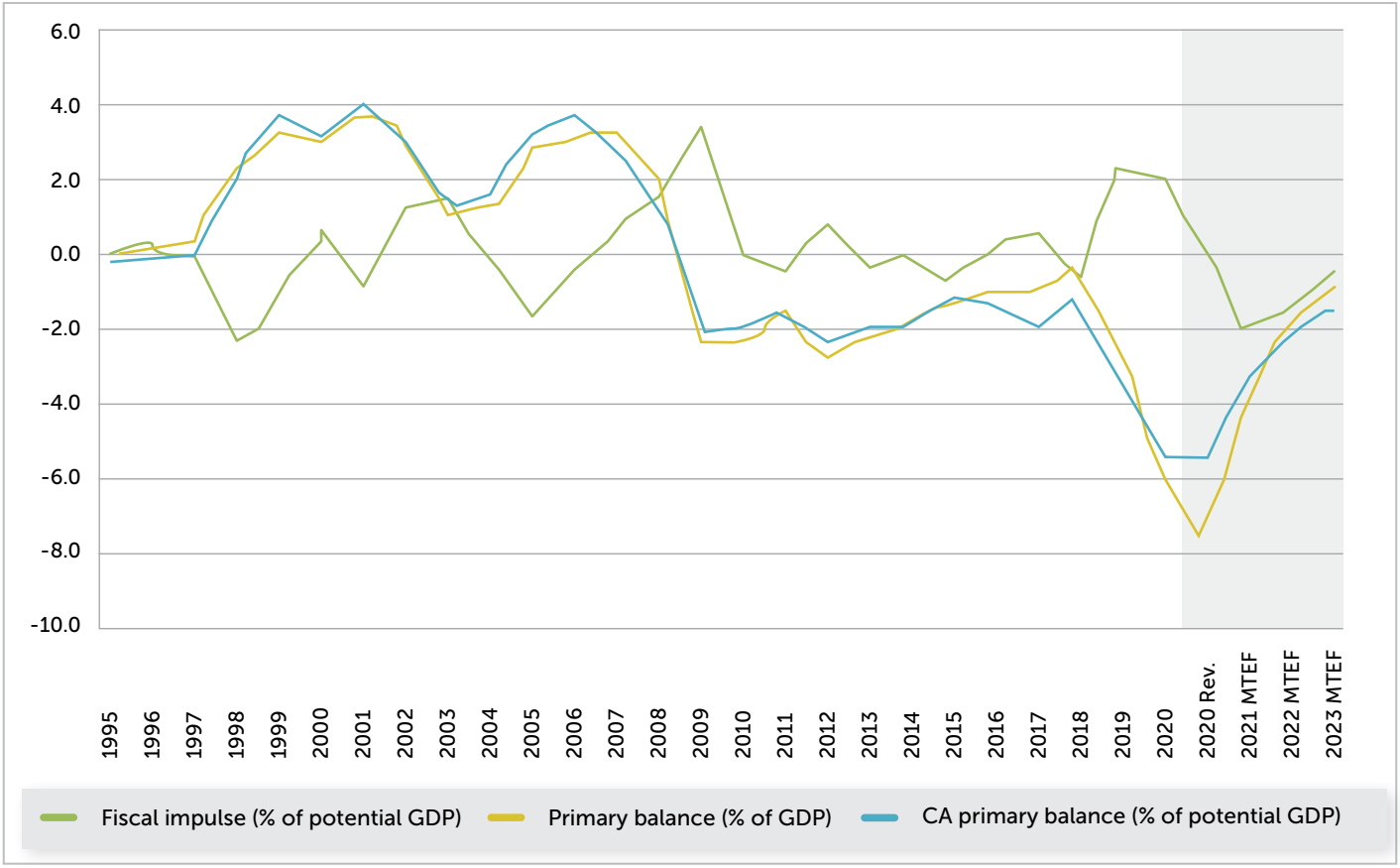
Source: National Treasury (2021b) and Commission's calculations

b) Fiscal impulse

To measure South Africa's fiscal stance, Figure 2.14 calculates the fiscal impulse, with primary and cyclically adjusted primary balances as representations of the policy stance undertaken by government. The series shows that, since the fiscal expansion adopted in the financial crisis of 2008–2009 at the expense of primary balance in the last decade, the fiscal space has been under strain to implement real expansionary policy. In 2019, following the President's Economic Stimulus and Recovery Plan, government reengaged the expansionary fiscal stance in an attempt to reignite the economy through stimulus (focusing particularly on infrastructure), despite the deteriorated primary balance (South African Government, 2018).

With the onset of COVID-19 and its negative impacts on the economy, the fiscal space of the primary balance deteriorated even further, without a substantial change in the fiscal stance and impulse. This caused the risks relating to fiscal sustainability and public finance management credibility to escalate. As seen by the revised estimates of 2020, the primary balance deteriorated to nearly -7.5% of GDP, compelling the fiscal impulse towards a consolidatory stance to bring the primary balances within a more sustainable range. Over the medium term, as per the 2021 budget tabled by the Minister of Finance, the government is determined to bring the primary balance towards a zero balance through fiscal consolidation and focused productivity for growth. Essentially, this means reprioritising spending within the aggregate, while ensuring that the same levels of goods and services are delivered.

Figure 2.14: Fiscal impulse, primary and cyclically adjusted primary balances (in percentage of potential GDP), 1995–2020, 2020 revised estimate and 2021 Medium-term Expenditure Framework



Source: National Treasury (2020a) and Commission's calculations

Fiscal sustainability – intergovernmental determinants of fiscal debt

The final section of this chapter seeks to determine the intergovernmental factors of fiscal debt. There is a need to triangulate and understand intergovernmental determinants that are causing fiscal debt to increase. This is necessary to develop fiscal principles in a targeted manner that may be relied upon to restore fiscal credibility and sustainability in the country. To accomplish this, the Commission tested three macroeconometric models to find the determinants of fiscal debt, as represented by the debt-to-GDP ratio in Table 2.1.

The first model is the *Simple* model tested as the baseline. The *Simple* model takes after the common denominators of the variables that were used for the determinants of fiscal debt. These variables are economic growth (dynamic), inflation, the interest rate and the exchange rate. The second model, the *Primary* model, refers to the first baseline model with the addition of the primary balance variables of government revenue and expenditure as a percentage of GDP. Finally, the Intergovernmental Fiscal Relations (IGFR) model makes use of the operating cash balance of all spheres and organs of state – instead of the primary aggregates of revenue and expenditure – in order to examine the interrelationships between intergovernmental fiscal balances in cash, relative to the fiscal debt.

The result of the *Simple* model shows that, as expected, economic growth plays a critical role in determining fiscal debt. More precisely, the estimates suggest that, should growth deteriorate by one percentage point, this will result in the debt-to-GDP ratio increasing by over two percentage points in the following period (i.e. dynamically). On the other hand, inflation does not seem to have any significance in determining

the trajectory of the fiscal debt path in terms of debt-to-GDP. Inflation is a derivative (or by-product) of economic growth and the interest rate, and represents the speed of monetary flow relative to goods, or essentially, the redundancy of money. As a result, the impact of inflation is distributed through economic growth and the interest rate. Inflation remains statistically insignificant in the other two more sophisticated models, which include the variables of primary balance and intergovernmental operating cash balances.

Table 2.1: Finding the determinants of fiscal debt

Dependent variable: DEBT_GDP						
Method: Least squares						
Sample (adjusted): 1995 2020						
Included observations (after adjustments):	25		25		26	
Variable	***Simple***		***Primary***		***IGFR***	
C	1.599		16.460		10.552	*
GDP growth	0.960		0.719			
GDP growth (-1)	-2.119	*	-0.116			
Inflation (CPI)	0.169		0.053			
Required yield on government bonds	2.356	*	1.857	*	1.818	*
Exchange rate depreciation (RSA/US)	0.011		0.020	*	0.011	*
Expenditure as a percentage of GDP			2.388	*		
Revenue as a percentage of GDP			-3.311	*		
Operating cash balance of:						
National government					0.000	*
Extrabudgetary institutions					-0.001	*
Social security funds					0.000	
Provincial government					0.000	
Local government					0.000	
Non-financial public enterprises					0.000	*
Financial public enterprises					0.000	
R-squared	0.75		0.88		0.94	
Adjusted R-squared	0.68		0.84		0.90	
Prob (F-statistic)	0.00		0.00		0.00	
Akaike info criterion	6.43		5.81		5.31	
Schwarz criterion	6.73		6.20		5.79	
Hannan-Quinn criterion	6.52		5.92		5.45	
Durbin-Watson stat	1.04		1.53		1.91	

*Note: * signifies that the determinant concerned is statistically significant at a p-value of less than 5%.*

The most noteworthy determinant and variable that maintained its statistical significance throughout all three models is the required yield on government bonds, or simply, the cost of financing public spending. The results show a positive relationship between the yield on government bonds and the debt-to-GDP ratio: the greater the required returns demanded of the government by its financiers in the market, the greater the debt-to-GDP ratio. This result confirms the potentially perilous outcome of a fiscal debt spiral should South Africa lose its credibility. Lastly, although negligible at the baseline model, exchange rate depreciation gained statistical significance as the model specification became more sophisticated and biases were controlled for. This result suggests that higher currency depreciation increases the debt-to-GDP ratio.

Examining the *Primary* model further, one finds that both the expenditure and revenue variables (expressed as percentages of GDP) are statistically significant determinants of debt-to-GDP, with signs in accordance with logic. More specifically, a 1% increase in expenditure as a percentage of GDP results in a 2.3% increase in the debt-to-GDP ratio. Revenue, on the other hand, works in the opposite direction: A 1% increase in revenue as a percentage of GDP results in a -3.3% shift in the debt-to-GDP ratio. Finally, examining the relationship between the IGFR system in terms of operating cash balances and fiscal debt (i.e. the IGFR model), the result shows that national government and non-financial public enterprises are positively related to the accumulation of fiscal debt, whereas extrabudgetary institutions are negatively related. Operating cash balance represents the fiscal leakages in the IGFR system as idle cash or resources that are not being used efficiently.

Interestingly, results from the *Primary* and *IGFR* models show that the impact of economic growth on public debt is statistically insignificant. A plausible explanation for this may be that, once more powerful explanatory variables of government revenue and expenditure as a share of GDP are included in the model, the explanatory power (or impact) of economic growth diminishes relatively. By the same token, in the IGFR model, the result for operating cash balances can be interpreted in light of the significant fiscal leakages in the system: As idle cash is left underutilised in different spheres of government, no level of economic growth could be significant in reducing fiscal debt as a share of GDP. Simply put, the fiscal leakages in the IGFR system cancel out the benefits that economic growth can have in reducing the debt-to-GDP ratio.

The results from the IGFR model show that fiscal leakages in national departments and non-financial public enterprises (e.g. Eskom and South African Airways) are positively associated with fiscal debt-to-GDP. This is because public funds are not being used efficiently, at the cost of improving service delivery. When funds that could have been used for building basic infrastructure are instead being wasted or misused, future economic growth is dampened and the chances of generating more revenue for paying off debt are diminished. Furthermore, wasteful behaviour and leakages affect foreign direct investment as investor confidence is held back by such signs of higher risks for low returns, which also dampens growth prospects.

2.5 Conclusion

This chapter examined the impact of COVID-19 on the South African economy in terms of total factor productivity, industrial activity and aggregate demand. It further estimated a range of potential output projections, which informs the potential growth path of South Africa for the 2022/23 Division of Revenue.

The chapter finds little to no evidence – from either the supply or the demand side – to justify the assertion that South Africa will recover quickly from the shock of COVID-19. What emerged from the evidence are a number of unfavourable conditions that have been prevalent since the financial crisis of 2008–2009. These include structural decay in terms of factor production intensity and productivity: the inflexibly high marginal cost of employment, and inefficiencies in critical basic infrastructure under the control of state-owned companies. The shock of COVID-19 exacerbated these structural fragilities and growth weaknesses. State-owned companies, and therefore, state-backed monopolies, became a severe impediment to development as there is a lack of market competition, combined with ineffective oversight or accountability to incentivise efficiency.

On the demand side, there is evidence that public consumption by government expenditure alone will not be sufficient to reverse the overall decline in the economy. Inventory stock is depleting faster than it can be replaced by production and imports, thereby undermining the likelihood of short-term economic growth. Investments by the private and public sectors are still lower than their pre-COVID-19 levels, recovering much too slowly, as uncertainty mounts and investors' risk appetite remains low.

By all accounts of estimations, the long-term potential output of South Africa's economic recovery from the COVID-19 pandemic is likely to be protracted and uncertain. The anticipated economic rebound is predicated on the notion that households, firms, investors, and even the government's activities, would immediately return to their pre-crisis levels, and that this would be supported by the effective and efficient rollout of vaccines, without further delay. It is also assumed that the same spending patterns and risk appetite that existed before the onset of COVID-19 will be adopted after the nationwide lockdown is lifted. However, even with these bold assumptions, the likelihood of sustained economic recovery is improbable, as the shock of COVID-19 has changed economic behaviour permanently by exacerbating the South African economy's structural inefficiencies.

The impact of COVID-19 has brought about some concerning trends in the prices of goods and services, which affect the cost and standard of living of citizens. The consumer prices of essential goods are increasing at a higher rate than those of non-essential goods. This has changed the demand patterns of households and raises concerns about the affordability of consumer goods. On the producer side, apart from the volatility in the price of mining operations brought about by the commodity cycle, firms have marked up their prices to manufacture food and provide logistics services due to greater demand (or anticipated demand). Overall, the results suggest that the impact of the pandemic weighs most harshly on poor households, as essential goods have become less affordable, thereby eroding purchasing power. In order to alleviate this price burden, there is a need for government to accurately target its cash transfers and provide tax relief, particularly for lower-to-middle income households and individuals who are more at risk of losing their income as a result of the crisis.

In the past decade, South Africa's fiscus has become increasingly dependent on revenue derived from household income and consumption activities, while revenue generated from corporate income has been volatile and has declined substantially. This has made the fiscus more vulnerable to COVID-19 due to the devastating impact that the pandemic has had on employment, household income and consumption behaviour. Despite efforts to assist households with the 2021 tax relief proposal – aimed at stimulating economic growth by encouraging spending – this tax structure lacks consistency, which undermines its progressivity. A consistent tax relief trend is needed to improve the overall effectiveness of the tax system.

Furthermore, South Africa' fiscal position has been strained by low growth and a structural deficit in the primary balance. Government's attempt, in 2019, to initiate an expansionary stance and stimulate the economy was interrupted by the onset of COVID-19, resulting in far less room to respond to the severe economic impact of the pandemic. South Africa is in a financially vulnerable position due to a combination of factors, such as structural fragilities, the mismanagement of funds and weak planning. Efficiency in government spending is thus crucial. In order to ensure that COVID-19 does not continue to jeopardise South Africans' health, safety, education and economic activities, the vaccination rollout should be prioritised.

The results from the econometric model on the determinants of fiscal debt provide evidence that the cost of financing public spending is a significant driver of debt as a proportion of GDP, which confirms the potential of a debt spiral if South Africa cannot maintain its fiscal credibility. Furthermore, economic growth on its own is insufficient to reduce the public debt burden.

The evidence suggests that, at the national level, revenue collection and optimal spending decisions are critical components of lowering public debt. At the intergovernmental level, fiscal leakages pose major challenges to fiscal sustainability. The evidence suggests that, in national departments and non-financial public enterprises (such as Eskom and South African Airways), public funds are not being used efficiently due to wasteful spending and the misuse of funds. This not only undermines service delivery, dampens economic growth prospects and reduces investor confidence, but also reduces our chances of being able to pay off our debts and restore investor confidence.

The government's greatest challenge is to balance the need to provide support in order to overcome the socioeconomic consequences of COVID-19, with the need to combat its rising debt and debt-servicing costs in order to ensure fiscal sustainability and credibility. Although the government's fiscal consolidation approach adopted in the 2021 Budget is needed to restore the primary balance to sustainable levels and restore fiscal credibility through spending reprioritisation, the state must remain cognisant of its obligation under the Constitution to ensure the progressive realisation of socioeconomic rights for its citizens in its negotiations for a sustainable fiscal path. This is particularly important, given the long-standing socioeconomic challenges of poverty, inequality and unemployment in South Africa.

2.6 Recommendations

With respect to countering the economic and fiscal impacts of the COVID-19 pandemic, the Commission makes the following recommendations:

1. *The Commission calls for active engagements between the three spheres of government, led by the Department of Planning, Monitoring and Evaluation (DPME), to ensure the formalisation and alignment of provincial and local government economic reconstruction and development plans with the Economic Reconstruction and Recovery Plan (ERRP), with resource commitments in the 2022/23 Division of Revenue.*

As seen from the Commission's research regarding the impact of COVID-19, the economy endured various demand- and supply-side shocks alongside increased unemployment and poverty, which permanently impaired people's livelihoods and behaviour. The government's ERRP should guide the economy towards recovery by creating sustainable jobs and promoting inclusive growth. To that end, the government's actions to mitigate these effects of COVID-19 evidenced above are essential. This necessitates the cooperation of all three spheres of government in order to coordinate and justify recovery and development plans across all extremities of the public sector. Expenditure and service delivery outcomes will determine the efficiency and credibility of government spending. Additionally, the alignment of COVID-19 responses, especially in resource allocation and vaccination administration, is required between all levels of government.

2. *The 2022/23 Division of Revenue should, in promoting economic growth, be more specific in supporting local demand and localised product procurement in order to support value chains, as endorsed by the President in the State of the Nation Address (SONA) towards economic transformation and development. The Minister of Finance should explore the use of the budget as an instrument to incentivise localised product procurement. The Commission, in its 2021/22 Annual Submission for the Division of Revenue (Chapter 3, Recommendation 2), also recommended the concept of a localised product value chain approach towards growth. This was further agreed to in the 2021 W1 Annexure: Explanatory Memorandum to the Division of Revenue.*

The Commission notes the drastic effect of the COVID-19 pandemic on domestic demand in South Africa. The product value chain approach of production would serve to address inequality and economic barriers present in the economy. The aim of this approach is to stimulate domestic demand and encourage job growth through promoting the procurement of locally produced goods within South Africa.

3. *The Commission advises the Minister of Finance to continue strengthening the effort to eliminate fiscal leakages and inefficiencies that are undermining fiscal credibility. The Commission noted that citizens do not receive adequate returns from public spending (Budget Review 2021). These issues must be addressed by the following:*
   i. *A decisive and coherent strategy and approach of fiscal reprioritisation*
   ii. *The implementation of fiscal consolidation, targeting cuts in areas of underspending and questionable performance*
   iii. *The eradication of duplication of function (i.e. the merging and downsizing of departments and public entities)*
   iv. *Investment in the use of technology and related areas to improve the capability of public sector personnel*
   v. *The eradication of contract mismanagement and procurement irregularities*

The country's financial and fiscal credibility determines the cost of servicing its debt and attracts investment in South Africa's future growth and development. Fiscal leakages, the mismanagement of public funds, irregular and wasteful expenditure, and corruption undermine government's credibility in utilising fiscal resources for the purposes of delivering value to the public and improving the growth prospects of the economy. The custodian of public finance, National Treasury, under the leadership of the Minister of Finance, should take swift action to remove spending inefficiencies and ensure that maximum value to citizens is realised.

CHAPTER 3:
Measuring the Effectiveness of Government Expenditure for Performance

3.1 Introduction

South Africa's performance measurement has evolved in tandem with its performance reporting processes. As reported by Lodge and Grill (2011), the country has experienced three phases of public administration development. The first phase, the Progressive Public Administration phase, came about in the 1950s and was characterised by having an emphasis on procedural controls and rules. This phase was followed by the New Public Management (NPM) phase, which saw the introduction of explicit performance standards, output controls, organisational disaggregation, competition and contractualisation, private sector-style management practices, and an emphasis on parsimony in financial resource use. This was perceived as the best tool to implement government's plan to improve service delivery. However, the NPM approach is associated with the Washington Consensus, which, among other things, limits the role of governments in the economy. For South Africa, studies are of the opinion that the NPM approach was followed by the integrated governance approach, which prioritised collaboration in the different spheres of government and among the national government departments (see Gumede, 2008).

Luthuli (2007) indicates that performance measurement was strictly concerned with reducing government cost and making it more efficient. However, this neglected the issue of effective service delivery. Lodge and Grill (2011) claim that the NPM approach had weaknesses that were produced by the specialisation, fragmentation and marketisation of state organs. In addition, budget systems failed to promote the goals of government. Further reforms were therefore required to ensure the reprioritisation of existing resources towards areas that would maximise welfare gains to all South Africans (National Treasury, 2019).

A series of reforms saw South Africa proceed into the post-NPM phase. This phase was characterised by budget reforms that shifted the public expenditure management focus to a performance budgeting system (Engela & Ajam, 2010). According to Van der Nesta and Erasmus (2013), by 2000, legislative reforms had been enacted. Section 27(4) of the new Public Finance Management Act (PFMA) requires national government departments to submit predetermined measurable objectives to Parliament for each main service delivery programme on the introduction of the annual budget. The reforms sought to give rise to the change from an input-based budgeting system (line item/programme budgeting) to an output-based, results-orientated system (multi-year programme and performance budgeting). According to Lodge and Grill (2011), the post-NPM phase is associated with a strengthening of coordination through more centralised or collaborative capacity. Therefore, it has far greater potential in facilitating good financial governance.

It has been widely accepted that the post-NPM phase offers a better financial management system, which supports public accounting (Brusca, Montesinos & Chow, 2013). The post-NPM phase improves efficiency and effectiveness in the delivery of public services, and promotes the transparency and accountability of governments. This is said to be true for industrialising countries that made the transition in the post-NPM phase during the late 1980s (Mucciarone, 2008). For South Africa, the impact of government spending for functions, roles and responsibilities on growth and development remains debated or questioned. In particular, the South African government's credibility to utilise its budget to implement public policy, align market incentives and improve Pareto efficiency has been brought into question.

This chapter attempts to answer four of these emerging questions as they relate to the period during which South Africa implemented a programme and performance-based budgeting[1] (PPBB) framework.

This chapter addresses the following key questions:

- How has the fiscal multiplier effect evolved with economic growth and social development in South Africa?
- How aligned and effective are government departments' performance indicators in representing their mandates and purposes?
- What is the size and shape of the wage bill?
- How would PPBB determine the efficiency and effectiveness of government expenditure?

This chapter deals with each of these questions in each of its sections.

3.2 The fiscal multiplier effect in relation to economic growth and social development

There is consensus in the literature that the government is an important player in economic growth through efficient public spending to accelerate economic growth, thereby reducing poverty and unemployment. Many studies have investigated the effect of government, through its expenditure and taxes, on the economy. Most of these studies conclude that government is an important player in the economy and that government expenditure can be used to accelerate economic growth, and reduce unemployment and poverty through the multiplier process.

For example, multipliers of different expenditures, such as for investment, export or public expenditure, can be described as the ratio of gross domestic product (GDP) change to changes in individuals' autonomous expenditures. Fiscal multipliers, or simply Keynesian multipliers, are defined as the ratio of a variation in output given a unity exogenous change in the fiscal balance, which could be presented by a variation in government expenditure or tax revenue. The effectiveness of government spending can be explained by various growth theory models, as suggested by the Keynesian school of thought. Those include Wagner's law (Wagner, 1883, 1890) and Barro's endogenous growth model (Barro, 1990).

There are notable studies that have investigated the effect of government expenditure on economic growth, poverty reduction and unemployment in South Africa. Most of these studies used computable general equilibrium (CGE) and the social accounting matrix (SAM) for this purpose. Although these studies conclude that government expenditure has a positive effect on economic growth, they suggest that increases in government expenditure can be used to reduce poverty and accelerate employment generation. However, they only give one aggregate multiplier (coefficient) of the entire period, leaving out important dynamic information about the trends and movements of the fiscal multiplier for each period (every year) over time. This section of the chapter addresses this gap by employing a rolling regression on two model specifications: Model (I) examines the simple, direct relationship between economic growth and government expenditure, whereas Model (II) adds on the variabilities of exogenous variables of investment, population and openness. The rolling regression allows for the computation of multiplier effect[2] dynamically.

[1] It is worth noting that the Organisation for Economic Cooperation and Development (OECD, 2008) has defined performance budgeting as budgeting that links the funds allocated to measurable results. In practice, South Africa adopts a performance-informed, programme-based budgeting (Worthington, 2013), where resources are indirectly related to proposed future performance or to past performance. The performance information is important in the budget decision-making process, but does not determine the amount of resources allocated and does not have a predefined weight in the decisions. Performance information is used along with other information in the decision-making process of the programme.

[2] Ideally, the multiplier effect as a coefficient should be close to or greater than 1. A fiscal multiplier of less than 1 suggests that economic activity is not rising faster than government expenditure. A negative fiscal multiplier could indicate that there is a possibility of leakages, capacity constraints or crowding out effects, resulting in an opposite impact of government expenditure on the outcome variable.

Table 3.1: Multiplier effect of government expenditure on GDP, poverty and unemployment

	GDP		Poverty		Unemployment	
	Model (I)	Model (II)	Model (I)	Model (II)	Model (I)	Model (II)
1997	1.21	1.00	-3.94	1.87	-4.08	0.34
1998	-0.22	0.53	-5.14	0.79	1.28	0.11
1999	5.47	0.16	-2.15	-0.04	8.19	-0.04
2000	1.43	0.34	-1.00	-0.70	-4.66	-0.13
2001	0.87	0.59	-2.71	0.30	6.03	0.74
2002	0.81	0.75	-8.74	0.30	1.54	0.74
2003	0.53	0.59	-3.05	0.44	-4.71	-0.62
2004	0.87	0.58	-1.31	1.03	-1.36	6.35
2005	1.02	-0.03	-1.92	-2.19	-1.48	-0.86
2006	1.14	0.28	-2.34	1.42	-3.50	-1.85
2007	1.32	-0.21	-6.83	-1.49	-9.65	-0.00
2008	0.56	-0.36	-7.92	0.25	-1.50	1.98
2009	-0.34	-0.31	-5.84	0.07	4.61	3.47
2010	1.02	0.57	-4.93	-5.81	7.21	-0.19
2011	1.19	0.78	1.76	-6.70	-2.60	-3.75
2012	0.64	0.84	2.50	-6.27	3.95	-5.04
2013	0.81	2.52	2.54	-4.00	-9.00	-6.35
2014	1.09	0.27	6.31	-3.20	3.19	1.58
2015	-1.55	0.37	-1.41	-1.33	-5.46	0.38
2016	0.18	0.37	2.45	-0.94	1.04	0.75
2017	6.91	0.27	-3.46	-0.23	4.07	0.17
2018	0.42	0.21	1.95	-1.32	-1.28	-0.43

Source: Commission's own calculation.

It is worth noting that interpretations of the fiscal multipliers derived from the rolling regression technique should be done by looking at their trends, and not dwelling too much on one period. The rolling regression results in Table 3.1 show that, for the most part, the overall multiplier effect of government expenditure on GDP growth is positive, except for some periods where the multiplier effect is observed to be negative. Government expenditure had its worst impact during the period 2007–2009, where it reached significant negative values, especially after controlling for further exogenous factors as specified in Model (II). This clearly shows that, even before the onset of the 2008–2009 global crisis, the multiplier effect of fiscal expenditure was already showing signs of decay, if not adverse against economic growth. Since then, the highest positive effect of government expenditure on GDP was in 2013, where it reached a peak of 2.52, but retreated again and remained relatively low, at 0.21 in 2018, suggesting that government expenditure was not fulfilling its potential in boosting GDP.

In terms of the impact of expenditure on poverty, the multiplier effect has been largely negative over time, which suggests that government expenditure reduces poverty in the main, especially around the period before 2010 according to the Model (I) specification, and the same for after 2010 in Model (II). This means that government expenditure reduced poverty significantly during this period. In analysing the effect of government expenditure on unemployment, the multiplier is also generally negative, but weakly positive in certain years, indicating that government expenditure reduces unemployment, although it is somewhat uncertain in its effect.

3.3 Alignment and effectiveness of government's performance indicators

The need for greater accountability by the public sector has resulted in a shift from fiduciary accountability (accounting for expenditure) to managerial accountability (accounting for efficiency and effectiveness). Hence, government departments have developed a larger variety of non-economic indicators to meet this need. These indicators track a department's progress towards meeting the target it has set (National Treasury, 2019). The efficiency indicators are defined as those indicators that provide the ratio of inputs used to outputs achieved (Hyndman & Anderson, 1997). Efficiency indicators are consistent with notions of financial accountability and utilise data such as costs, volume of service and productivity, which are relatively simple to measure (Kloot, 1999).

On the other hand, effectiveness indicators measure the extent to which outputs or outcomes achieved meet pre-stated targets, objectives or policy directives (Gregory & Lonti, 2008). Effectiveness indicators may be partly measured in terms of quality of service, customer satisfaction and the achievement of goals (Kloot, 1999).

To examine government's performance indicators, secondary data, collected from the electronic reports of the Estimates of National Expenditure (ENE), was used. A comparison was drawn between the select key performance indicators (KPIs) in the ENE publication and the indicators reported in seven departments' annual reports. Further comparison was done using the data collected from the province with the highest economic activity (Gauteng). The efficiency of performance was analysed using a unit cost indicator calculation. This method of analysis has been widely used as first point of call to conduct efficiency analysis (see, for instance, Pendlebury and Karbhari (1997), Torres, Pina & Yetano (2011) and Mucciarone (2008)).

Provision was made for 187 non-economic indicators in the ENE reports for the seven departments under evaluation. No indicators measured performance in terms of efficiency or effectiveness. As shown, almost all indicators that were measured reported the output produced. This finding reveals that the departments are using the performance indicators to show progress in performing prescribed tasks and not necessarily progress on delivering on their targets. This finding is not uncommon. A study by Mucciarone (2008) showed that two counties in the eastern hemisphere (Australia and Malaysia) comprised only 33% and 20% of Australia's and Malaysia's total indicators, respectively. A study by the Chartered Institute of Management Accountants (CIMA) found that 25% of the surveyed studies report metrics that were outcome indicators used to satisfy external managerial bodies (CIMA, 2010).

Reviewing the indicators shows that there is also a lack of consistency in the reporting of performance indicators as less than a third of the indicators were reported for more than four years in a row. The high indicator turnover could be due to departments' efforts to provide a biased picture of the department's performance. The high number (78) of indicators that were reported no more than twice suggests that departments may be emphasing indicators for once-off activities like the development of policy or strategy and may be placing less emphasis on reporting activities occurring for longer periods of time. The same trend is noticeable at the provincial level, particularly when one looks at Gauteng's provincial departments of Basic Education and of Roads and Transport. However, there is greater representation of outcome indicators in the 2018/19 report of Gauteng's Department of Health.

The efficiency score is calculated by determining the percentage achievement of a measured outcome divided by the annual expenditure of the department (measured in R1 000). This implies that an increase in the percentage outcome per R1 000 ratio is an indication of an improvement in cost efficiency. A score of zero (0) indicates that the department merely met the target. As shown by the select efficiency scores in Table 3.2, the highest cost effectiveness was achieved in the first two years of the time series. All the calculated indicators of the Department of Home Affairs showed that 2016/17 had the highest cost efficiency. A consistent pattern of decreasing cost efficiency was observed for each department, with the Department of Home Affairs showing the largest reductions in efficiency.

Table 3.2: Effectiveness scores

	2015/16	2016/17	2017/18	2018/19	2019/20
Department of Home Affairs					
Indicator 1	6.6	10.5	16.6	1.2	0.0
Indicator 2	14.7	13.0	3.0	10.1	0.0
Indicator 3	-5.2	0.0	-1.0	7.9	0.0
Indicator 4	9.8	0.0	1.0	3.5	0.0
Department of Basic Education					
Indicator 5	0.0	0.0	0.0	0.0	0.0
Indicator 6	0.0	0.0	0.0	0.0	0.0
Department of Social Development					
Indicator 7	16.0	16.0	16.6	8.6	-5.0
Indicator 8	1.0	-2.0	-0.5	0.0	-1.0
Department of Cooperative Governance and Traditional Affairs					
Indicator 9	__1	0.0	0.0	0.0	0.0

Note: __1 signifies effectiveness score not calculated due to lack of data.
Source: Commission's calculations from National Treasury, 2019

Using more comprehensive data sourced from the annual reports of the selected departments to calculate the efficiency score in Table 3.2 reveals that departments are meeting their projected annual effectiveness targets. A total of 55 effectiveness scores was reported in the two annual reports. Seven of these showed underperformance, while the majority (32) showed that the departments were overperforming.

Table 3.3: Effectiveness evaluation

	Positive performance deviation (overperformance)	Performance deviation of zero (Effectiveness = 0)	Negative performance deviation (underperformance)
Department of Health	13	6	13
Department of Home Affairs	19	0	4

Source: Department of Home Affairs (2020) and Department of Health (2020)

The implication of these findings is that the government departments should enhance the consistency and coherency of their KPIs to the financial commitments of their budgets as this will promote strategic alignment with government's mandate for achieving outcomes instead of outputs.

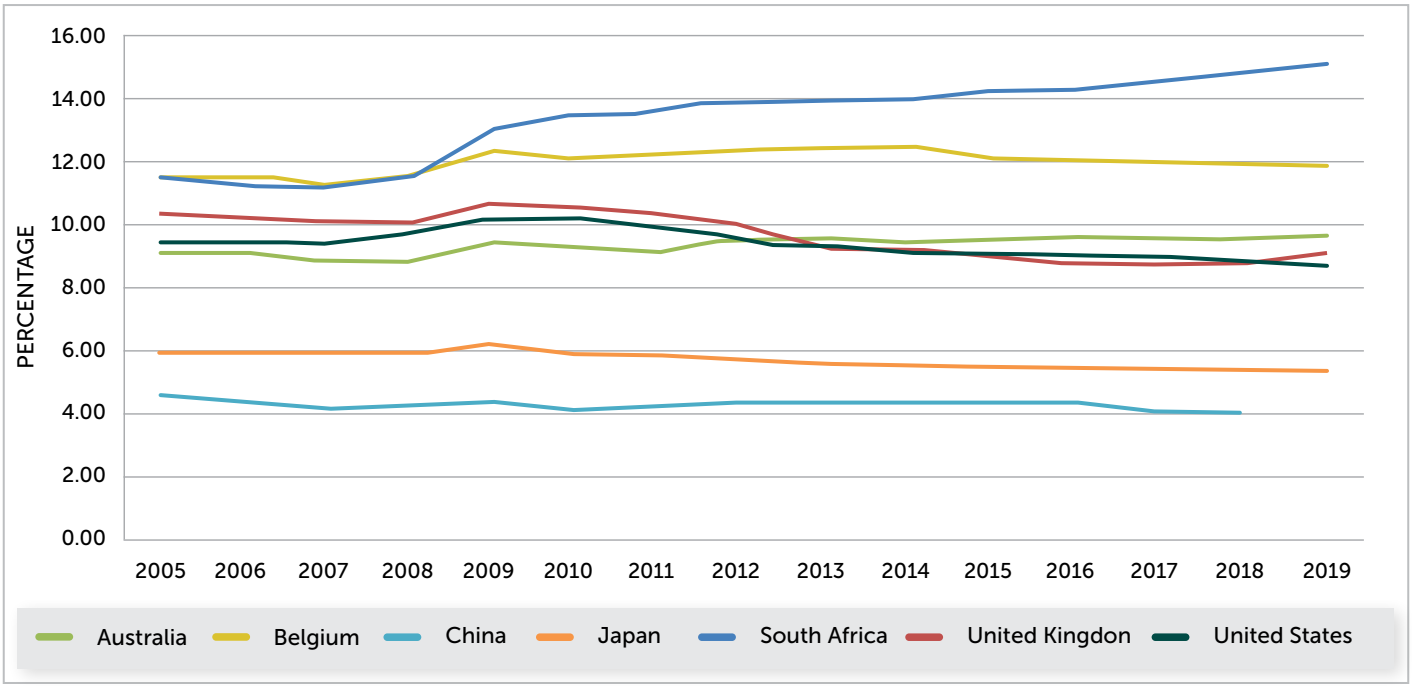
3.4 The size and shape of the wage bill relative to delivering public value in the South African government

Investigating the size and shape of the public service wage bill[3] is increasingly necessary due to its growth in the last decade. As South Africa battles large budget deficits and looming debt spirals, it has been proposed to consolidate expenditure, particularly in the wage bill. The objective of this analysis is, therefore, to examine its growth over time, as well as areas of particularly high expenditure.

In order to reach an informed view about the size and shape of the South African government's wage bill, various data sources are used (ranging from World Bank and International Monetary Fund data to National Treasury and Statistics South Africa data). The analysis begins around 2005, depending on the availability of the relevant data.

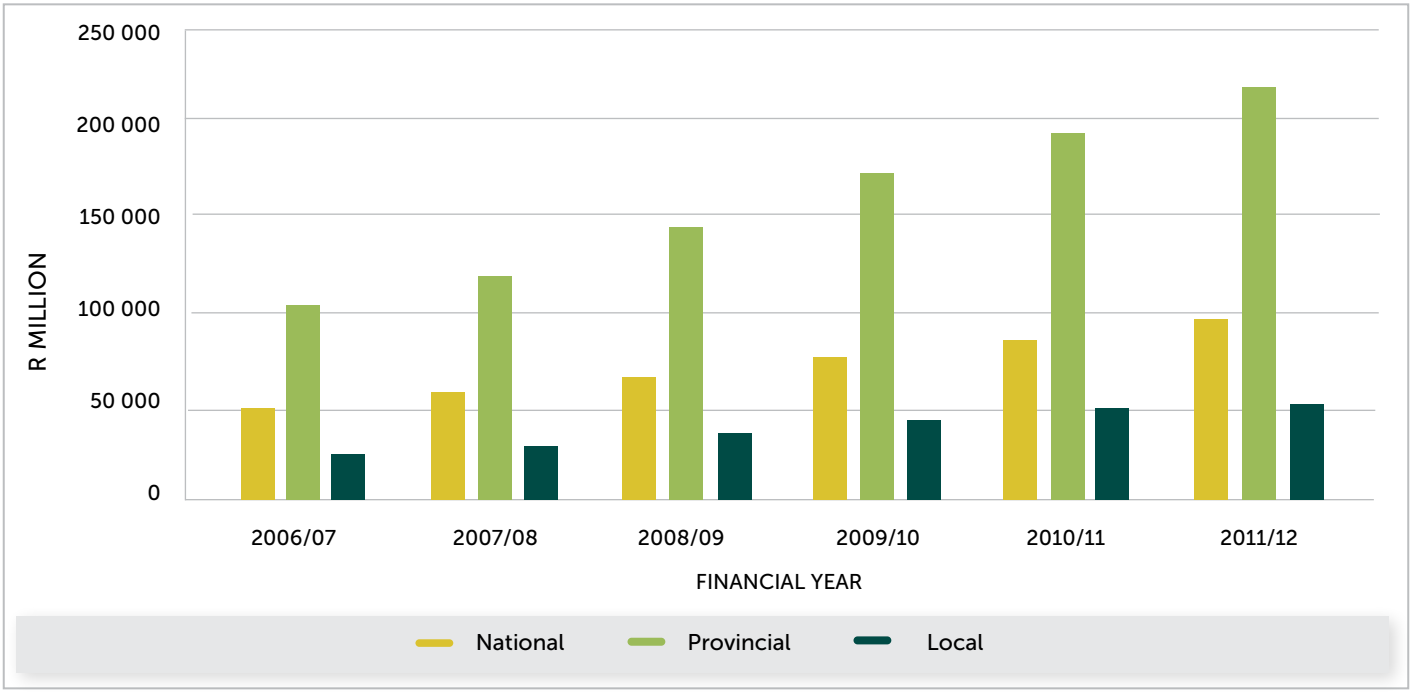
The simplest way to determine whether the South African government pays its employees excessively is to examine government's expenditure on compensation of employees as a percentage of GDP. This is presented in Figure 3.1. It is clear that, relative to other countries, the South African wage bill, as a percentage of GDP, has been very high and is increasing. During 2005–2008, South Africa's wage bill, as a percentage of GDP, was stable, but it started to increase around 2009/10. It has since grown significantly compared to other countries' wage bills, such as the USA, UK and China.

Figure 3.1: General government compensation of employees' expenditure as a percentage of GDP



Source: International Monetary Fund (2021)

Figure 3.2: Compensation of employees by sphere of government



Source: National Treasury (2020b)

[3] The wage bill broadly captures wages, salaries (in cash and in kind) and social contributions made on behalf of employees to social insurance schemes.

In addition, it is important to examine which sphere of government's compensation of employees' expenditure is the highest.

Figure 3.2 shows that the provincial governments have the highest share of government's compensation of employees' expenditure, and this share has been increasing significantly, at least for the years for which data is available. Provincial compensation of employees is almost double that of the national government.

3.5 Programme and performance-based budgeting in relation to the efficiency and effectiveness of government expenditure

Programme and performance-based budgeting has been part of the wave of global budgetary reforms, which have been implemented by countries internationally in order to address the challenges of managing public finance (Cangiano, Curristine & Lazare, 2013). Performance information is not new, as Organisation for Economic Cooperation and Development (OECD) countries have recently been incorporating it into the budgetary process with a view to enhancing decision making. This is a move away from just the amount being reflected, and relates to what can actually be achieved with the budget (OECD, 2008). Robinson and Brumby (2005) state that "performance budgeting refers to procedures or mechanisms intended to strengthen links between the funds provided to public sector entities and outcomes and/or outputs".

In order to investigate the effect of PPBB in South Africa, this section of the chapter uses data envelopment analysis (DEA) to compute the efficiency of government expenditure as a percentage of GDP as the input, and various socioeconomic indicators as the outputs, such as GDP, the unemployment rate, inequality, headcount poverty and the poverty gap for the period 2000–2018.

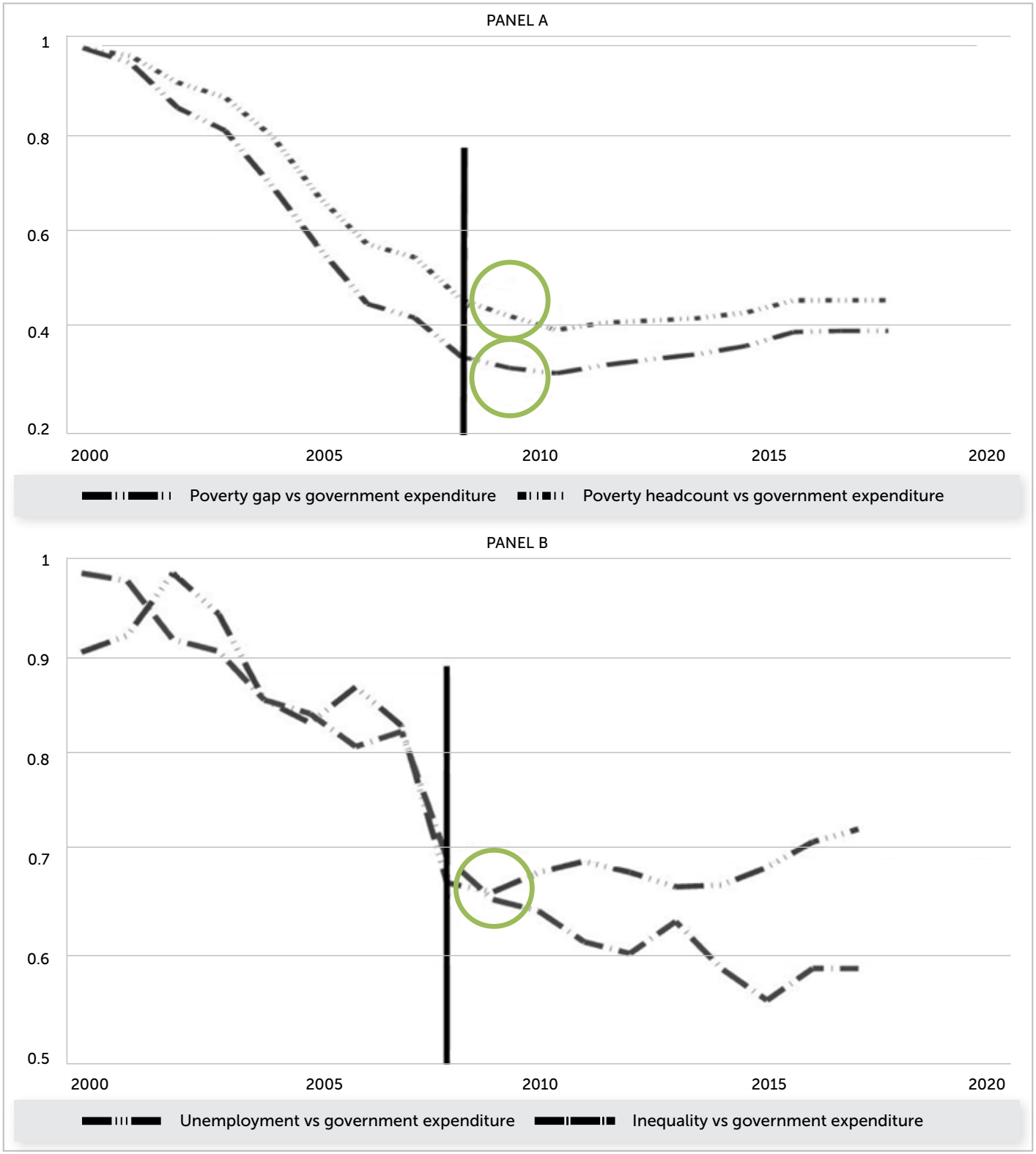
Table 3.4: DEA results of the triple challenge efficiency, 2000–2018

Year	GDP	Pov-headcount	Pov-gap	Inequality	Unemployment
2000	0.537	1.000	1.000	1.000	0.918
2001	0.559	0.984	0.969	0.992	0.935
2002	0.581	0.929	0.876	0.931	1.000
2003	0.600	0.898	0.830	0.919	0.958
2004	0.642	0.818	0.714	0.868	0.868
2005	0.685	0.691	0.586	0.854	0.845
2006	0.799	0.595	0.473	0.820	0.882
2007	0.882	0.569	0.444	0.836	0.842
2008	0.884	0.480	0.363	0.704	0.678
2009	0.825	0.447	0.340	0.661	0.669
2010	0.844	0.419	0.329	0.649	0.689
2011	0.907	0.434	0.346	0.617	0.701
2012	0.895	0.438	0.358	0.605	0.689
2013	0.924	0.443	0.369	0.638	0.674
2014	0.934	0.455	0.386	0.589	0.676
2015	0.967	0.480	0.414	0.556	0.695
2016	0.969	0.480	0.417	0.590	0.721
2017	0.990	0.480	0.417	0.589	0.734
2018	1.000	0.475	0.412	0.000	0.714
Average	**0.812**	**0.606**	**0.529**	**0.721**	**0.784**

Source: Commission's computation using data from World Bank (2020)

The results in Table 3.4 show that spending efficiency in terms of economic activity appears to be operating relatively efficiently. More specifically, they show that, on average, it is approximately 80% efficient (0.81), 20% below its potential. Examining the trend in Figure 3.3: Panel A suggests an upward trend, increasing sharply from 0.54 in 2000 to 0.88 in 2008, when it reaches the first noticeable peak until the 2008–2009 financial crisis. Spending on unemployment also showed a mean DEA efficiency score of roughly 80% (0.78). The least efficient spending was in terms of the poverty headcount (with a low of about 50%), poverty gap (with a low of about 60%) and inequality (with a low of about 70%), in Panel A and Panel B of Figure 3.3, respectively.

Figure 3.3: Efficiency scores of government expenditure versus socioeconomic indicators



Source: Commission's computation using data from World Bank (2020)

3.6 Recommendations

With respect to measuring the effectiveness of government expenditure, the Commission makes the following recommendations:

1. *With regard to the alignment and effectiveness of government's performance indicators, the Minister of Finance should ensure that departments enhance the consistency and coherency of their key performance indicators (KPIs) to the financial commitments of their budgets, via the Medium-term Expenditure Framework (MTEF) Technical Guidelines. Indicators that incentivise a target that is costed are encouraged as opposed to merely indicating progress on a specific objective.*

2. *With regard to the size and shape of the wage bill that impacts on the Division of Revenue, the Minister of Finance should review the public sector wage bill across all spheres of government with the view to reduce expenditure on non-core functions, for there is researched justification for the consolidation of the wage bill.*

3. *With regard to the fiscal multiplier effect, the currently low returns or multiplier effect of expenditure on the gross domestic product (GDP) is of concern. This needs further investigation by the Minister of Finance, especially as the economic environment going forward due to COVID-19 is still changing.*

PART 2
COVID-19 Impacts and Local Government

The COVID-19 pandemic has plunged the economy into a severe recession and uncertainty. Municipalities, being the closest sphere of government to the people, experience the devastating effects of the pandemic first-hand.

Part 2 of the Annual Submission for the 2022/23 Division of Revenue assesses the relative magnitude and severity of the COVID-19 pandemic on local economies. This part of the submission also discusses potential recovery strategies.

In every crisis, there are opportunities, and the COVID-19 crisis is no exception. As the crisis unfolds, opportunities for new ways of service delivery and budgeting emerge.

For example, the remote working experiment and the use of collaborative technologies are mechanisms that have proved possible, efficient and cost-saving. Municipalities may want to permanently retain such changes as the new normal.

CHAPTER 4:
The Impact of the COVID-19 pandemic on the Local Economy

4.1 Introduction

When the COVID-19 pandemic hit South Africa's shores in March 2020, many municipalities were already in a precarious state. The sector was struggling to fulfil its mandate. It was facing a myriad of challenges that included poor-quality basic services, and weak institutional and governance capabilities. These challenges manifested, among others, in poor audit outcomes, poor asset care, and generally weak service delivery. The following 2018/19 municipal performance indicators demonstrate the precarious position of the local government sphere just before the onset of the COVID-19 pandemic (National Treasury, 2020c).

- Some 46% of the municipal budgets were funded.
- Only two out of 186 local municipalities provided adequately for repairs and maintenance (i.e. 8% of operating expenditure).
- Only 71 municipalities had enough cash and investments to meet their current liabilities.
- About 54% of senior managers complied with the minimum competency levels.
- A third of municipalities were dysfunctional.
- As many as 163 of the 257 municipalities, and 27 of the 44 district municipalities were identified as being in financial distress.
- The audit outcomes had regressed for a third consecutive year.

These statistics point to a sector that was already in deep distress right at the onset of the COVID-19 pandemic. The pandemic could only have exacerbated these challenges.

4.2 The research problem

The COVID-19 pandemic exposed many gaps and inadequacies in the Local Government Fiscal Framework (LGFF). As noted above, many municipalities were unable to fulfil their constitutional mandates. The impact of the pandemic on the economy was further exacerbated by disaster management regulations that constricted economic activity in many sectors. During the second quarter of 2020, gross domestic product (GDP) contracted, (i.e. quarter-on-quarter) by 16.5%. Many jobs were lost and several households condemned to poverty. The negative impact of the crisis on municipal economies is certain, but the relative size, scale and extent of this impact remains unknown. Considering that local government is a non-homogeneous sector, an understanding of the differential impact of the pandemic is critical when designing recovery programmes and strategies and in explaining why some municipalities are vulnerable to disaster shocks, and some are not.

The purpose of this chapter is to undertake a comprehensive and systematic analysis of the impact of the pandemic on the local government sector and to provide recommendations on how the sector can possibly recover from the crisis.

This chapter is guided by the following research questions:

- What is the impact of the COVID-19 pandemic on local economic growth and the LGFF in particular?
- What are the viable strategies for supporting local government economic growth and recovery?
- How can local government finances be sufficiently repositioned to enable the local government sector to fulfil its mandate during and beyond the pandemic?

4.3 Research methodology and data

To assess how the COVID-19 pandemic has affected the LGFF, the study adopts a three-pronged approach: an econometric analysis, a budget analysis and a survey of local government practitioners. The econometric analysis estimates the impact of COVID-19 on local economic growth. Budget analysis tools are used to describe trends regarding local governments' financial and fiscal metrics (expenditure, revenue and debt), and from these, inferences are made on the impact of the pandemic. To supplement the econometric and budget analyses, additional information on the impact of the pandemic was sourced from local government practitioners. Using virtual platforms, practitioners were interviewed using a set questionnaire. A total of 30 municipalities (12%) were interviewed.

4.4 Findings

Local governments have always played a significant role in the South African economy. Municipalities play a critical role in the delivery of basic services. They account for 13% of public sector employment. The eight metros combined generate more than 50% of South Africa's GDP. The local government sector has also been at the forefront of the response to the COVID-19 pandemic. This section examines the impact of COVID-19 on the economies of municipalities, as well as on their financial and fiscal metrics. As noted above, three research approaches are advanced: an econometric analysis, a budget analysis, and survey methods. Econometric techniques were used to simulate the impact of the pandemic on municipalities' economies and key fiscal variables (aggregate municipal expenditure, own revenue and debt). The budget analysis involves describing and detecting unique trends in financial and fiscal variables before and during the COVID-19 pandemic.

Impact of COVID-19 on local economies: An econometric analysis

As every aspect of the pandemic is surrounded by uncertainties, modelling its impact is a difficult task. On the health side, uncertainties include the infectiousness of the virus, the effectiveness of the lockdown restrictions and social distancing. On the economic side, uncertainties include the financial and fiscal impact of the pandemic and policy responses, the impact of pandemic-induced changes in consumer spending, and changes in working arrangements or travelling patterns (Baqaee, Farhi, Mina & Stock, 2020). Modelling the economic impact of the virus is also fraught with difficulties as sometimes measures that seek to flatten the infection curve will steepen the macroeconomic recession curve in the short term. With these challenges in mind, this section reports on the results of a panel data model that sought to shed light on the impact of the pandemic on municipal economic growth. Furthermore, this section reports on the results of forecasts of the impact of the pandemic on key municipal fiscal variables (expenditure and revenue).

Municipal economic growth (proxied by municipal gross value addition (GVA)) was regressed against unemployment, expenditure, own revenue, and a COVID-19 dummy. The model assumes that the impact of the pandemic will last until 2022/23. Results and diagnostic tests for this model are reported in Table 4.1. The results suggest that, although the pandemic will likely have a negative effect on economic growth, the impact is not statistically significant, most probably because the COVID-19 effect simulation is short, i.e. 2020/21 to 2022/23.

As expected, an increase in unemployment significantly undermines the growth of municipal economies, while expenditure and own revenue significantly boost local government's economic growth. Overall, the results suggest that municipal economies can be reignited by ensuring that municipalities have sufficient funding, and increasing efforts to ensure that mobilising own revenue and spending on basic services is effective.

Table 4.1: Impact of COVID-19 on municipal economies

Dependent variable: Local economic growth (LGVA)				
Method: Least squares				
Variable	**Coefficient**	**Standard error**	**t-statistic**	**Probability**
LPOP	0.071905	0.151829	0.473595	0.6405
LUN	-0.501366	0.253509	-1.977701	0.0606
LEXP	0.223471	0.048374	4.619681	0.0001
LOR	1.046341	0.05253	19.91875	0
COVID-19	-0.052914	0.032091	-1.648873	0.9732
R-squared	0.994097	Mean dependent variable		10.666
Adjusted R-squared	0.993024	Standard deviation –dependent variable		0.569855
Standard error of regression	0.047595	Akaike information criterion		-3.086608
Sum squared residuals	0.049836	Schwarz criterion		-2.846638
Log-likelihood	46.66921	Hannan-Quinn criterion		-3.015253
Durbin-Watson statistic	1.912242			

Note: LGVA: Log of Gross Value Addition; LPOP: Log of Population Growth; LHDI: Log of Human Development Index; LUN: Log of the Unemployment Rate; LOR: Log of Own Revenue; LEXP: Log of Municipal Expenditure

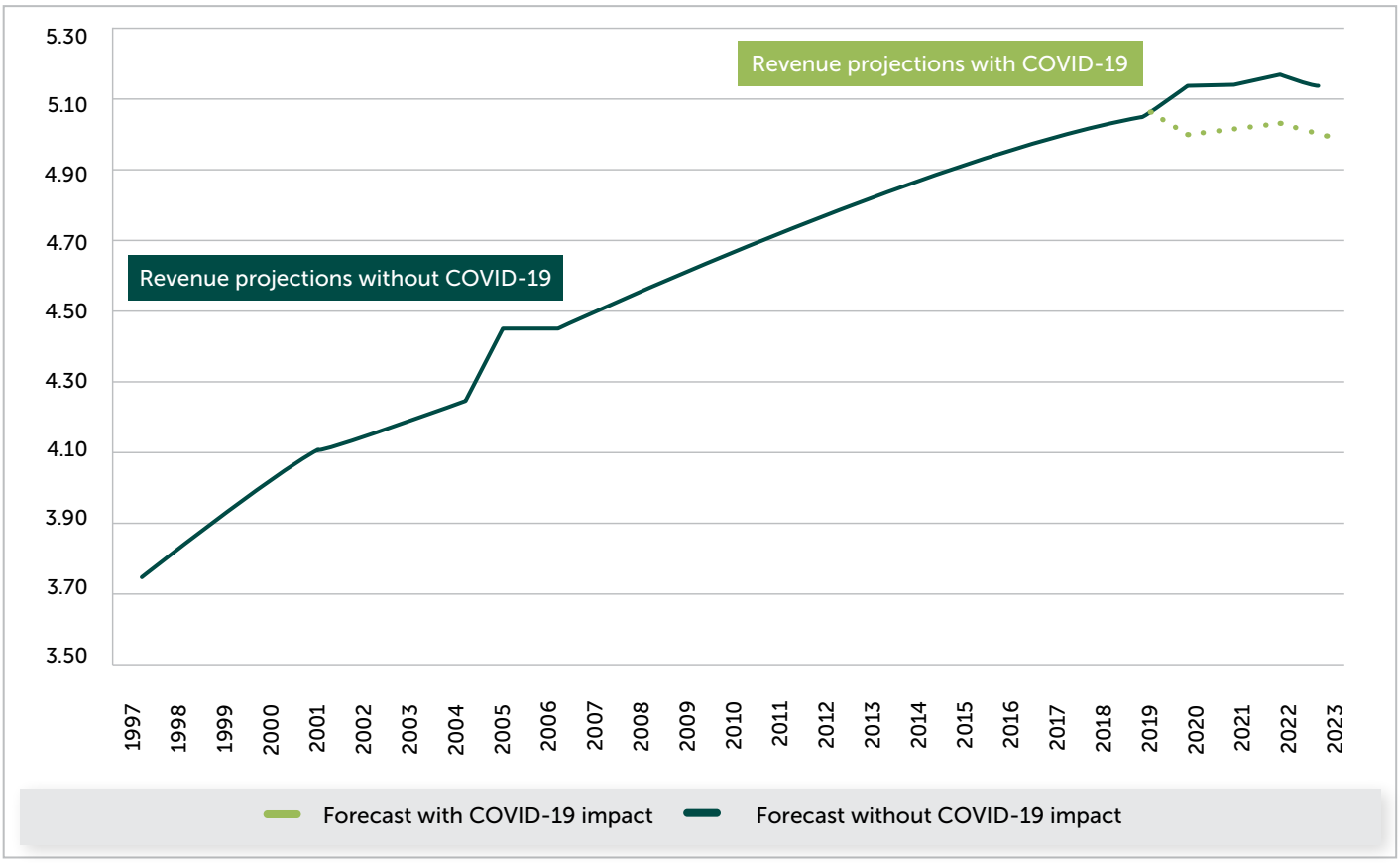
Source: Commission's estimates

Municipal own revenue and municipal expenditure index projections were undertaken, assuming two scenarios: one with COVID-19 and one without the pandemic. The projections were based on revenue and expenditure models (not reported here). Revenue projections suggest that the pandemic is likely to shift revenues downwards from their historical path (see Figure 4.1). This trend can only be uplifted if municipalities increase their efforts to mobilise their revenues.

Municipal expenditure projections show unexpected trends (see Figure 4.2). In 2020 and 2021, the pandemic shock shifts municipal expenditure upwards. The upward shift is somewhat short-lived as, in 2022, it is projected that municipalities curtail their expenditures. In 2023, the projections show the expenditure trend returning to its historic path.

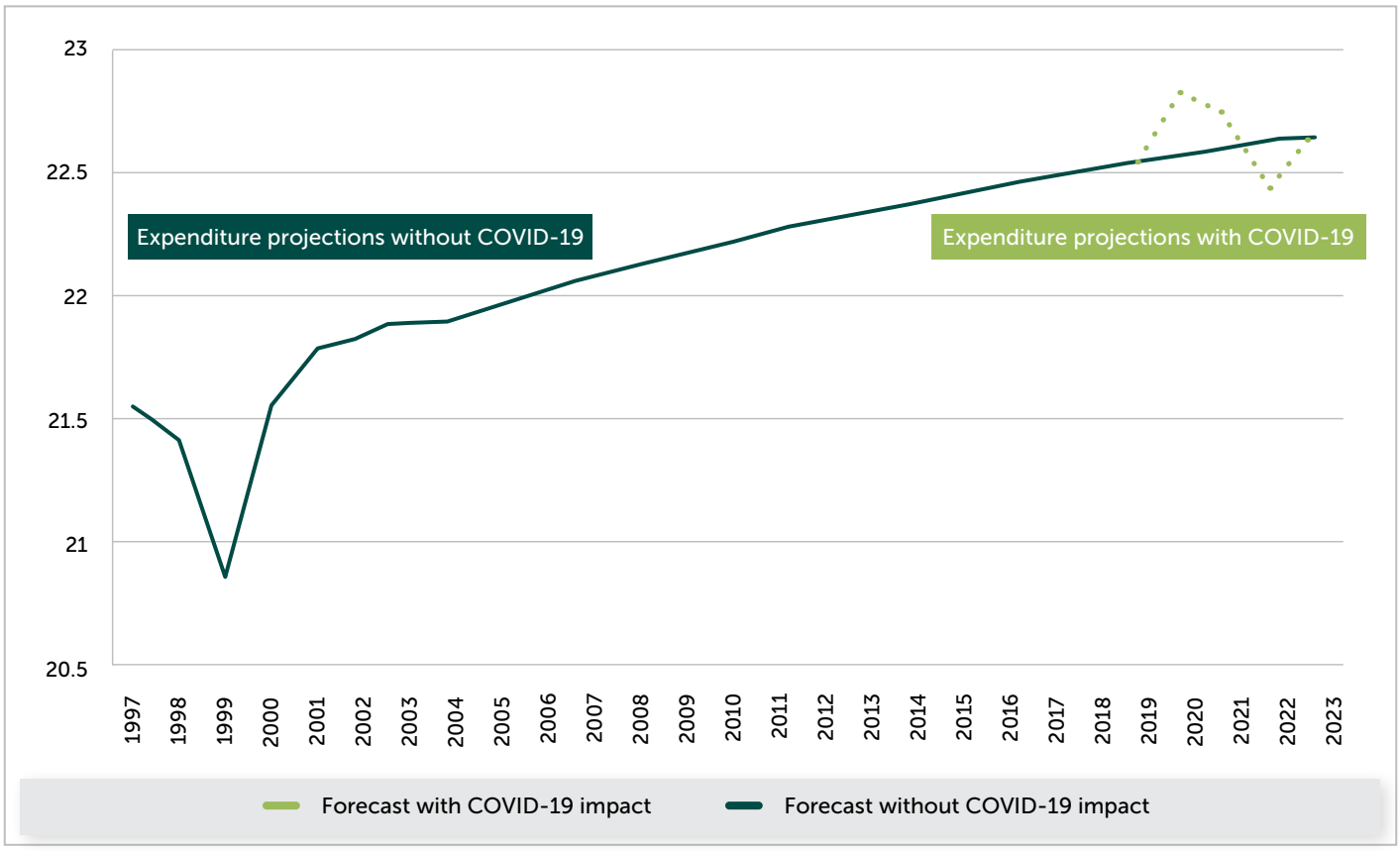
To summarise, the econometric results suggest that the pandemic is likely to have a negative effect on municipal economies, although the effect is statistically weak. It is important that municipalities develop and implement strategies to stimulate their economies. These strategies should come with limited costs or with no price tag at all, considering the financial constraints that municipalities are facing. For example, municipalities should endeavour to evaluate their regulations and eliminate regulations that hinder economic activity. The pandemic is also likely to undermine municipalities' own revenues.

Figure 4.1: Own revenue index projections



Source: Commission's estimates

Figure 4.2: Municipal expenditure and COVID-19



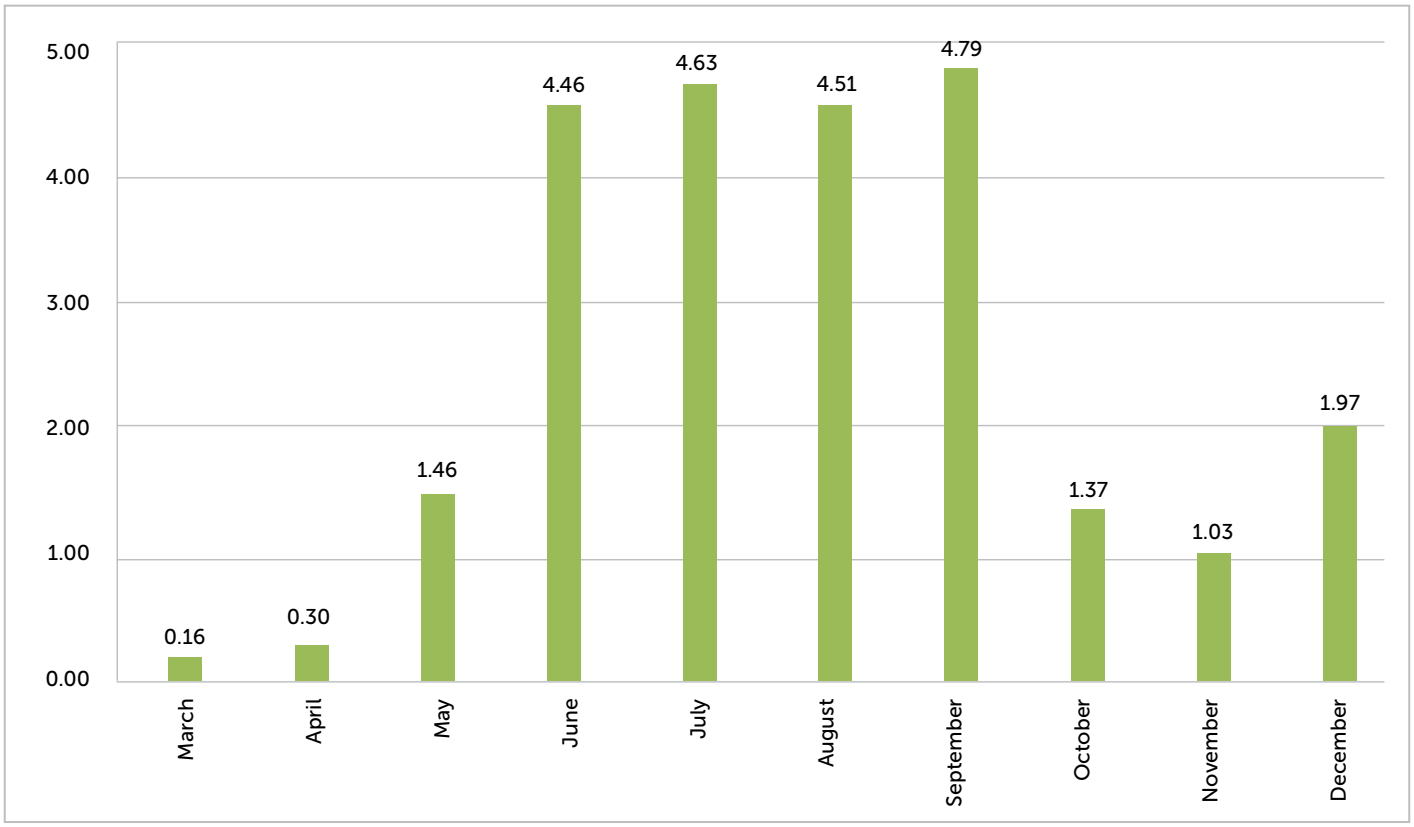
Source: Commission's estimates

Impact of COVID-19 on municipal finances

a) COVID-19-related expenditure

As of December 2020, the local government sector had spent close to R25 billion on COVID-19-related expenses. These expenses reached their peak in September 2020 before easing down to R2 billion in December (see Figure 4.3). The main drivers of such expenditure were medical supplies; personal protective equipment (PPE); equipment for employees to work from home (the procurement of hardware, software and licences); establishing homes for the homeless; setting up quarantine and isolation sites; the provision of regular sanitation, and the cleaning of public places. Municipalities were also required to rapidly expand water delivery in high-population areas, rural areas and informal settlements.

Figure 4.3: Total COVID-19 spending (billions)

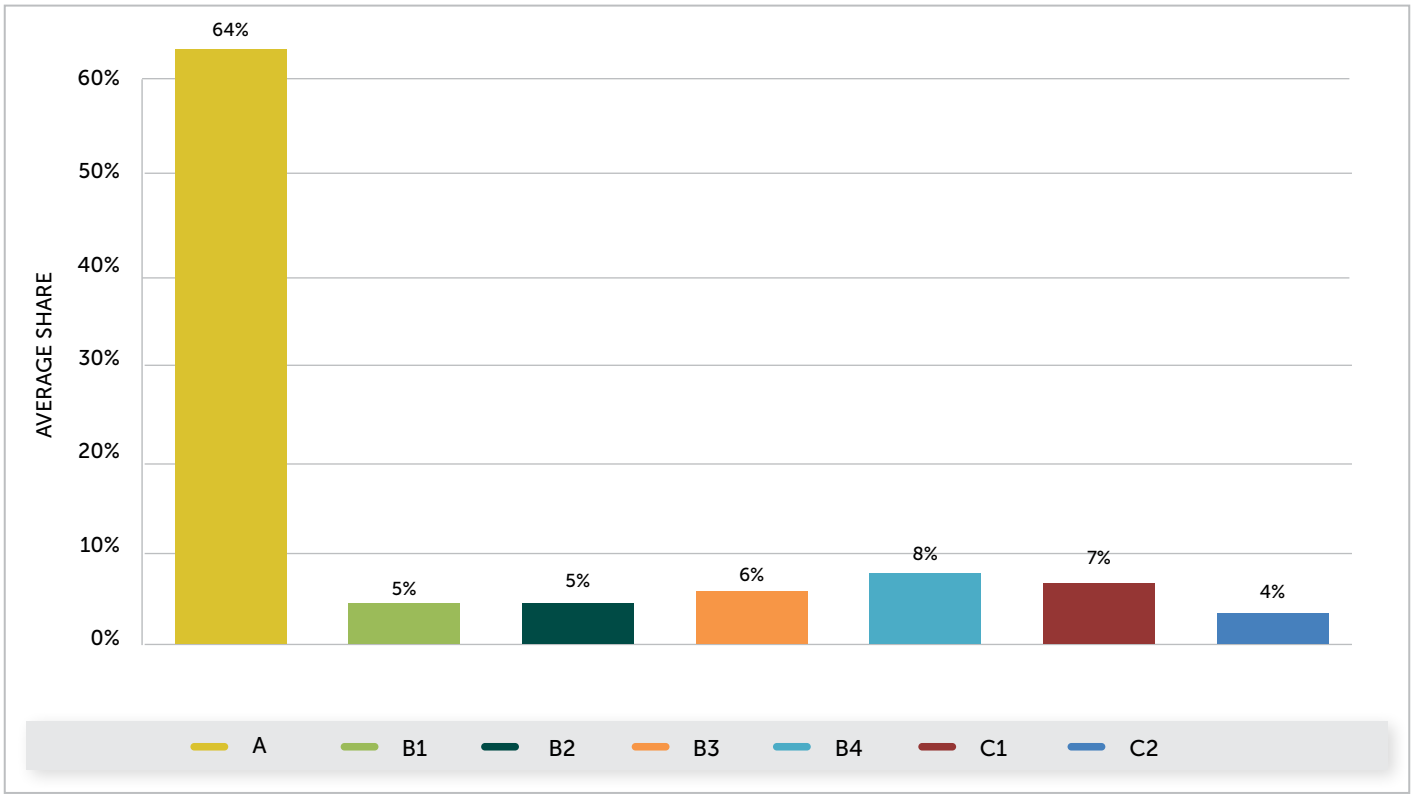


Source: Commission's calculations based on National Treasury's local government database

As expected, the eight metros accounted for the largest portion of COVID-19-related expenditure. The metros accounted for 64% of COVID-19 spending between March and December 2020 (see Figure 4.4). This is not surprising, considering that the metros account for 40% of South Africa's population.[1]

[1] The Municipal categories are as follows: A: Metropolitan (metros); B1: Intermediate cities, local municipalities with the largest budgets; B2: Local municipalities with a large town as core; B3: Local municipalities with small towns, with a relatively small population; B4: Local municipalities, which are mainly rural with communal tenure; C1: District municipalities that are non water services authorities; C2: District municipalities that are water services authorities.

Figure 4.4: Proportion of COVID-19 spending



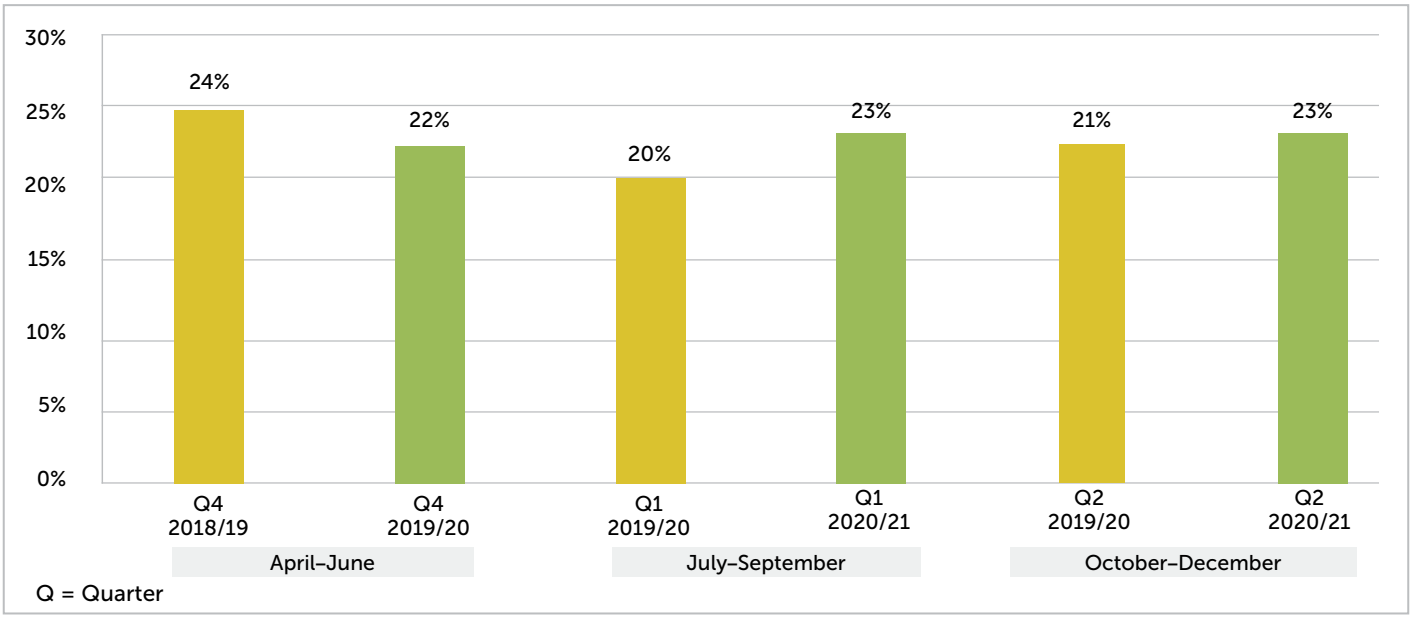
Source: Commission's calculations based on National Treasury's local government database

b) Operational expenditure

Figures 4.5 and 4.6, respectively, compare operational and capital spending before and during the COVID-19 period. These two diagrams compare the ratios of operational/capital spending to the operational/capital budget. In essence, the two diagrams provide a picture of what was spent relative to what was budgeted for. The two diagrams furthermore compare spending during the COVID-19 crisis and spending before COVID-19. For example, the pandemic hit the country during the fourth quarter of the 2019/20 financial year (April to June 2020). This quarter is compared to the fourth quarter of the previous financial year. In other words, the fourth quarter of 2018/19 (April to June 2019) was the period without COVID-19, while the fourth quarter of 2019/20 was the period during COVID-19. The assumption is that municipalities will ordinarily spend similar proportions in similar quarters in the absence of the COVID-19 shock.

Figure 4.5 presents a comparative analysis of municipal operating expenditure in different quarters before and after the COVID-19 onset. Looking at the fourth quarter of 2019/20, which is the period in which COVID-19 commenced, the share of spending was less than the share spent in the fourth quarter of 2018/19. This lower share of operational expenditure in the period during COVID-19 implies that municipalities could not spend as much as they would in a situation without the pandemic. In other words, the pandemic forced the sector to delay or defer their operational budgets. During the first quarter of 2020/21, municipalities spent 23% of their allocated budget, which was greater than the share spent during the first quarter of 2019/20. During the second quarter of 2020/21, spending was also more compared to spending in 2019/20. The overall national picture shown in Figure 4.5 suggests that the shock to operational expenditures was short lived (it only lasted one quarter). This is not surprising, considering that operating expenditure is dominated by salaries, which are much less flexible, even in the face of a debilitating shock.

Figure 4.5: Proportion of operating spending to allocated budget

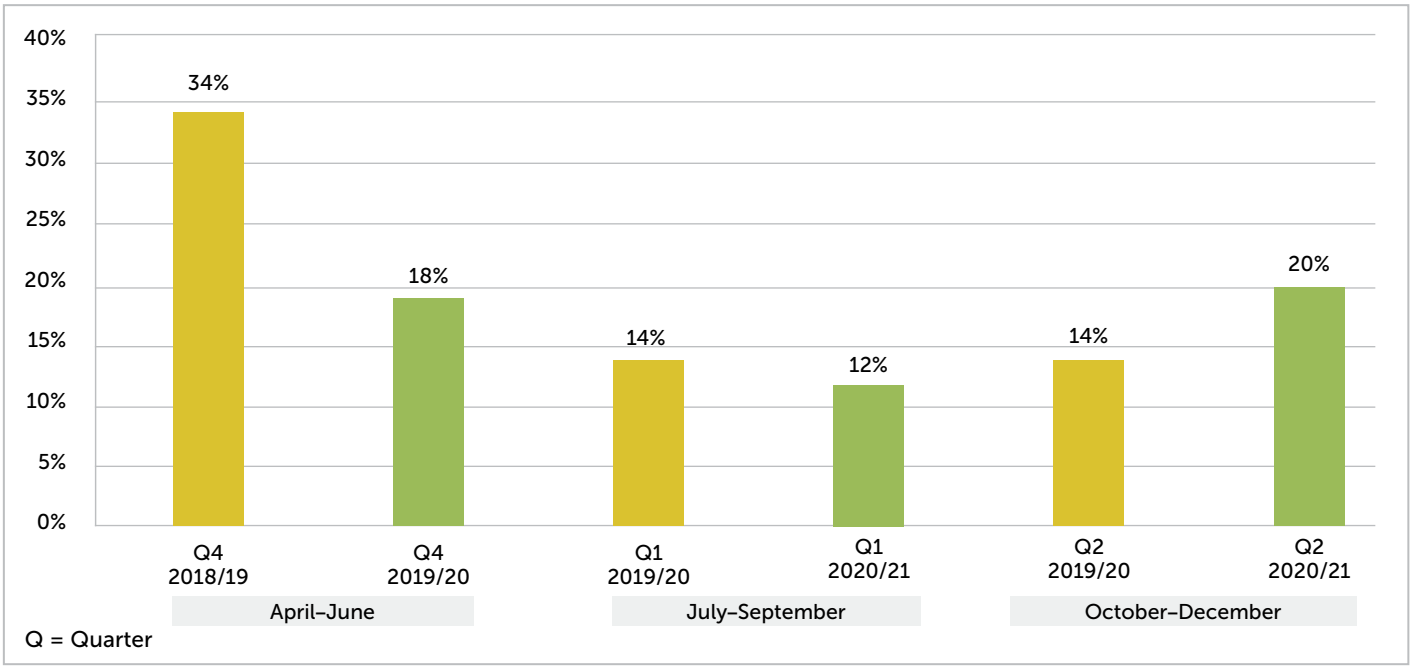


Source: Commission's calculations based on National Treasury's local government database

c) Capital spending

In terms of capital spending, Figure 4.6 indicates that the share of the allocated capital budget was less in the fourth quarter of 2019/20, compared to the fourth quarter of 2018/19. In the first quarter of 2020/21, it was also less, compared to the first quarter of the previous year, while it was higher in the second quarter. This suggests that capital expenditure took longer than operational expenditure to rebound. In other words, capital expenditure is relatively more flexible, and was at a higher risk of being deferred compared to operational expenditure.[2] Thus, municipalities freed up cash by deferring capital expenditure to mitigate the negative effects of COVID-19. In the long run, this situation will contribute to the widening of the infrastructure financing gap in the local sphere, with negative consequences on service delivery.

Figure 4.6: Proportion of capital spending to allocated budget



Source: Commission's calculations based on National Treasury's local government database

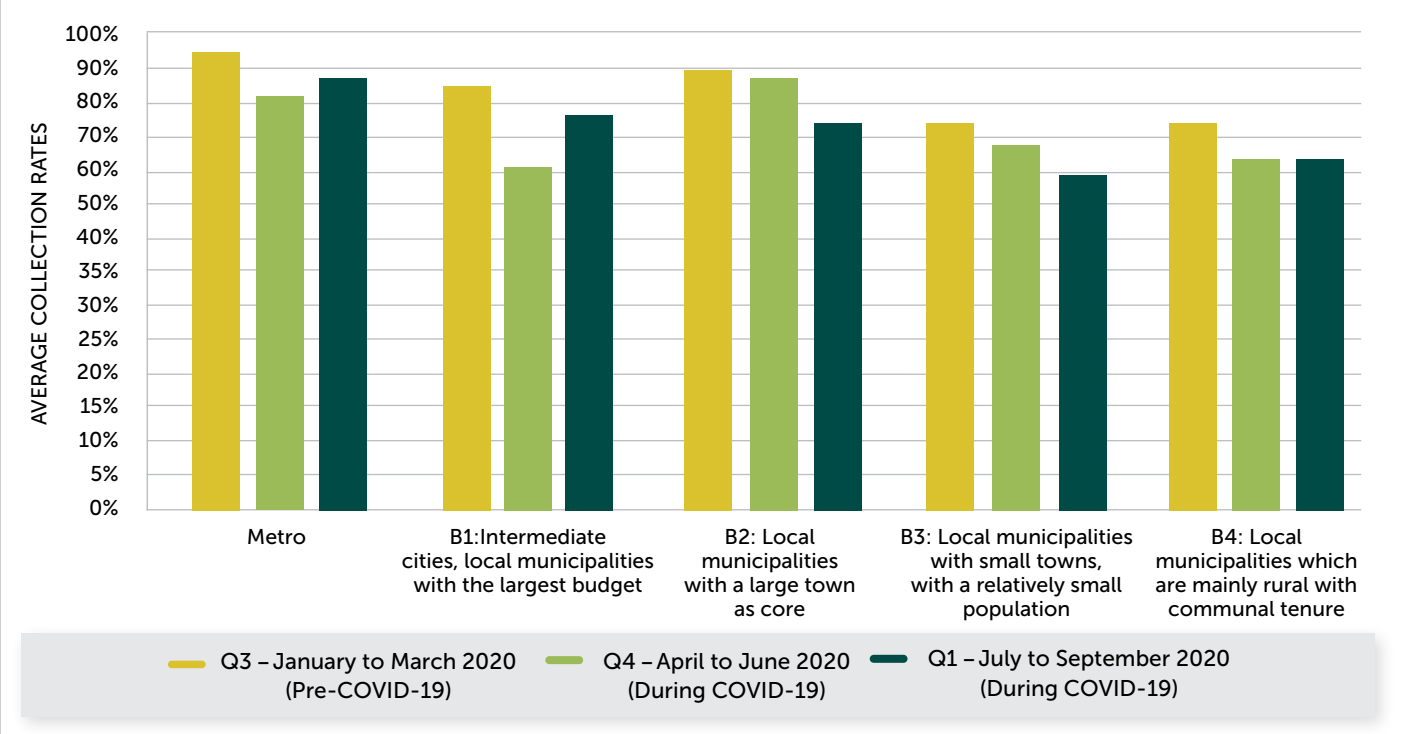
[2] However, it is not clear if deferred capital expenditure was used for operational expenses.

d) Own revenue

The impact of the COVID-19 pandemic has been more evident on the revenue side of the LGFF. The lockdown regulations did not only disrupt economic activity, but also resulted in many payment defaults that affected all revenue streams, albeit to varying degrees. The COVID-19-related fiscal (revenue) pressures can partly be illustrated by analysing revenue collection rates (see Figure 4.7).

Figure 4.7 shows that virtually all municipal categories faced revenue collection challenges. It should be noted that, even before the pandemic, this challenge was common, and the pandemic simply amplified the problem. Before the onset of the pandemic, many municipalities had collection rates far below the norm of 95%. Metros and intermediate cities were the hardest hit. Intermediate cities, which were collecting 88% of their revenue before COVID-19 (i.e. below the 95% norm) only collected 71% during the first three months of the pandemic. What is interesting from Figure 4.7, is that metros and intermediate cities had rebounded during the July–September COVID-19 period, while the B2, B3 and B4 municipalities continued on a downward spiral. The quick rebound of the metros and intermediate cities suggests some financial resilience among these two categories, supported by a diversified revenue base and better collection rates before the pandemic.

Figure 4.7: Own revenue average collection rates



Source: Commission's calculations based on National Treasury's local government database

The collection rates were also analysed by municipal category and revenue source (see Figure 4.8):

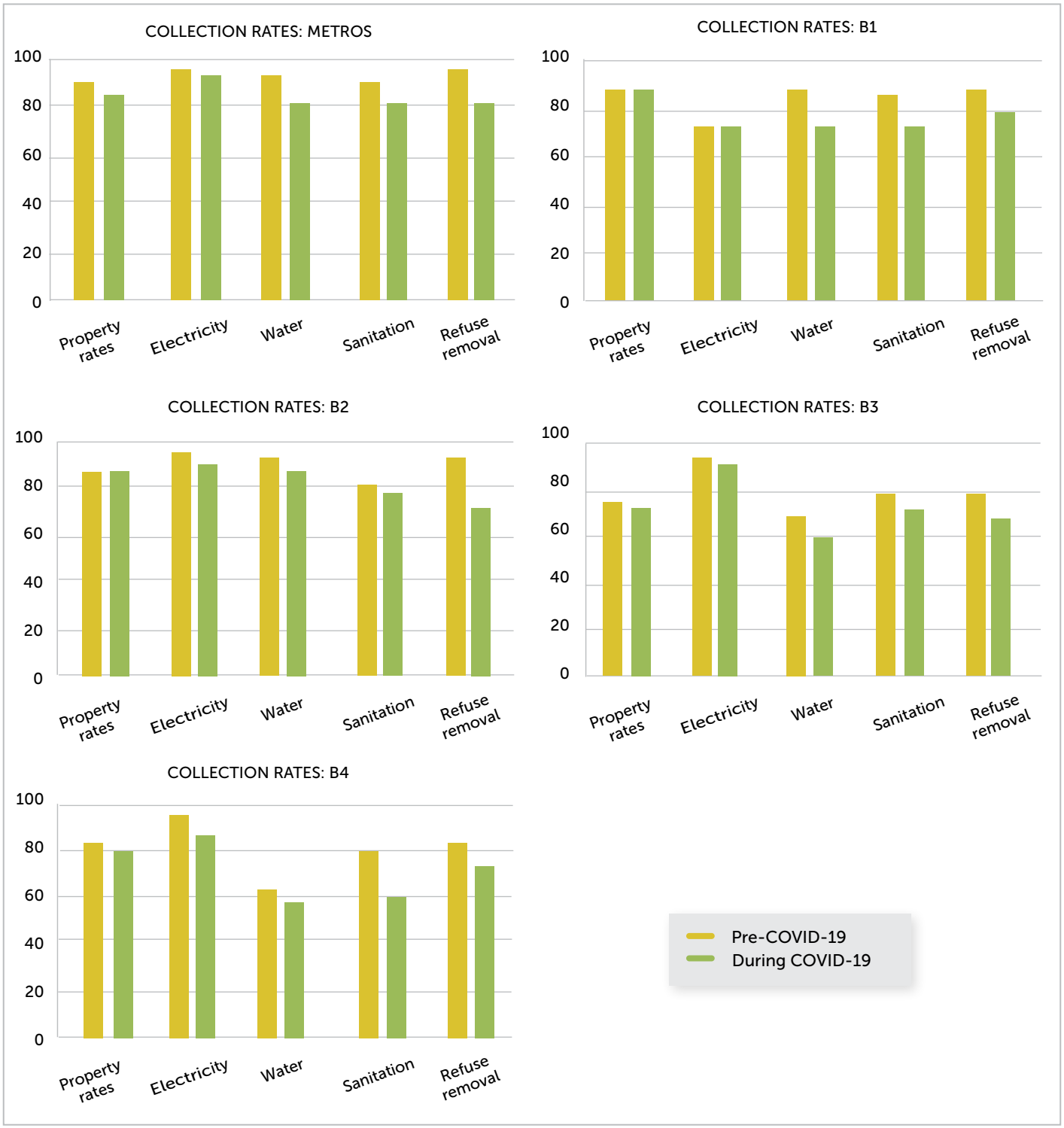
- The metros' average collection rates fell from 94% before the pandemic to 85% during the pandemic.
- The B1 municipalities' average collection rates fell from 85% before the pandemic to 76% during the pandemic.
- The B2 municipalities' average collection rates fell from 91% before the pandemic to 83%.
- The B3 municipalities' average collection rates fell from 78% before the pandemic to 73% during the pandemic.
- The B4 municipalities' average collection rates fell from 82% before the pandemic to 72% during the pandemic.

Surprisingly, property rates were the least affected revenue source for all municipal categories. Considering that property prices remained subdued during the COVID-19 period, one would have expected lower collection rates than depicted in Figure 4.8.

However, interviewees at local government practitioners attested to the limited impact of the pandemic on property rates. For example, one municipal officer noted that individuals were more likely to settle property-related accounts than service charges, because of the inherent fear of losing a property. However, it is important to note that, as a major revenue source, property rates continue to be at risk, especially under the cloud of a possible third wave of infections.

Electricity revenue was also moderately affected, largely because of the inelastic demand for electricity. Revenue from service charges was the hardest hit, largely due to social distancing regulations and many municipalities' relaxation of credit control policies.

Figure 4.8: Collection rates



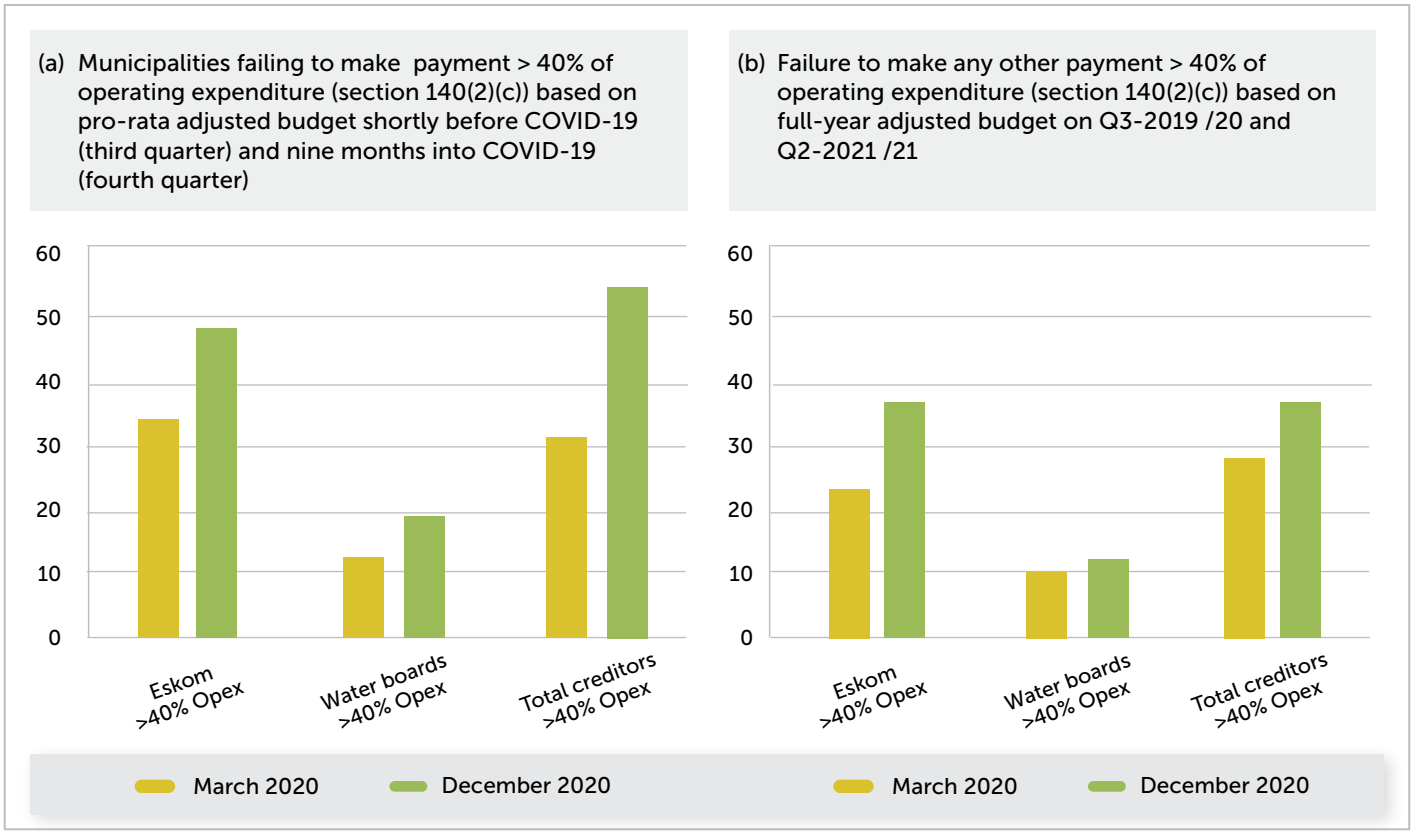
Source: Commission's calculations based on National Treasury's local government database

Municipal and consumer debt

Another variable that may be vulnerable to the pandemic is debt: both consumer and municipal debt. More often a shock, such as a pandemic, cuts the flow of finances from consumers, causing municipalities to default on their payments to their creditors. In other words, consumer debt can lead to municipal indebtedness. Virtually all municipalities interviewed noted an increase in consumer debt, which created a huge shortfall in municipal accounts, resulting in municipalities failing to service their debt to Eskom and the water boards.

Figure 4.9 confirms the above observations of the interviewees. It shows that, no matter how municipal debt is viewed, it increased. For example, Figure 9(a) indicates that the number of municipalities owing Eskom more than 40% of their operating expenditure increased from 34 during the pre-COVID-19 period to 50 during the COVID-19 period. Similarly, the number of municipalities owing the water boards more than 40% of their operating expenditure increased from 14 during the period before COVID-19 to 19 during the COVID-19 period. Figure 9(b) shows the same trend. As noted above, the main driver for the increase in the number of municipalities defaulting on their Eskom and water boards' debt was an increase in consumer debt.

Figure 4.9: Municipal indebtedness



Source: Commission's calculations based on National Treasury's local government database

Looking ahead and beyond COVID-19

This section discusses additional strategies that municipalities can adopt to recover from this crisis, including promoting local economic growth and adopting revenue-enhancing strategies. Many municipalities are already looking beyond the COVID-19 crisis. Although there are uncertainties due to possible new waves of infections, the vaccine rollout has ignited hope to look beyond the pandemic and begin to think about recovery. The interviewees articulated various recovery strategies. The top 10 strategies mentioned by respondents are listed in Table 4.2.

Table 4.2: Top 10 strategies for recovery

1. Eliminate red tape
2. Trim all non-essentials
3. Leverage on the competencies of private partners
4. Use lateral benchmarking to drive innovation and performance
5. Make staffing adjustments
6. Invest in digitalisation – use digital technologies to help ensure continued service delivery
7. Improve expenditure and revenue effectiveness
8. Invest in innovative solutions
9. Invest in smart technologies
10. Diversify revenue streams

Source: Compiled from interview responses

Promoting local economic development

The foregoing analysis has shown the devastating effects of the pandemic across the entire spectrum of municipal finances and economies. In many ways, the COVID-19 pandemic has shown the necessity for municipalities to move from the status quo and challenge the traditional way of doing things. The above analysis reveals the need for municipalities to reflect on options for rebuilding and stimulating their economies and creating opportunities for inclusive growth. Considering the current constrained fiscal environment, municipalities should attract investments by prioritising options that come with little or no price tags, such as changing regulations that hinder economic activity. For example, they should reduce timeframes for getting permits or licences and reduce the compliance burden of their regulations. They should streamline small business registration and approval processes and explore the possibilities of 'one-stop shop' initiatives. They should also strive for efficient digitalisation methods of interacting with the business and urban communities in general.

Revenue enhancement

The expenditure and revenue analysis above suggests that municipalities experienced a strong 'scissors effect', whereby spending commitments proliferated against the deteriorating performance of all revenue streams. Many municipalities have struggled as a result. Municipal expenditure increased rapidly during the first few months of the COVID-19 crisis and may increase again if new waves materialise. The COVID-19 pandemic, coupled with social distancing regulations and tough economic conditions, has brought into sharp focus the vulnerability of municipal revenues. Although some municipalities have shown signs of reversing this trend, many are still failing to flatten the poor revenue collection tide. There is consensus among local government practitioners that the prudent management of resources should be the basis for recovery. Key strategies to anchor the recovery process should include the following:

- The need for municipalities to undertake a detailed and unbiased analysis of the services they provide in order to align their responsibilities, services and programmes to their financial capabilities. The importance of balancing employee compensation budgets and service delivery cannot be overemphasised. Ideally, compensation of employee budgets should be set at levels that do not crowd out service delivery expenditure. Municipal budgets should also be credible and based on realistic revenue collection rates.
- Municipalities should explore options for new revenue sources. In its 2020/21 submission for the Division of Revenue, the Commission recommended a list of revenue streams for inclusion in the basket of allowable revenue sources. This list must be reconsidered, but on a municipality-by-municipality basis.

- This chapter argues that municipalities should also explore other revenue-enhancing strategies, such as selling redundant assets and creating new revenue-generating infrastructure. A good example of the latter includes the adoption of digital infrastructure. Digitalisation is a megatrend that would require infrastructure investment. Municipalities can generate extra revenue by creating their own digitalisation infrastructure (e.g. 5G) corporations or at least by being partners in the deployment of the underlying infrastructure.
- As the pandemic has heightened the lack of financial resilience for many municipalities, it is important that local authorities improve on this as part of the recovery process. Financial/fiscal resilience is a function of current and past levels of financial and non-financial performance and a higher dependence on individual sources of revenue. To improve on financial resilience, the following strategies should be considered.
  - **Embracing e-government:** E-government improves financial resilience through multiple avenues, including digitalising municipal administration and payment systems. Digitalisation will improve data management and sharing across municipal departments (Klapper & Singer, 2017). Digitalisation will also contribute towards the broader efficiency goals of local government and position the sector in the Fourth Industrial Revolution. With physical human interactions being greatly constricted, and online engagements emerging as the key mechanism for conducting business, municipalities should embrace automation and online platform models. Municipalities should therefore position themselves for this revolution and revamp their legacy information technology systems. They should also invest in new skills to take advantage of this digitalisation challenge. The Commission notes that it is vital for government policy to change and to build capacity within municipalities so that they are able to embrace the transition towards digitalisation. Government intervention will ensure that no one is left behind as such technological changes without government involvement can more often than not exacerbate existing inequalities between the rich and the poor. The grant system, especially the Municipal Systems Improvement Grant, should be adapted to fulfil this new challenge. In terms of digitalisation infrastructure, the Municipal Infrastructure Grant should also be reviewed to fund digitalisation infrastructure.
  - **Diversifying the revenue mix:** There is ample evidence from empirical literature suggesting that more diversified structures of revenue sources exhibit stronger resilience to revenue volatility arising from shocks (Compaoré, Ouédraogo, Sow & Tapsoba, 2020). Empirical evidence from municipalities in the Western Cape also suggests this (Ajam, 2021). Ajam (2021) observed that municipalities in the Western Cape had their revenue collection rates rebounding quickly after the COVID-19-induced setback, largely because most of these municipalities had diversified revenue bases compared to their counterparts in other provinces. The implication of this observation is that a diversified revenue base improves financial resilience.
  - **Regular communication with residents:** Trust with residents has to be built up through regular communication. Such communication should entail explaining the importance of revenue in a municipality and the importance of ratepayers paying their dues. Building up this relationship with ratepayers leads to more people being willing to pay their bills.

Adopting positive COVID-19 experiences

Although the COVID-19 situation continues to evolve, there are already a few positive legacies that municipalities can take advantage of going forward. The mass remote working experiment, for example, has proven to be possible, efficient and effective, though characterised by particular challenges in rural areas. Municipalities may want to permanently retain this as the new normal in the name of savings. Local government practitioners interviewed for this project indicated that their respective municipalities have made significant savings as a result of remote working and the use of collaborative technologies.

4.5 Concluding remarks

The foregoing analysis examined the impact of the COVID-19 pandemic on municipal economies. It should be underscored that the pandemic only amplified existing challenges in the local government sector. The present study has also shown that the experience of the South African municipalities with the pandemic is not unique to this country, but other local jurisdictions elsewhere in the world have faced similar challenges.

Using budget and econometric analysis tools, as well as information gathered from 12% of the 257 municipalities, the present study demonstrated the devastating effects of COVID-19 on local government finances. The impact on local economic growth has been negative, but weak. User charges (water, sanitation and refuse removal) were hardest hit by the pandemic, largely because of the COVID-19 regulations and commercial/personal bankruptcies. The relaxation of credit controls and discount incentives offered by some municipalities also caused underpayment by many consumers. Although property rates were moderately affected, they continue to be at risk due to the unclear direction of the economy, and subdued property values. The local government practitioners interviewed also pointed to a rise in defaults in property rates due to personal and business bankruptcies.

The study has proposed several measures to spur recovery in the local government sector. To stimulate local economic growth, municipalities must consider strategies that come with lower costs, such as reducing the compliance burden of their regulations. Another strategy proposed is revenue enhancement by selling redundant assets and creating new revenue-generating infrastructure. As the pandemic heightened the lack of financial resilience for many municipalities, it is important that the recovery process is anchored in building municipal financial resilience by embracing e-government, diversifying the revenue mix and having regular communication with residents to gain their trust. Finally, this chapter proposes that municipalities take advantage of some of the pandemic's positive legacies that have transformed the way municipalities do business and deliver services. The remote working experiment and use of new technologies have proven to be efficient and effective, and worth sustaining.

4.6 Recommendations

With respect to the impact of the COVID-19 pandemic on the local economy, the Commission makes the following recommendations:

1. *Municipalities should undertake a detailed and unbiased analysis of the services they provide to align their responsibilities, services and programmes to their financial capabilities. National and provincial treasuries, the Department of Cooperative Governance and Traditional Affairs (CoGTA) and the South African Local Government Association (SALGA) should ensure that municipal organograms, staffing levels and the compensation of employee budgets are set at levels that do not crowd out service delivery expenditures. In addition, these roleplayers should ensure that municipal budgets are credible and based on realistic revenue collection rates. National and provincial treasuries, CoGTA and SALGA should support and monitor progress in this regard.*

2. *Municipalities should stimulate local economic growth by creating investment-friendly conditions and streamlining regulations that impede investments within their jurisdictions.*

3. *Municipalities should consider additional revenue-enhancing strategies, such as the selling of redundant assets and creating new revenue-generating infrastructure.*

4. *National Treasury, through the Municipal Systems Improvement Grant (MSIG), should support municipalities to embrace e-government (digitalisation) and diversify their revenue mix as part of building the financial resilience of local government.*

PART 3
COVID-19 Impact on People's Lives (Bill of Rights)

The COVID-19 pandemic has had devastating effects on people's lives and livelihoods. As the pandemic continues to evolve, its toll on lives, livelihoods and the economy will continue to multiply for some time. The focus of Part 3 of the Commission's Annual Submission for the 2020/23 Division of Revenue is on the impact of the pandemic on the state's core obligation: the progressive realisation of people's socioeconomic rights as entrenched in the constitution.

Part 3 of the Commission's submission begins by looking at the issue of gender inequality and the gender responsiveness of the departmental budgeting processes. As one of fundamental principles of the Constitution is to promote equality, especially gender equality, the state has no excuse but to confront this challenge head on.

The submission then examines the adequacy of the current means-testing approach in ensuring that the social protection instruments cover the eligible poor, as well as the state's constitutional obligation to work towards improving access to basic needs like food, water and sanitation.

CHAPTER 5:
Addressing Gender Inequality through Gender Budgeting in the Public Sector

5.1 Introduction

Globally the term gender mainstreaming came into effect in 1985 at the United Nations (UN) Third World Conference on Women held in Nairobi, Kenya. It was then deliberated further at the Beijing Platform of Action in 1995. These international platforms called for and mandated governments and organisations around the world to integrate women's empowerment into gender programmes and projects. This included allocating resources towards advancing women's needs, as well as conducting gender impact analysis. Previously, the gender discourse focused on issues around discrimination. For example, the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), in 1979, called for "state parties to take all appropriate measures to eliminate discrimination against women in the field of employment in order to ensure the equality of men and women to have the same rights". The same was pronounced by several International Labour Organisation (ILO) conventions and platforms. The African continent committed itself to gender equality through its Aspiration 6 of Agenda 263, which calls for "An Africa, whose development is people-driven, relying on the potential of African people, especially its women and youth, and caring for children."

South Africa has committed to gender equality by being a signatory to various international agreements and passing domestic anti-discrimination laws, as well as initiating various programmes to empower women and other marginalised groups in society. In South Africa, these commitments have been expressed in legislation such as the Women's Charter (1994), the Constitution (1996), the Employment Equity Act (1998), as well as policy frameworks such as the National Policy Framework for Women's Empowerment and Gender Equality (2018). Despite these commitments and initiatives, gender inequality remains very high in South Africa (DWYPD, 2018a).

Poverty, inequality and unemployment is gendered in South Africa. Some 52% of poor households are made up of women. The median income for women is 76% that of men (Stats SA, 2018b). Between 2006 and 2015, the average expenditure in male-headed households was consistently double that of female-headed households (Stats SA, 2018b). In 2009, 2011 and 2015, it was shown that male-headed households had greater access to basic services and household assets – including running water, electricity, formal dwellings, flushing toilets, washing machines, computers and internet access – than female-headed households, illustrating the gendered nature of social inequality (Stats SA, 2018b). Female-headed households also disproportionately experience persistent levels of poverty compared to male-headed households (Zizzamia, Schotte & Leibbrandt, 2019; Stats SA, 2018b). Indeed, evidence shows that children residing with only their mother, are more likely to live in poverty than if they lived with their father (Posel & Rudwick, 2013).

Evidence advanced so far indicates that the COVID-19 pandemic has worsened the problem of gender inequality (UN Women & UNFPA, 2021). The percentage of women living in extreme poverty increased from 13% in 2019 to 14% in 2020 due to the pandemic, while that of men increased from 10.5% in 2019 to 11% in 2020 (UN Women & UNFPA, 2021). Women bear a disproportionate burden of COVID-19-related mortality relative to men. The COVID-19-related mortality rate for South African women is 51% compared to 49% for men. Similarly, women are at a 45% risk of being infected by the COVID-19 pandemic compared to their male counterparts, who have a 38% risk of being infected (UN Women & UNFPA, 2021).

The high mortality rate and infection risk among women could be attributed to the fact that they dominate most of the frontline sectors (healthcare, retail, etc.). Women are also most likely to stay in crowded areas and less likely to afford to practice social distancing at home.

The COVID-19 crisis also disproportionally affects women in terms of the hours they spend in unpaid work at home, i.e. COVID-19 affects the number of hours undertaken in unpaid work in the household for women. The closure of schools, childcare facilities and non-essential work because of the national lockdown resulted in an increase in hours spent in household unpaid work. The time spent on cooking, cleaning and shopping increased by 68.5% for women and 61.8% for men (UN Women & UNFPA, 2021). The time spent minding, caring for and teaching children increased by 63.4% for women and 52.3% for men (UN Women & UNFPA, 2021). The additional time spent on childcare means that women cannot join the labour market to earn an income (Casale & Posel, 2021). According to UN Women and UNFPA (2021), the pandemic has forced more women into extreme poverty than men, and this is likely to continue in the post-COVID-19 recovery phase.

One of the avenues that has been adopted globally to turn the gender equality commitments into reality has been the budget, specifically the so-called gender-responsive budgeting (GRB). The term GRB has often been used interchangeably with gender-sensitive budgeting or the gender budget. All these terms refer to the process of mainstreaming gender issues in budgets in order to bridge the gender gap (Nair & Moolakkattu, 2018; Sharp, 2003; Bosnic, 2015).

As Bosnic (2015) has suggested, GRB refers to the intersection of gender equality and public finance management. GRB seeks to generally improve budgets, while at the same using budgets to promote gender equality and women's empowerment by systematically integrating GRB into service delivery programme planning, budget processes and programme implementation. GRB is not intended to be a separate budget for women or men, but rather a framework that integrates women's empowerment into the budget process (Stotksy, 2016).

In South Africa, very few studies on GRB have been undertaken (e.g. Financial and Fiscal Commission (FFC, 2012); Commission on Gender Equality (CGE, 2013); and Free State Provincial Treasury (FSPT, 2019). The findings of these studies indicate, among others, the continuous challenges experienced by government departments to address GRB in a cohesive manner. GRB tends to be viewed as an ad hoc project. These studies either questioned the existence of GRB as a policy strategy (e.g. CGE, 2013) or they focused on a particular sector of the economy (FFC, 2012; FSPT, 2019). The main drawback of these studies is that they did not evaluate actual budgets or budget policy issues from a gender perspective. The aim of the present study is to fill this gap and interrogate the budgets of selected key national departments for their gender responsiveness.

5.2 The problem

In South Africa, even though progress has been made since the attainment of political freedom, economic emancipation has been lagging behind due to issues of poverty, unemployment and inequality. Women continue to bear the disproportionate burden of the triple challenges of poverty, unemployment and inequality. The following key statistics provide evidence of this.

- Some 52% of females are poor, while 74.8% of female-headed households in rural areas are poor (CoGTA, 2020).
- In 2018, women's median monthly earnings were 76% of men's median monthly earnings (Stats SA, 2018a).
- In 2018, 11,6% of female-headed households reported being subjected to hunger compared to 8.6% of male-headed households (Stats SA, 2020).

- According to Stats SA (2017), 41.3% of South African households are headed by females and, of these female-headed households, 56% fall into the poorest quintile compared to 44% of the male-headed households.[1]
- Only 31% of female-headed households fall into the richest quintile compared to 69% of male-headed households (Stats SA, 2017).

The Department of Women, Youth and Persons with Disabilities (DWYPD) (2020a) states that the majority of women and girls are still subjected to multi-dimensional poverty, inequality and discrimination on the basis of gender. This is compounded by multiple deep-seated social problems, such as gender-based violence (GBV). Some of the reasons for these failures are attributable to the following, among other things:

- There is a lack of coherent gender-responsive planning, budgeting and policy.
- Gender equality and women's empowerment are often seen as an afterthought or relegated to a sector or specific outcome rather than being seen as an integral component across all sectors, outcomes and spheres of government, and the state as a whole.
- Gender discourses are events driven,
- There is lack of GRB training and capacity building among decision makers.
- There is poor institutionalising of GRB (DPWYD, 2018a; FFC, 2012).

The benefits of gender equality are many and span individuals, firms and nations. It is both a value and a right. Gender equality is a "prerequisite for the health and development of families and societies, and a driver of economic growth" (OECD (2012:1). At an individual level, the benefits of empowering women and girls include education, financial independence, career development and full participation in economic life. Gender-blind policies not only inhibit the full participation of women in the labour market, but also condemn them to poverty and social depravation.

The benefits of empowered women and girls accrue to the wider society through human development and positive economic growth. For the economy, gender equality is an investment in one factor of production that can be leveraged upon. Thus, gender inequality is costly and inefficient as the full productive potential of one factor – the labour force – is not fully exploited. Closing the gender gap has other positive externalities. It accelerates progress in areas that include intergenerational equity, educational attainment, child health and food security.

As noted, above, the budget can be a key instrument to addressing gender disparities. In countries such as Australia, Tanzania, Uganda and the United Kingdom, GRB has been adopted to address gender inequalities (Stotsky, Kolovich & Kebhani, 2016; Chakraborty, 2016; Sharp, 2003). In South Africa, commitments have been made to use the budget to address gender inequalities. However, there has been no concrete and systematic analysis of whether budget processes have been effectively utilised to address gender equality. In the South African context, there has been limited scrutiny of the effectiveness of budgeting processes to address gender disparities.

As elsewhere in the world, departments' budgets can be used as a catalyst to translate governments' gender equality commitments. Therefore, there is a need to evaluate the performance of departmental budgets for their effectiveness in fulfilling government's commitments to gender equality. This has been made more urgent by the COVID-19 pandemic, which seems to be reversing some of the gains that have been achieved on gender inequality, as confirmed by Casale and Posel (2021).

[1] According to Stats SA (2018b), a household head is a person recognised in the household as the main decision maker or the person who owns or rents a dwelling or the person who is the breadwinner. However, caution should be exercised when interpreting the gender gap in this case, as it is quite probable that male-headed households also have a female partner that contributes to the household income, while female-headed households only receive a single income.

The aim of the present study is to assess the effectiveness of key departmental budgets in addressing gender equality. A few key national departments and government entities are used as case studies. The selected departments are the Department of Basic Education (DBE), the Department of Health (DoH), the Department of Social Development (DSD), the Department of Women, Youth and Persons with Disabilities, and the Department of Justice and Constitutional Development (DJ&CD). These five departments were selected because their work directly or indirectly promotes gender equality. The DBE, DoH, DSD and DJ&CD deliver key services that empower women, while the DWYPD coordinates women's empowerment. The DBE is the primary driver of human capital development in the country.

Access to education by women improves their chances to participate in the labour market, narrows gender pay gaps and empowers them to be agents for change in wider society. The DoH promotes the health of everyone in South Africa. It enables an accessible, caring and high-quality health system. Access to health services for women does not only improve their health status, but also that of their families. It promotes human development and enhances the ability of women to be active participants in the workforce and economy at large. The DSD contributes to the promotion of women's empowerment through, among other things, integrated sustainable development and social protection programmes, including the social grant system. The mandate of DWYPD is to accelerate socioeconomic transformation and the implementation of the empowerment and participation of women, youth and persons with disabilities through oversight, monitoring, evaluation and influencing policy Finally, the DJ&CD has a big role to play in closing the gender gap. It ensures the promotion of human rights, including women's rights and gender equality rights. In a nutshell, the five departments selected as case studies empower women in various forms, and promote their effective participation in economic growth.

In addition, the five departments have the potential to make a difference in gender equality if their expenditures are deliberately biased towards addressing gender imbalances. Out of the 41 budget votes provided for in the National Appropriation Bill, these five departments account for almost a third of total expenditure (National Treasury, 2020d).

The government entity that was selected as a case study is the CGE. The focal areas of the CGE include gender and substantive equality, gender and health, women's economic empowerment, the national gender machinery, gender culture, religion and tradition, as well as gender-based violence (CGE, 2017).

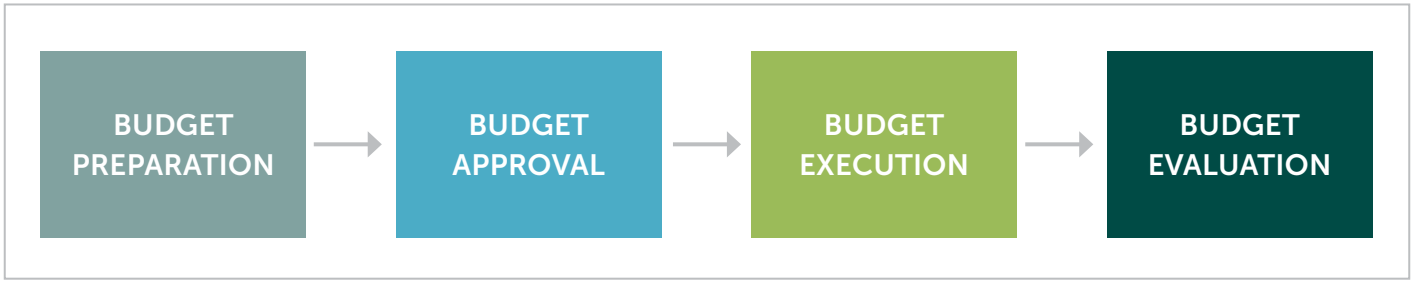
The budget data for these departments was sourced from National Treasury's database, expenditure reviews, estimates of national expenditure, budget reviews, the performance plans and strategies of the national, provincial and municipal departments, and any other related documents.

5.3 Research methodology and data

The chapter adopts a combination of methods. The study is based on case studies of the budgets of five departments (DBE, DoH, DSD, DWYPD and DJ&CD) and one constitutional institution (the CGE). The research also reflects on relevant pieces of legislation and policies around gender inequality. The aim of this chapter is to analyse the budget value chain (Figure 5.1) for its gender sensitivity. The chapter draws substantially from international and local experiences on GRB.

Regarding the first objective (assessing the gender sensitivity of the budget processes), the budget preparation process is evaluated for its gender sensitivity. This involves the evaluation of the Medium-Term Expenditure Framework (MTEF) guidelines, i.e. 'budget circulars' (National Treasury, 2020d). The approach to be followed here is content analysis, i.e. evaluating the content of the budget documents tabled for gender responsiveness.

Figure 5.1: The budgeting value chain



Source: Canadian International Development Agency (2012)

The case study approach is adopted in respect of the second objective (assessing the gender sensitivity of national governments' budgets). The budgets of selected government departments (DBE, DoH, DSD, DWYPD and DJ&CD), as well as that of the CGE, are analysed through the budget analysis research approach. Using secondary data, the budgets of selected national departments are used as case studies to determine the responsiveness of government expenditure to gender inequality.

For the third objective (assessing the adequacy of legislative and internal arrangements in promoting GRB), a review of relevant legislation and policies is undertaken. The spending patterns of the CGE, as the primary institution for promoting gender equality, is analysed.

Document analysis was the main approach to ascertain whether progress has been made with regard to GRB and processes. Information was solicited from the status quo analysis reports on gender-responsive measures.

5.4 Findings

Assessing the gender sensitivity of the budgeting processes

The national budget process starts with National Treasury requesting budget proposals from line ministries. In terms of sections 215 and 216 of the Constitution, National Treasury is responsible for prescribing the formats of budgets, and for taking necessary measures to ensure transparency and expenditure control in each sphere of government. Annually, National Treasury develops budget guidelines to guide departments in preparing their budgets. In terms of planning and budgeting, National Treasury's regulations for departments and institutions provide that the accounting officer must prepare a strategic plan for the MTEF period, including multi-year projections of revenue and expenditure. This should be approved by the executive authority.

A review of the budget guidelines since 2015 shows that no specific provision was made for gender issues. A gender aspect was only included in the budget documents of the 2020 MTEF; not as a specific focus area, but linked to other marginalised groups. For example, provision was made that a department must indicate the percentage of its budget currently spent on women, persons with disabilities, youth, and pro-rural and pro-poor activities. Prior to this, there was a facility in the MTEF submission to track specific programmes, and within this, departments could include gender issues. However, departments never included gender aspects in tracking specific programmes. What is needed now is a more prescriptive or targeted approach in the MTEF guidelines to include gender aspects in the budget process. The technical guidelines of the 2021 MTEF state that National Treasury, in collaboration with departments, will be undertaking spending reviews to contribute to the fiscal consolidation process. Budget tagging was also introduced. This is defined as a tool that identifies, classifies, weighs and marks relevant expenditure in a government budget system that enables the estimation, monitoring and tracking of expenditures to inform policy discussions. Budget tagging will include gender, youth and persons with disabilities.

Departments listed under the following policy priorities were requested to provide expenditure data in the MTEF budget process on women, youth and persons with disabilities:

- Women's economic inclusion, especially by the Department of Trade, Industry and Competition (DTIC), the Department of Employment and Labour (DEL), the Department of Small Business Development (DSBD), the Department of Agriculture, Land Reform and Rural Development (DALRRD), the Department of Public Works and Infrastructure (DPWI), the Department of Forestry, Fisheries and the Environment (DFFE) and the Department of Mineral Resources and Energy (DMRE).
- The eradication of GBV and femicide, especially by the South African Police Service (SAPS), the DJ&CD (including the National Prosecuting Authority), the DSD, the DWYPD, the Department of Higher Education and Training (DHET) and the Department of Home Affairs (DHA).
- Social transformation, including sexual and reproductive health and rights, especially by the DoH and the DBE.
- Governance, especially by the Department of Public Service and Administration (DPSA), the Government Communications and Information System (GCIS), the Department of Planning, Monitoring and Evaluation (DPME), the Department of Cooperative Governance and Traditional Affairs (CoGTA), National Treasury and The Presidency

This initiative is a positive development to ensure the mainstreaming of gender issues in the budget process, although it is introduced as part of the spending review process. It will be a critical foundation from which to expand the gender focus to other critical areas, including revenue. The Commission underscores the point that budget guidelines from National Treasury should be gender sensitive to assist line departments to develop GRBs. If the request for proposals is explicit and direct with respect to the advancement of gender equality and women's empowerment, gender-specific issues will be standardised in the budget documents of line ministries. The same principle applies to provincial and municipal budgets.

Assessing the gender sensitivity of budgeting processes of selected national government departments

This section uses the budget analysis tool to examine the effectiveness of government expenditure in translating gender equality commitments in South Africa's national departments identified for inclusion in this chapter. As noted above, the focus is on health, basic education, women, youth and persons with disabilities, social development, and justice and constitutional development. The CGE is also included in the case study. Using budget analysis, this section examines whether the budgets of the selected departments are gender sensitive.

(a) Department of Social Development

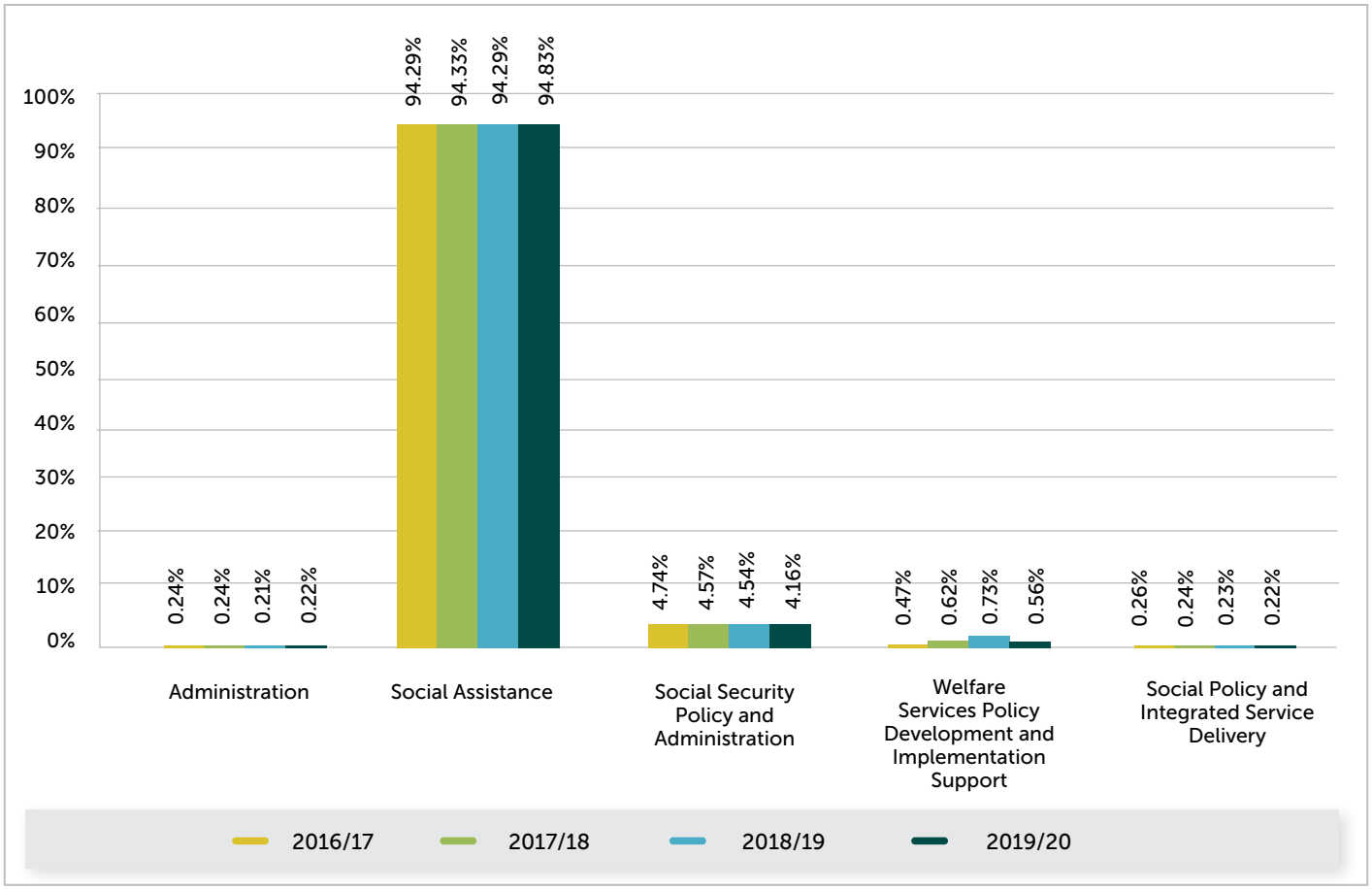
The role of the DSD includes ensuring the protection of vulnerable groups (such as women, children, youth and persons with disabilities) by creating an enabling environment and by providing an integrated and sustainable social service. By implication, this Department partly promotes the empowerment of women through, among other things, the social grant system and other welfare programmes. The Department has five budget programmes, as indicated in Table 5.1.

Table 5.1: Budget programmes for the Department of Social Development

Programme	Purpose
1. Administration	• Provide strategic leadership, management and support services to the Department and the sector.
2. Social Assistance Subprogrammes include Old Age, Foster Care, Disability and Childcare Dependency programmes.	• Provide social assistance to eligible individuals whose income and assets fall below set thresholds.
3. Social Security Policy and Administration Subprogrammes include Social Grants Administrations and Appeals.	• Provide for social security policy development and the fair administration of social assistance.
4. Welfare Services Policy Development and Implementation Support Programme Subprogrammes include Social Crime Prevention and Victim Empowerment, Children, Youth, Families, Persons with Disabilities, Older Persons, as well as HIV/AIDS.	• Create an enabling environment for the delivery of equitable, developmental welfare services through the formulation of policies, norms, standards and best practices; and the provision of support to implementing agencies.
5. Social Policy and Integrated Service Delivery Subprogrammes include Social Policy and Research, Development Community and Special Projects Innovation.	• Support community development and promote evidence-based policy making in the Department and the social development sector.

Source: Department of Social Development (2020); National Treasury (2019)

Figure 5.2: Percentage share allocation of the Social Development budget to the programmes



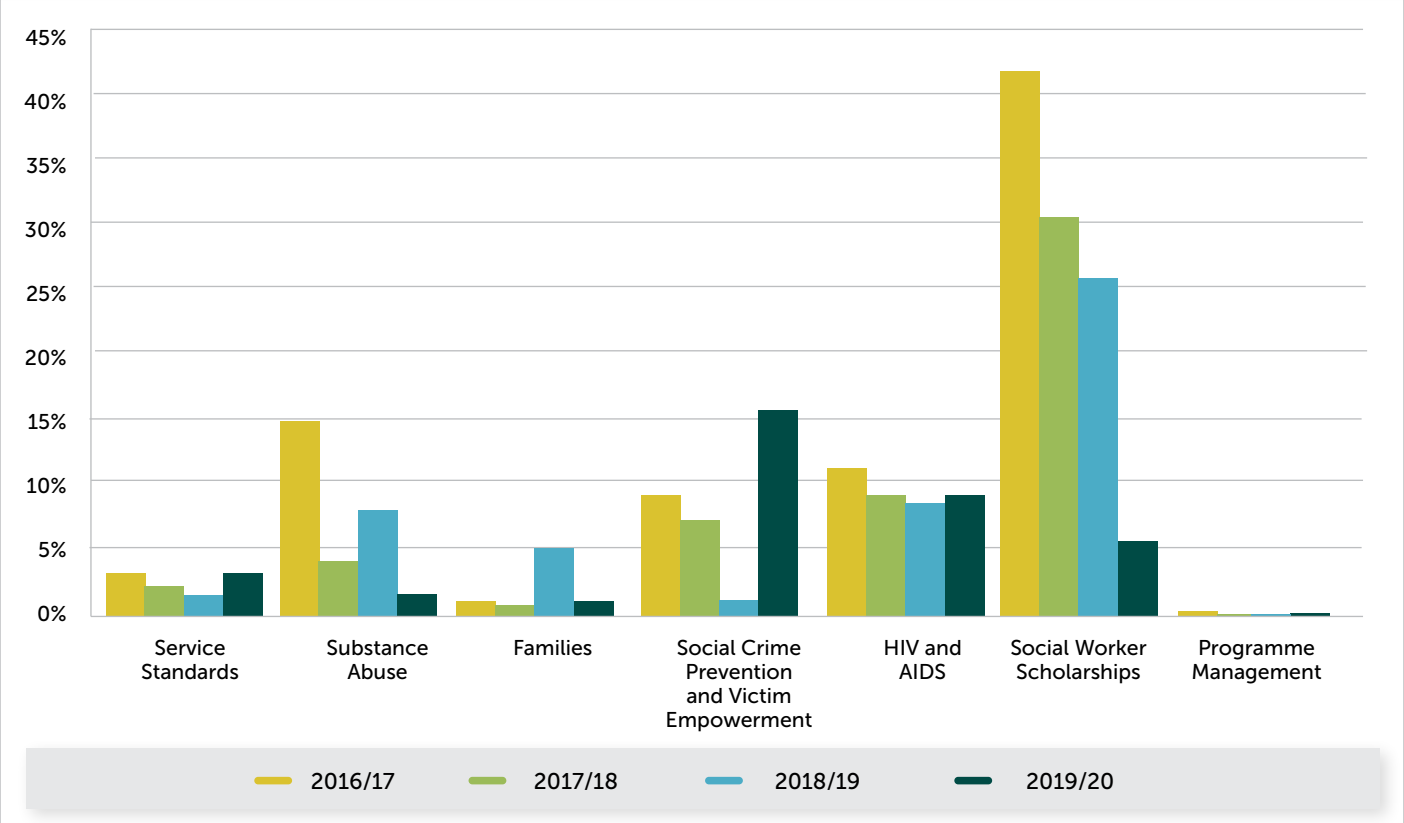
Source: Department of Social Development (2020); National Treasury (2019)

Figure 5.2 shows the distribution of the allocations among the five programmes. Social Assistance (various grants to old persons and children) receives the biggest budget allocation, followed by Social Security Policy and Administration. Budget programmes 4 (Welfare Services Policy Development and Implementation Support Programme) and 5 (Social Policy and Integrated Service Delivery) receive the smallest portion of the budget). The trends remain the same over the MTEF period.

In terms of the percentage allocations in Figure 5.2, the Social Assistance Programme accounts for over 90% of the budget, followed by Social Security Policy and Administration (just above 4%). Welfare Services Policy Development and Implementation Support receives the lowest proportion of the budget (just above 0.4%).

Welfare Services Policy Development and Implementation Support has subprogrammes such as Families, HIV/AIDS, Social Crime Prevention and Victim Empowerment and Substance Abuse. These subprogrammes play a critical role in supporting vulnerable groups and protecting and supporting victims of crime and violence (GBV). It is important to note the relatively small share allocation to these subprogrammes, which are meant to support woman empowerment. The largest share allocation in this subprogramme goes to Social Crime Prevention and Victim Empowerment at 18%, HIV and AIDS (approximately 10%) and Substance Abuse (see Figure 5.3).

Figure 5.3: Percentage share allocation of Welfare Services and Policy Development



Source: Department of Social Development (2020); National Treasury (2019)

To further understand the gender implications of the DSD's budget, the study looked at the indicators used by the Department to monitor progress. Unfortunately, though the DSD has indicators, but those are not disaggregated by gender. Thus, it is difficult to ascertain who benefits from the budget allocations in the different programmes. Programme budgets are not neutral, but affect men and women differently. Disaggregating the indicators is critical to understand how these programme budgets benefit men and women. Examples of the Department's indicators (and the amounts spent) that can easily be disaggregated by gender are shown in Table 5.2.

Table 5.2: Social Assistance Programme indicators

Indicator	Budget 2019/20
Total number of Older Persons' Grant beneficiaries	3.7 million
Total number of War Veterans' Grant beneficiaries	78
Total number of Disability Grant beneficiaries	1 million
Total number of Child Support Grant beneficiaries	12.7 million
Total number of Foster Care Grant beneficiaries	351 418
Total number of Care Dependency Grant beneficiaries	154 498
Total number of Grant-in-aid beneficiaries	246 910

Source: National Treasury (2019)

Likewise, Welfare Services and Policy Development has subprogrammes such as Families, HIV/AIDS, Social Crime Prevention and Victim Empowerment, and Substance Abuse which directly impact on women. Again, the gender impact of such programmes is not clear. For example, one of the objectives of this programme is to facilitate and coordinate community development efforts to build vibrant and sustainable communities. The indicator for gauging progress is the number of vulnerable individuals accessing food. The reported planned target is 415 000 vulnerable individuals accessing food through DSD feeding programmes. This could be an important gender indicator, but as the target is not disaggregated by gender, it does not assist a GRB analysis. At times, the lack of disaggregated data is not a reflection of an absence of such information. The information may be available in other platforms, but departmental systems are not sufficiently mature to integrate such gender information into their strategic documents, and thus into their budgeting processes (planning, budgeting, implementation, monitoring and evaluation). For example, Statistics SA (Stats SA) has a wealth of information on gender issues (e.g. the Living Conditions Survey, the General Household Survey, the Population Census and the Gender Statistics Reports), which departments can tap into for the purposes of gender mainstreaming and GRB.

(b) Department of Health

The Department of Health performs its constitutional and legislative mandate by leading and coordinating health services in all three spheres of government. It is also mandated to promote the health of all people in South Africa through an accessible, caring and high-quality health system that is based on the primary healthcare approach. The Department of Health's budget vote comprises six main budget programmes, set out in Table 5.3.

Figure 5.4 show that, out of the six budget programmes, the largest proportion of the Department's budget is allocated to Communicable and Non-Communicable Diseases, followed by Hospital Systems. National Health Insurance and Primary Health Care are allocated the smallest portion of the budget. The trend is set to continue over the MTEF period.

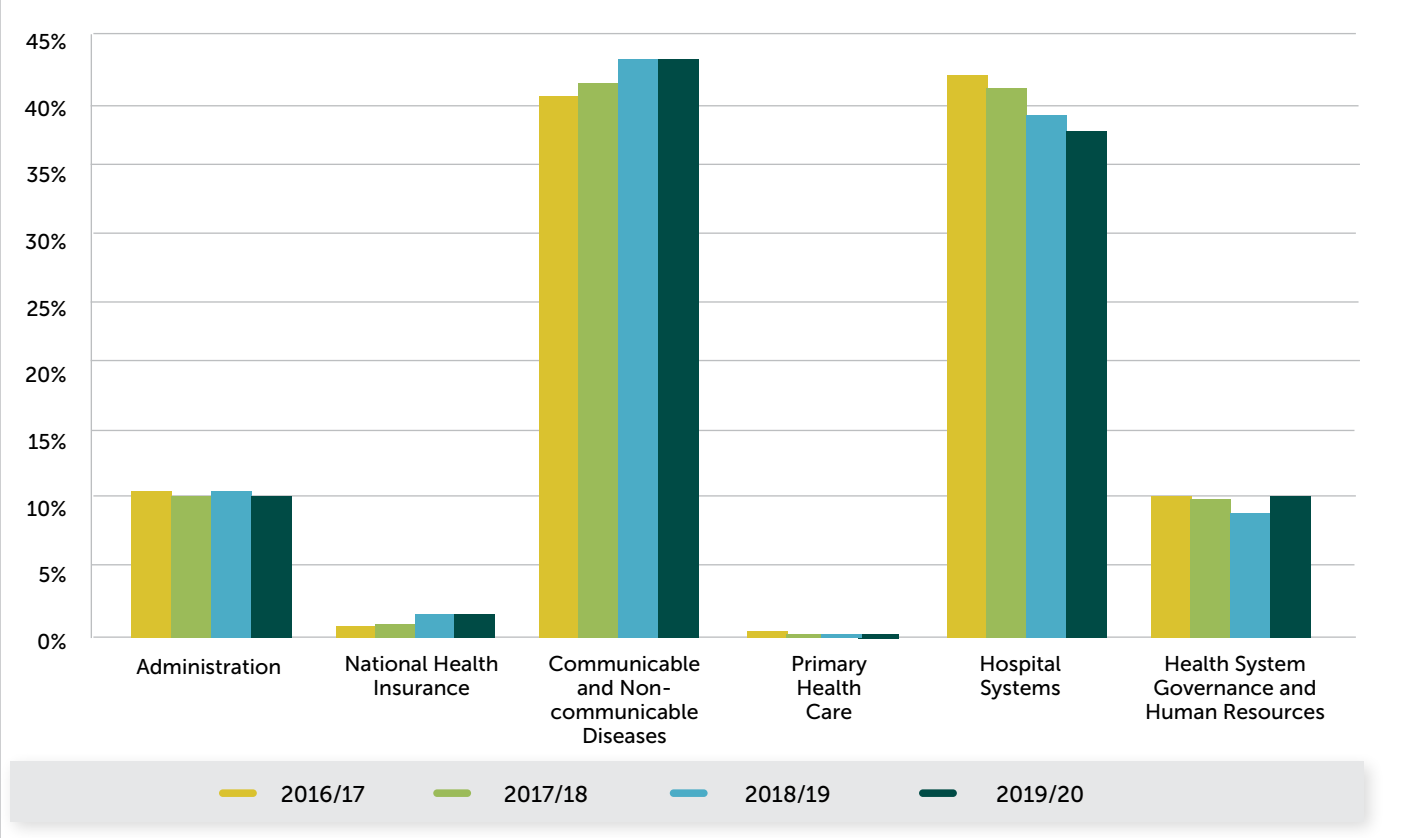
The prioritisation of programmes such as Communicable and Non-Communicable Diseases has a specific gender focus as it provides, inter alia, for decreasing morbidity and mortality, including the reduction of maternal and child mortality.

Table 5.3: Budget programmes for the Department of Health

Programme	Budget 2019/20
1. Administration	• Provide strategic leadership, management and support services to the Department.
2. National Health Insurance	• Achieve universal health coverage by improving the quality and coverage of health services through the development and implementation of policies and health financing reforms.
3. Communicable and Non-Communicable Diseases	• Develop and support the implementation of national policies, guidelines, norms and standards, and the achievement of targets for the national response needed to decrease morbidity and mortality associated with communicable and non-communicable diseases. Develop strategies and implement programmes that reduce maternal and child mortality.
4. Primary Health Care	• Develop and oversee the implementation of legislation, policies, systems, and norms and standards for a uniform, well-functioning district health system, including for emergency, environmental and port health services.
5. Hospital Systems	• Develop national policies and plans for all levels of hospital services to strengthen the referral system and facilitate the improvement of hospitals. Ensure that the planning, coordination, delivery and oversight of health infrastructure meet the country's health needs.
6. Health Systems Governance and Human Resources	• Develop policies and systems for the planning, managing and training of health sector human resources, and for planning, monitoring, evaluation and research in the sector. Provide oversight to all public entities in the sector and statutory health professional councils in South Africa. Provide forensic laboratory services.

Source: Department of Health (2020); National Treasury (2019)

Figure 5.4: Percentage share allocation of the Health budget to the programmes



Source: Department of Health (2020); National Treasury (2019)

Communicable and Non-Communicable Diseases provides for subprogrammes such as HIV, AIDS, Sexually Transmitted Infections (STIs) and Tuberculosis (TB), and Women, Maternal and Reproductive Health. The HIV/AIDS programme plays a critical role in terms of the national response, particularly by decreasing morbidity and mortality associated with the burden of HIV/AIDS and TB epidemics. This programme also supports provinces in implementing programmes on women, maternal and reproductive health, which are key to improving women's health.

The Department of Health has various performance indicators related to different programmes. In some instances, such as the reduction of maternal mortality, the performance indicator is obviously gender specific. With regard to other programmes, a similar challenge is experienced as with other departments: a lack of gender-disaggregated data that could be used to track progress made to achieve specific gender targets.

For example, Table 5.4 shows some of the indicators in the HIV, AIDS, STI and TB subprogramme, which should ideally be gender disaggregated. The programme relating to the HIV-testing campaign has determined targets, but without gender disaggregation. In a critical sector such as health, the importance of the availability of accurate gender-disaggregated data should be emphasised. Gender disaggregated information within the health domain abounds, but it is not well integrated in the strategic documents that are key to the budgeting process.

Table 5.4: Selected Health Programme indicators

Programme	Indicator	Planned target 2019/2020
Implement combination of prevention and treatment interventions to reduce burden of HIV, STI and TB infections	Medical male circumcisions performed	600 000
	Number of undiagnosed TB-infected persons (new cases) found	40 000
	Total number of tests for HIV conducted during national health screening and testing campaign	14 000 000
Reduce the maternal mortality ratio to under 100 per 100 000 live births, and the neonatal mortality rate to under eight per 1 000 live births by 2020	Number of regional hospitals implementing the quality improvement programme for pregnant women and neonates	Eleven regional hospitals implementing the quality improvement programme for pregnant women and neonates
Accelerate the implementation of the 10-year infrastructure plan	Number of hospitals revitalised	Thirty-six hospitals revitalised

Source: Department of Health (2020)

(c) Department of Basic Education

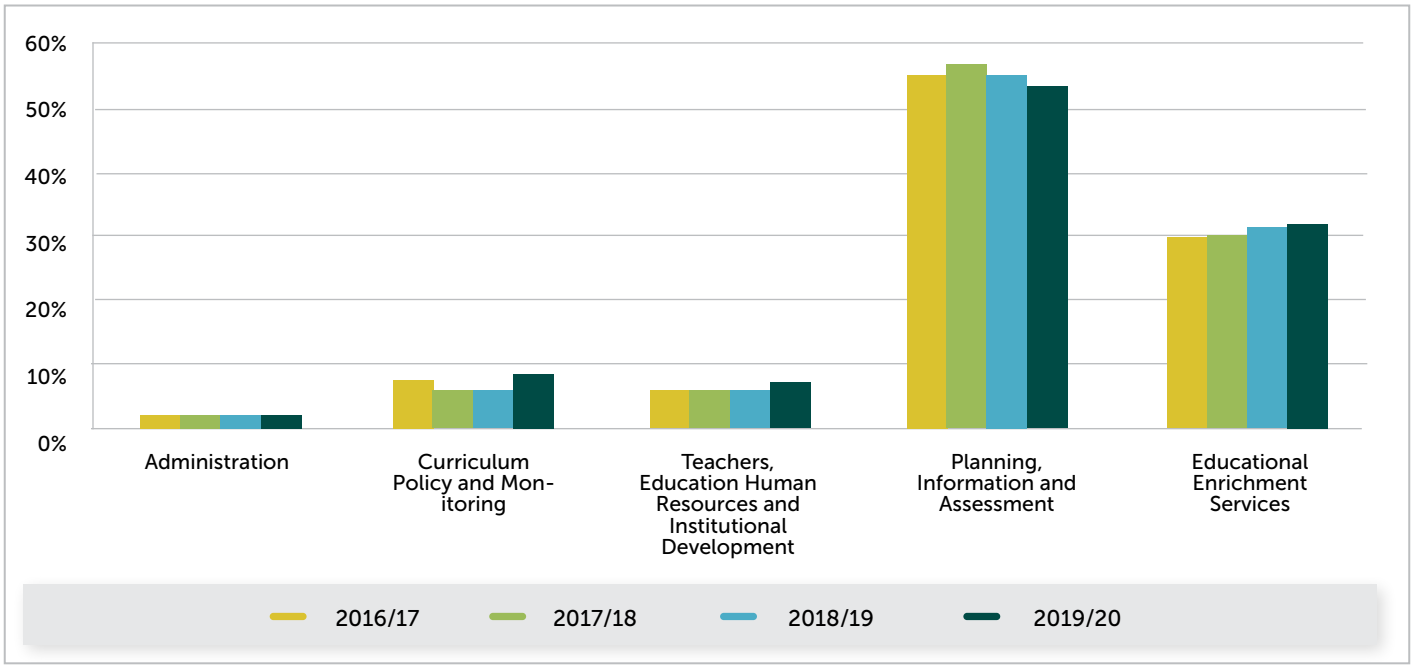
The DBE's mandate is to monitor the standard and quality of education provision, delivery and performance, including assessing compliance with the provisions of the Constitution and other legislation and education policies. The Department's budget vote provides for the programmes as set out in Table 5.5.

Table 5.5: Budget programmes for the Department of Basic Education

Programme	Budget 2019/20
1. Administration	• Provide strategic leadership, management, and support services to the Department.
2. Curriculum Policy, Support and Monitoring	• Develop curriculum and assessment policies and monitor and support their implementation.
3. Teachers, Education Human Resources and Institutional Development	• Promote quality teaching and institutional performance through the effective supply, development and use of human resources.
4. Planning, Information and Assessment	• Promote quality and effective service delivery in the basic education system through planning, implementation, and assessment.
5. Educational Enrichment Services	• Monitor and support provinces to implement care and support programmes for learning and teaching.

Source: Department of Basic Education (2020); National Treasury (2019)

Figure 5.5: Percentage share allocation of the Basic Education budget to the programmes



Source: Department of Basic Education (2020); National Treasury (2019)

Figure 5.5 shows that out, of the five programmes, Programme 4 (Planning, Information and Assessment) receives the largest budget allocation. This programme plays a critical role in the delivery of school infrastructure and improving the quality of teaching and learning, among other things, as well as improving learner health and wellness. The budget allocation trends are set to remain the same over the MTEF period.

In assessing the performance of the programmes indicated above, the DBE uses various indicators. For instance, it adopted various indicators and set annual targets for Planning, Information and Assessment. However, the indicators do not indicate who the ultimate beneficiaries are in terms of gender. For example, indicators such as the number of schools provided with sanitation facilities and the percentage of underperforming schools are used, but these indicators do not show gender disaggregation in terms of the learners who attend these schools.

Educational Enrichment Services, which is mainly about developing policies and programmes aimed at improving the quality of learning in schools, has several indicators for monitoring progress. This includes the number of schools monitored for the provision of nutritious meals with a planned target set. However, the indicator does not provide for gender disaggregation in respect of the beneficiaries of the provision of nutritious meals. For the purposes of GRB and tracking progress of the gender impact of the Department's services, it is critical for gender disaggregation to be provided in respect of the targeted beneficiaries. The same principle applies to the information on the number of schools monitored for the implementation of reading norms in various grades, which is also not gender disaggregated. Table 5.6 presents some indicators that could easily be gender disaggregated, not only for the purposes of GRB, but also to enable the monitoring evaluation, and auditing of gender targets.

Most of the Department's strategic documents (Annual Report and Annual Performance Plan) are limited in terms of gender disaggregated information, which often inhibits the mainstreaming of gender issues in the budgeting process. The DBE and Stats SA have a wealth of gender disaggregated information that could easily be integrated into the Department's strategic documents and this will be useful for GRB.

Table 5.6: Basic Education Programme indicators

Programme/strategic objective	Indicator	Planned target 2019/20
Provide data on learner performance through the setting of question papers, administering	Number of General Education and Training (GET) test items in Language and Mathematics for grades 3, 6 and 9 developed.	250 annually
Mentor and assess the performance of districts and district officials on an annual basis in order to strengthen the capacity of districts to support schools.	Percentage of underperforming schools visited by district officials at least twice a year for monitoring and support purposes.	250 annually 60% annually
Monitor the provision of nutritious meals served in identified public schools annually to enhance learning capacity and the wellbeing of learners.	Number of schools monitored for the provision of nutritious meals.	110 quarterly
Provide support to learners who have not achieved all the requirements of the National Senior Certificate (NSC) through the Second Chance Matric programme.	Number of learners obtaining subject passes towards an NSC or extended Senior Certificate, including upgraded NSC per year.	30 000 biannually
Monitor and support the implementation of the National Curriculum Statement (NCS) on Reading in grades R to 9 each year in order to improve teaching and learning.	Number of schools monitored on the implementation of the reading norms.	20 annually

Source: Department of Basic Education (2020)

(d) Department of Women, Youth and Persons with Disabilities

The mandate of the Department of Women, Youth and Persons with Disabilities is to accelerate socio-economic transformation and the implementation of the empowerment and participation of women, youth and persons with disabilities through oversight, monitoring, evaluation and influencing policy. In fulfilling its mandate, the Department has five budget programmes: Administration, Social Transformation and Economic Empowerment, Policy, Stakeholder Coordination and Knowledge Management, Rights of Persons with Disabilities, and National Youth Development (see Table 5.7).

Table 5.7: Budget programmes for the Department of Women, Youth and Persons with Disabilities

Programme	Purpose
1. Administration	• Provide strategic leadership, management and support services to the Department.
2. Social Transformation and Economic Empowerment	• Manage policies and programmes that mainstream the social transformation and economic empowerment of women in South Africa.
3. Policy, Stakeholder Coordination and Knowledge Management	• Ensure policy and stakeholder coordination and knowledge management for the social transformation of women in South Africa.
4. Rights of Persons with Disabilities	• Oversee the implementation of programmes pertaining to the rights of persons with disabilities.
5. National Youth Development	• Oversee the implementation of national youth development programmes

Source: DWYPD (2020a)

The budget allocations to the respective budget programmes of the DWYPD, as set out in Table 5.8, indicate that National Youth Development receives the largest budget allocation. This allocation is mainly transferred to the National Youth Development Agency (NYDA). This is followed by Social Transformation and Economic Empowerment, which deals primarily with advancing gender equality commitments. This programme also provides for the transfers to the CGE. Policy, Stakeholder Coordination and Knowledge Management, and Rights of Persons with Disabilities receive the smallest budget allocation, yet these programmes play a critical role in providing strategic leadership and knowledge to advance gender-sensitive issues and women empowerment.

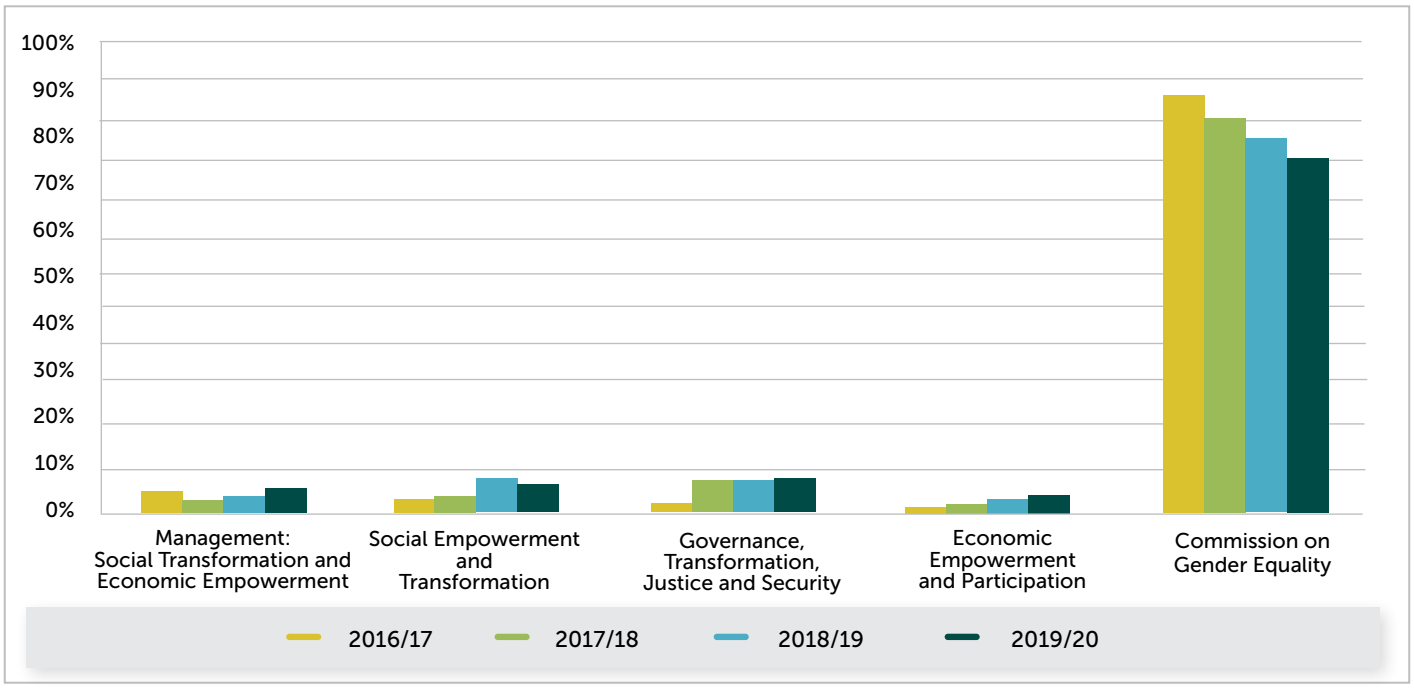
Table 5.8: Budget allocation per programme

Programme	Audited outcome (R million)			Adjusted appropriation (R million)	Medium-term expenditure estimate (R million)		
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Administration	90.1	84.3	90.0	93.3	93.3	98.6	101.8
Social Transformation and Economic Empowerment	79.5	94.2	102.4	112.9	124.8	132.4	137.4
Policy Stakeholder Coordination	26.7	27.9	31.9	43.5	49.2	51.6	54.6
Rights of Persons with Disabilities	16.0	15.8	15.3	18,8	19.9	21.5	22.5
National Youth Development	411.1	437.6	484.3	469.5	491.3	517.3	536.8
Total	**623.5**	**659.8**	**723.9**	**738.0**	**778.5**	**821.5**	**853.0**

Source: DWYPD (2020a): National Treasury (2019)

In disaggregating Social Transformation and Economic Empowerment into subprogrammes, it is clear that the transfer to the CGE constitutes the largest share of this programme, as illustrated in Figure 5.6. The rest of the budget subprogrammes, such as Economic Empowerment and Participation, Governance Transformation, Justice and Security, Social Empowerment and Transformation, Management: Social Transformation and Economic Empowerment receive relatively smaller shares. However, these are critical programmes for driving gender equality. The mandate of the Department includes the coordination of all activities that promote gender equality and women's empowerment across all government departments. In addition, the DWYPD is supposed to champion the socioeconomic transformation of marginalised groups in society and enhance the participation of these socioeconomic groups in the economy.

Figure 5.6: Percentage share allocation of the Social Transformation and Economic Empowerment budget to the total share of the Department's programmes



Source: DWYPD (2020a): National Treasury (2019)

Monitoring of the gender impact of the DWYPD's budget is limited due to a lack of gender disaggregated data. The Department has adopted various indicators to assess its progress on gender equality. Table 5.9 lists various indicators related to Social Transformation and Economic Empowerment, which is key in addressing gender equality issues. The indicators include the number of reports on interventions and economic opportunities for women produced.

Policy Stakeholder Coordination and Knowledge Management aims to promote gender-responsive policy development and analysis, research, monitoring and evaluation, as well as knowledge management on women's socioeconomic empowerment and gender equality. It contains several performance indicators, e.g. the number of public participation/outreach initiatives on women's empowerment, including girls and young women; the number of reports on young women's empowerment; and the number of performance monitoring review reports on women's empowerment and gender equality. Such indicators are gender-specific on women and can therefore form a useful foundation for gender-responsive planning in the first instance, followed by budgeting, monitoring, evaluation and auditing.

Table 5.9: Women, Youth and People with Disabilities Programme indicators

Programme/Strategic objective	Indicator	Planned target 2019/2020
Women's social empowerment and participation promoted	Number of reports on interventions and economic opportunities for women produced	Four reports on the facilitation of interventions and economic opportunities for women produced.
Improved gender transformation through measures to advance gender equality and through interventions towards a just and safe society	Number of programmes in 365 days' programme of action coordinated	Three programmes on the 365 days' programme of action coordinated.
Women's social empowerment and participation promoted	Number of progress reports on national roll-out of the Revised Sanitary Dignity Implementation Framework in quintiles 1–3 schools produced	Four reports that outline progress on the national roll-out of the enabling environment, enabling infrastructure and provincial sanitary dignity programmes in line with the Revised Sanitary Dignity Implementation Framework produced.
Public participation and community mobilisation initiatives to advance women's empowerment and gender equality	Number of public participation/ outreach initiatives on women's empowerment, including girls and young women	Ten public participation/ outreach initiatives on women's empowerment conducted.
Public participation and community mobilisation initiatives to advance women's empowerment and gender equality	Number of reports on young women's empowerment priorities developed	Four quarterly reports on women's empowerment priorities developed.
Effective monitoring and evaluation of socioeconomic empowerment of women	Number of performance monitoring review reports on women's empowerment and gender equality	Two performance monitoring review reports on women's empowerment and gender equality produced.

Source: DWYPD (2020a)

(e) Department of Justice and Constitutional Development

The mandate of the DJ&CD is to uphold and protect the Constitution and the rule of law. This is done through, among others, the protection and enforcement of human rights and the protection of vulnerable groups. In achieving this mandate, the Department has five programmes: Administration, Court Services, State Legal Services, National Prosecuting Authority, and Auxiliary and Associated Services (see Table 5.10).

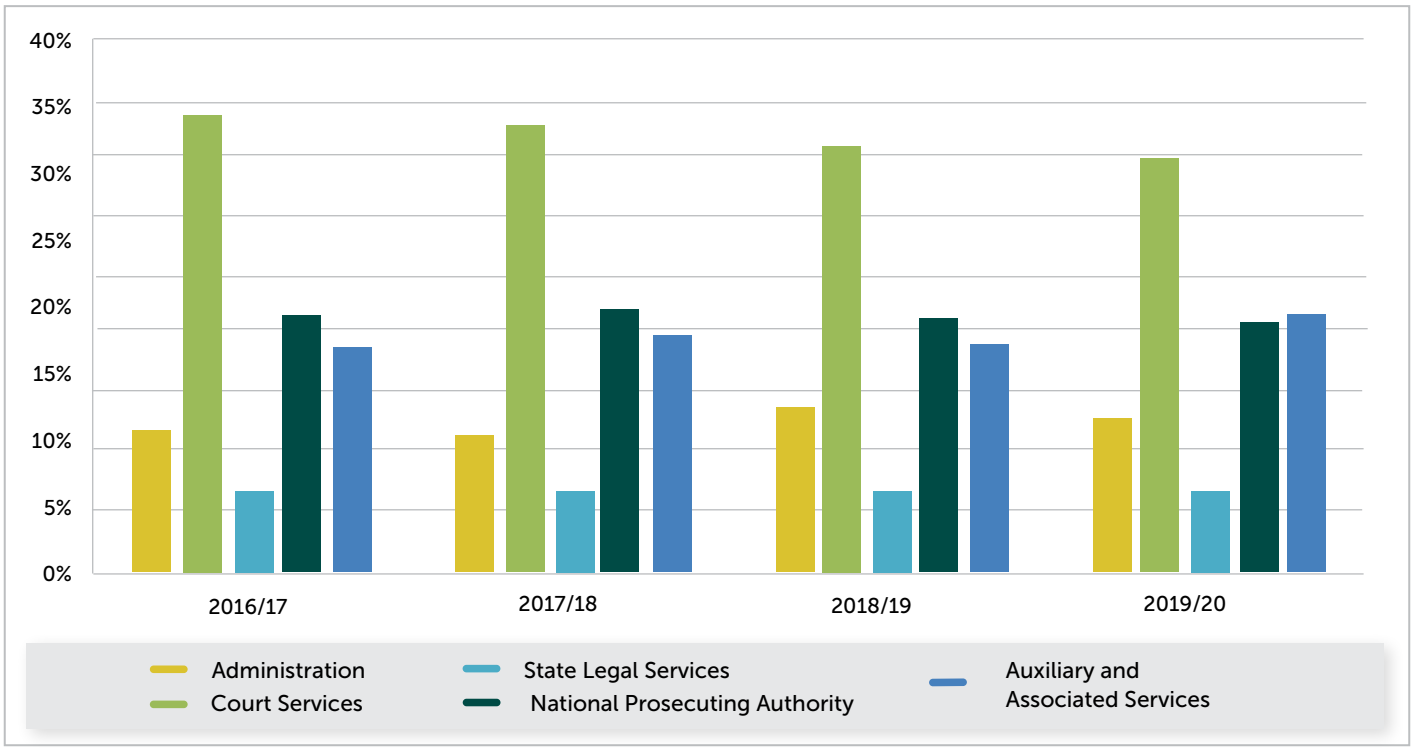
Table 5.10: Budget programmes for the Department of Justice and Constitutional Development

Programme	Purpose
1. Administration	• Provide strategic leadership, management and support services to the Department.
2. Court Services	• Facilitate the resolution of criminal and civil cases, and family law disputes by providing accessible, efficient and quality administrative support to the lower courts and managing court facilities
3. State Legal Services	• Provide legal and legislative services to government. Supervise the registration of trusts, and the administration of deceased and insolvent estates, and estates undergoing liquidation. Manage the Guardian's Fund. Prepare and promote legislation. Facilitate constitutional development and undertake research in support of this.
4. National Prosecuting Authority	• Provide a coordinated prosecuting service that ensures that justice is delivered to victims of crime through general and specialised prosecutions. Remove profit from crime. Protect certain witnesses.
5. Auxiliary Services	• Provide a variety of auxiliary services associated with the Department's purpose. Fund the interdepartmental Justice Modernisation Programme, the President's Fund, and transfer payments to public entities and constitutional institutions.

Source: Department of Justice and Constitutional Development (2020)

The budget allocation to the various programmes is reflected in Figure 5.7. Court Services, which includes addressing issues of GBV, femicide and maintenance services, receives the biggest allocation. The National Prosecuting Authority, which addresses issues of crime and restorative justice, receives the second-biggest allocation. It is followed by Auxilliary Services, which provides for legal services, fund transfers to the South African Human Rights Commission (SAHRC), the Public Protector, Legal Aid South Africa and the Special Investigating Unit. Although State Legal Services receives the smallest budget allocation, it provides essential legal services to government related to the promotion of equality and the prevention of unfair discrimination, among other things.

Figure 5.7: Percentage share allocation of the Justice and Constitutional Development budget per programme



Source: National Treasury (2019)

Court Services facilitates the resolution of criminal and civil cases, as well as family disputes, by providing accessible and efficient quality support to the courts. This programme has various performance indicators associated with its programme objectives. These include the number of courts adapted in line with the sexual offences court, the percentage of pending sexual offences, the percentage of criminal cases postponed due to the unavailability of court administrative staff and the percentage of litigation family matters finalised within 12 months of the date of opening the case. These indicators are an important aspect of efforts to address GBV and other matters that have a direct bearing on women. It is of particular importance that these performance indicators are gender disaggregated, not only to determine the impact of services on gender, but also from a gender-responsive budgeting, monitoring, evaluation and auditing perspective. However, while these indicators have targets set, they do not specify or disaggregate according to gender in terms of beneficiaries of these services. In addition, as noted for other departments, it is important that gender disaggregated information found in other domains or within the Department is integrated in the Department's strategic documents for budgeting purposes, and that implementation programmes are gender responsive. For example, the CGE has produced various reports related to gender issues that could be useful for the DJ&CD.

(f) Commission on Gender Equality

The CGE is an institution established in terms of Chapter 9 of the Constitution, 1996. Its mandate is to promote gender equality and advance the protection, development and attainment of gender equality in South Africa.

In the 2019/20 financial year, the Commission's total budget allocation amounted to R85.2 million with compensation of employees amounting to R54.4 million. This means that about 64% of the Commission's budget was absorbed by salaries. In the previous financial year, the compensation of employees budget comprised 68% of the total CGE budget. The risk of such a high compensation of employees' budget is that it may crowd out other important priorities (see Table 5.11).

Table 5.11: The CGE's expenditure

	2017/18 R 'million	2018/19 R 'million	2019/20 R 'million
Budget	78.3	81.1	85.5
Expenditure	80.3	80.7	76.6
Percentage spending	98%	100%	112%

Source: CGE (2017; 2018; 2019; 2020)

To summarise, the analysis of the five case studies reveals three important issues about government budgets and gender.

Firstly, there is limited mainstreaming of gender issues in departmental budget processes. The main reason for this is that departments generally lack gender disaggregated data and information to enable the implementation of gender-responsive planning – followed by budgeting, monitoring, evaluation and auditing. The lack of gender disaggregated data hinders the effective translation of gender commitments into budgetary allocations. GRB is difficult, if not impossible, to undertake without an institutional plan to effect the engendering of service delivery programmes, supported by gender disaggregated information.

Secondly, the foregoing analysis indicates that gender disaggregated information can be found in other domains or within the knowledge base of departments, but such information is seldom integrated in the strategic documents of departments to allow gender responsive budgeting processes. For instance,

Statistics SA and/or the CGE generate reports with gender disaggregated data, which could be useful to various departments, but departmental systems are not sufficiently mature to integrate such data.

Thirdly, the departmental performance indicators are not sufficiently detailed in providing data on the number of women and girls who benefit from their programmes. The DoH, for example, uses various indicators to monitor the progress of its programmes. However, these indicators, with the exception of programmes focused specifically on women, cannot be used to determine who benefits from the budget in terms of women and men. Similarly, the programmes in the DBE's Annual Reports and Annual Performance Plans have defined indicators with set targets, but such indicators are not disaggregated to enable a determination of the beneficiaries of these services and facilities in terms of gender. The DWYPD is at the heart of coordinating gender equality efforts in the country. It has various indicators related to each programme and targets set, such as the number of reports on interventions and economic opportunities for women produced and the number of programmes conducted. The Department is expected to take the lead in coordinating the implementation of government's gender equality commitments, including through initiatives such as GRB.

The absence of gender disaggregated data, limited integration of gender disaggregated data in planning and budget processes, as well as insufficient detail provided in the performance indicators of the beneficiaries of departmental budgets, have been identified in the budget programme analysis. This gives rise to the need to invest in the collection of such data, as well as putting in place robust mechanisms and systems to integrate gender information in government strategic documents. This will enable departments to plan, implement, monitor, evaluate and audit budgets through gendered lenses. The collection of such data should not be an end in itself.

There is a need for the training of the executive and management leadership in the broader public sector on gender-responsive planning and budgeting in general. In addition, targeting training and awareness interventions is required for budget officers in the use of gender disaggregated data in the budget process. Ideally, the DWYPD should champion and coordinate the collection of gender disaggregated data, training interventions required at all levels and developing awareness messages and rolling out gender budgeting campaigns.

Strengthened collaboration and coordination between National Treasury, the DWYPD and the DPME on defining and refining gender-specific performance indicators and targets, including gender-based data throughout government, will enable government to monitor and assess its progress towards achieving gender equality and to realise its international commitments.

The refining of gender-based performance indicators and targets will enable the introduction of gender audits. There are divergent schools of thought around gender auditing in government, given the various role-players involved in gender-responsive budgeting, monitoring and evaluation processes.

On the one hand, the Office of the Auditor-General currently performs performance audits for all government departments based on the performance indicators and targets determined by each auditee. The inclusion of specific gender-based performance indicators and targets in the strategic and annual performance plans of departments could form the basis for extending the scope of the regularity audit of the Auditor-General to include a gender audit. The approach may, however, have inherent limitations as it will only audit such performance indicators and targets that are included and reported on and may not produce a comprehensive overview of the progress made by government to achieve gender equality. Another school of thought supports the CGE as an independent institution that may be well placed to conduct an annual gender audit based on the gender-specific performance indicators, targets and reports of government departments. The financial and human resource capacity of the CGE to undertake such a comprehensive gender audit will, however, have to be further considered.

Assessing the legislative, policy and institutional framework on GRB

(a) The legislative and policy frameworks on gender-responsive budgeting

The foundation of post-apartheid South Africa's commitment to gender equality is established in the Constitution (1996), particularly in the Bill of Rights, clause 9(2) and 9(3), which guarantees full and equal enjoyment of all rights by all genders and the protection of people against any form of discrimination by sex, while the goal of non-sexism is also set out in clause 12. Chapter 9 provides for the establishment of the SAHRC and the CGE, among the institutions supporting constitutional democracy. The origins of these constitutional provisions can be traced to, inter alia, the 1954 Women's Charter, the 1955 Freedom Charter and the 1994 Women's Charter for Effective Equality. The Women's Charter for Effective Equality (1994) set out a broad statement of principles of women's rights and called for the equal participation, recognition and development of women in all aspects of life and sectors of society.

South Africa's transition to democracy accelerated its re-entrance to the global environment and the country is a signatory to various international and regional commitments to gender equality and women empowerment. These include the following:

- Convention on the Elimination of all Forms of Discrimination Against Women, 1995
- Beijing Declaration and Platform for Action, 1995
- African Union Heads of States' Solemn Declaration on Gender Equality in Africa, 2004
- Southern African Development Community (SADC) Protocol on Gender and Development, 2012
- Sustainable Development Goals – Agenda 2030, 2015
- The African Union Agenda 263

The South African Parliament has passed various key pieces of legislation that further the goals of gender equality and women's interests. These include the following:

- The Employment Equity Act (1998), which advocates non-discrimination against designated groups – among whom are women – in the workplace, including the need for employers to have employment equity targets. Chapter 4 and Chapter 5 of the Act further mandate the establishment of the Commission for Employment Equity in ensuring that the objectives of the Act are met, as well as providing measures to enforce compliance, and where non-compliance have been observed, the necessary steps that should be taken.
- The Promotion of Equality and Prevention of Unfair Discrimination Act (PEPUDA) 2000, which acknowledges South Africa's international obligations under binding treaties and customary international law in the field of human rights, which promote equality and prohibit unfair discrimination, including CEDAW and the Convention on the Elimination of All Forms of Racial Discrimination.

In 2013, Parliament introduced the Women Empowerment and Gender Equality Bill (2013). The objective of this Bill was not to create new anti-discrimination legislation. It aimed at introducing measures and targets to strengthen existing legislation on the promotion of women empowerment and gender equality.

The Bill also clearly states the need for government and public institutions to do the following:

- Implement gender equality measures in education and training
- Provide access to healthcare, equal participation and representation, and meeting targets in the workplace of men and women, including economic empowerment
- The implementation and submission of gender mainstreaming processes to the Minister of Women, Youth and Persons with Disabilities within one year of the establishment of those institutions
- The need for measures to be in place on the socioeconomic empowerment of women in rural areas and women with disabilities

- The need for public institutions/government to establish gender focal points at senior level within three years of the commencement of the Bill to implement gender mainstreaming in a designated public body and to generally assist the public body to comply with the legislation assigning responsibility to accounting officers of the public/private institutions being accountable and responsible for gender mainstreaming
- Provide for the Minister to publish a framework on gender mainstreaming and women empowerment

The Bill was introduced in the National Assembly on 5 November 2013. It was passed by the National Assembly on 4 March 2014. On 25 March 2014, it was passed by the National Council of Provinces (NCoP) and returned to the National Assembly for concurrence. On 9 July 2014, the Bill was withdrawn so as to allow further consultation. It is important to underscore the thorough consultation that took place on this Bill. What is of concern is that the process to bring the Bill to Parliament again has taken so long, considering that it is a key pillar towards the promotion of women equality and empowerment. The Bill is likely to give impetus to GRB as well. Critics of the Bill noted that it failed to recognise existing legislation that promotes gender equality and protects women; it lacks clarity on the CGE's mandate and role, which may potentially lead to the duplication of roles; the objectives of the Bill are laudable, yet vague in terms of how the promotion of women empowerment would be executed and measured; it overlaps with the current legislations (Dube, 2014; Bliss, 2014). According to the 2020 budget speech vote by the Minister of Women, Youth and Persons with Disabilities, the Women Budget and Gender Equality Bill will be reintroduced and tabled in Parliament in the 2021/22 financial year.

The gender discourse is characterised by two key national policy documents: The Framework for Transforming Gender Relations (2000), compiled by the CGE, and the 2000 National Policy Framework for Women's Empowerment and Gender Equality. The latter is often referred to as the Gender Policy Framework (GPF) and provides an enabling policy environment to integrate gender into all government policies, programmes and activities. It also provides for the development of policies, programmes, and mechanisms to transform gender relations, the establishment of an institutional framework to advance the status of women and achieve gender equality, and advocate for a new culture and respect for women's rights.

The GPF provides guidelines for different sectors to develop more sector-specific gender policy documents, such as the 2006 Strategic Framework for Gender Mainstreaming in the Public Sector. The 2006 Strategic Framework is premised on the need for government to not treat gender issues with a business-as-usual approach. It advocated for a transformation approach by integrating women and gender issues into all government's structures, institutions, policies, procedures, practice, programmes and projects. In implementing the 2006 Strategic Framework, short to medium- and long-term goals were listed.

These included conducting gender audits in departments and/or sectors, the appointment of gender focal points, training programmes for all officials on gender mainstreaming in the public service and the development of a strategy to encourage the application and use of gender mainstreaming tools in the day-to-day work of the departments. Thus, the objective of the 2006 Strategic Framework was to create an enabling environment within which women empowerment and gender equality could be realised. The Strategic Framework is a key enabling policy for the establishment of GRB across all spheres of government.

The 2018 Framework on Gender Responsive Planning, Budgeting, Monitoring, Evaluation and Auditing (GRPBMEA) acknowledges the need to locate gender-responsive planning and budgeting within the overall public policy cycle and public financing systems. It includes, among its strategic objectives, locating women's empowerment and gender equality at the centre of public policy priorities, results-based planning, and budgeting and accountability. The strategic objectives also include the allocation of adequate and equitable resources for women's empowerment and gender equality, linked to broader public finance reforms. The GRPBMEA included an envisaged implementation plan.

The policies mentioned above are aligned to and support the core priorities of the 2010 National Development Plan: Vision 2030 (NDP): to eliminate poverty, reduce inequality and unemployment through inclusive

economic growth, build human capabilities, enhance the capacity of the state, and promote leadership and active citizenship throughout society. It must be integrated by government departments in their planning and budgeting processes as required by various polices and legislation highlighted above, including the Medium-term Strategic Framework (MTSF). Although the NDP was not conceived from a specific gender perspective, its core priorities are directly relevant and inclusive of the principles of gender equity and equality.

The CGE produced a Gender Analysis of the NDP: Vision 2030 in 2013 with the objective of "assisting the state to ensure that its analysis of developmental challenges facing South Africa, and its planning response, address gendered implications, gaps and imbalances." The 2020 NDP Review included a section on Gender in Part 1 that sets out the background and context of the review and essentially made two recommendations: that interventions that address GBV should be strengthened; and that barriers to accessing the labour market should be dealt with. However, on the whole, the 2020 NDP Review still misses the point on gender issues as it does not discuss gender issues in greater detail. It is, to a large extent, silent on the gendered impacts of its policy proposals, and the visibility of women or girls in its indicators is limited.

b) The institutional frameworks on gender-responsive budgeting

Following the guidance of the GPF, the National Gender Machinery (NGM) was established. It constituted the institutional structure that guided the roles and functions of all structures and agencies involved in the pursuit of gender equality. This machinery included the initial establishment, in 1997, of the Office on the Status of Women (OSW) in The Presidency with gender desks in national and provincial departments, the establishment of the CGE, the restructuring of the OSW in 2009 to establish the Ministry of Women, Children and Persons with Disabilities, and the subsequent establishment in 2014 of the Women's Ministry (Department of Women) in The Presidency. The NGM is furthermore inclusive of a broad range of stakeholders, including Parliament, with structures such as the Women's Multi-party Caucus, as well as independent bodies and civil society.

The CGE is critical to the NGM. The CGE is empowered by the Constitution to promote, educate, monitor and lobby for gender equality. While it has been effective over time in meeting its mandate, it has a relatively small budget (Marock & Konstant, 2008). This can hamper efforts in realising and achieving its objectives. While being part of the NGM, the functions of the SAHRC is not aligned to a particular group of human rights, and is therefore also responsible to ensure that the rights of women are protected.

In government, there are departments that play a critical role in gender mainstreaming. These include two ministries in The Presidency, the DWYPD and the DPME, as well as National Treasury. The DWYPD is responsible for leading the socioeconomic empowerment of women, youth and persons with disabilities by advocating for gender equality and mainstreaming commitments. Although the DPME is tasked with ensuring that government delivers on all its objectives, which should include gender budgeting, there is limited evidence of national monitoring and reporting systems on GRB (DWYPD, 2018a). On the other hand, the DWYPD has limited human and financial resources to perform and facilitate the process of coordinating principles and practices to the three spheres of government (Parliament of the Republic of South Africa, 2020).

Notwithstanding the progress made with legislation, policies, commitments and obligations, there is limited evidence towards gender mainstreaming across the country (Parliament of the Republic of South Africa, 2020). Gender equality and women's empowerment is often an afterthought or relegated to a sector or specific outcome rather than being seen as an integral component across all sectors of government. Oversight on gender equality and women empowerment also tends to be limited to the Portfolio Committee on Women, Youth and Persons with Disabilities, yet it should be cutting across all committees (Parliament of the Republic of South Africa, 2020).

In summary, the above review of both the legal, policy and institutional frameworks indicate that South Africa is not lacking as far as the legal, policy and institutional frameworks to support GRB is concerned. The

need for urgency in the processing of the Women Empowerment and Gender Equality Bill (2013) cannot be overemphasised. It is key to women empowerment. Although the Bill is a critical step towards women's empowerment, departments can still use existing frameworks to translate gender commitments into reality. Indications that the Bill can be brought back to Parliament in this financial year are worth noting.

5.5 Lessons from other countries on gender-responsive budgeting

Various countries have implemented some forms of GRB. An illustrative set of country experiences is listed in Table 5.12 to demonstrate strategies employed globally to support the implementation of GRB. These include legislative changes, budget directives, budgeting, tracking systems and accountability mechanisms.

Table 5.12: Gender budgeting: international experiences

Country	Findings
Uganda (Stotsky et al., 2016)	Uganda's gender budgeting efforts have a primary objective to ensure that government ministries address gender issues through normal planning and budgeting processes. The country has achieved some success in addressing gender-oriented goals in education and health, and in strengthening justice, and law and order to attend to women's needs through budgeting initiatives at the national and local levels. Gender budgeting was formally adopted in 2004/05 when the Ministry of Finance, Planning and Economic Development included gender budgeting in the budget call circular. Guidelines on how to address gender-oriented goals in the budget were attached as an annexure for sector ministries and local governments. Throughout the plan, the goal of improving gender equality typically focused on programmes and interventions aimed at women and girls. The budget call circular has been refined over the last few financial years to encourage sectors to adopt gender budgeting. The Ministry of Finance, Planning and Economic Development observed that many sectors were providing a blanket approach or general statements about how they planned to address gender inequality in the budget framework papers. Thus, the 2014/15 budget call circular required sectors to submit specific actions to address gender inequality through the budget. In addition, the budget call circular directed ministries, departments, agencies and local government to identify targets related to gender equality and measure progress towards these goals by collecting data disaggregated by sex, age, disability and geographic location.
Rwanda (Stotsky et al., 2016)	Rwanda's first efforts at gender budgeting dated back to 2002, with its first initiative led by the Ministry of Gender and Family Promotion in collaboration with the Ministry of Finance and with the support of the United Kingdom's Department for International Development (Ministry of Finance and Economic Planning, 2011). During this initiative, the government developed gender budget statements to be incorporated into programme budgets. However, this early attempt foundered. In the government's view, the first initiative suffered in that the Ministry of Finance was not the lead on this effort, and there was an over-reliance on outside experts and insufficient building of local capacity. A second initiative was undertaken in 2008–2010. This time it was led by the Ministry of Finance, with support from UNIFEM, the United Nations entity responsible for women's issues (now UN Women). This initiative was premised on the view that every ministry was responsible for ensuring that women's needs were integrated into its areas of responsibility. The key objectives in the first phase were to sensitise planning and budgeting officers, train a core technical team, and establish sex-disaggregated data collection and monitoring at the national level. Initially, the government chose four sectors as pilots: health, education, agriculture and infrastructure. There was also a system of monitoring and evaluation of targets, collecting sex-disaggregated data, and developing indicators on gender-oriented goals for each sector. In 2011, the Gender Monitoring Office published a study of key gender indicators in four sectors.

Country	Findings
Tanzania (Stotsky et al., 2016)	Tanzania was a pioneer in gender budgeting in Africa in 1997. Its first efforts began as a civil society initiative involving a network of non-governmental organisations such as the Tanzania Gender Networking Programme and Feminist Activism. The aim of this coalition was to address gender equality and women's needs through the budget, especially in the social sectors. Research to inform policymaking was a central part of their efforts. One of the coalition's first products was a book, *Budgeting with a gender focus*, outlining the concepts of gender budgeting. A tangible outcome was that, in 2000, the government undertook a pilot project with six ministries (Health, Education and Culture, Agriculture and Food Security, Water, Regional Administration and Local Governments, Community Development, Gender and Children's Development) to integrate concerns into the budget process. Its later efforts began in 2001, with the coalition of non-governmental organisations continuing its focus on incorporating gender-oriented concerns into the budget process, but elevating gender-oriented concerns to macroeconomic programming. A World Bank Strategic County Gender Assessment in 2004 advocated incorporating more gender-oriented objectives into government poverty-reduction programmes. The World Bank saw the efforts to mainstream gender issues in the budget as consistent with government's move to an output/outcome-oriented budget and recommended providing more guidance to budget officers in addressing gender-oriented issues. First, the government established a core gender budgeting team within the Ministry of Finance to oversee the implementation of gender budgeting in all sectors of the government and in local governments, working in collaboration with other groups. Second, the national government supported the integration of gender equality commitments in government programmes and policies, and tracking gender-oriented spending at the national and local levels. Since 2010, the Ministry of Finance has given gender-specific instructions to national and local government agencies in developing their budgets. It earmarked two ministries (Agriculture and Labour) and two local government authorities (Temeke Municipality and Morogoro District Council) to pilot a new phase of the implementation of gender budgeting.
Cameroon (Stotsky et al., 2016)	Cameroon began its gender budgeting initiative in 2009 as a partnership between its Ministry of Finance and UN Women. It was led by a team from the Ministry of Finance, the Ministry of Economy, Planning and Territorial Development, and the Ministry of the Advancement of Women and the Family. The initiative included all sectors, although some sectors have been identified as priorities: education, health and agriculture. Monitoring of the initiative took place at two levels. Each governmental institution has a task force responsible for monitoring implementation at the ministerial level, while at the national level, a steering committee issues general guidelines for implementation.
India (Chakraborty, 2014)	In India, the process of institutionalisation for GRB was iterative. The Ministry of Finance began to own the process of GRB in multiple phases. The paucity of institutional mechanisms to conduct GRB was identified at the later stages. To begin with, the inclusion of a chapter on gender inequality in the Economic Survey of India, 2000–2001 (a document prepared by the Ministry of Finance tabled before Parliament a day before the Union Budget of India is released), can be considered as the first step with respect of the role of institutions, i.e. the Finance Ministry, in the GRB process. This was the first visible outcome of the involvement of the National Institute of Public Finance and Policy (NIPFP) in gender budgeting. The chapter was prepared on the basis of the Interim Report on Gender Budgeting prepared by the NIPFP for the Ministry of Women and Child Development and UN Women. The next step in terms of institutionalising the gender budgeting process was to prepare the 'ex-post' analysis of Union budgets, when Parliament went into recess after the budget presentation.
Philippines (Chakraborty, 2014)	The GRB initiative in the Philippines began in 1995 as part of the gender and development movement. The nation's General Appropriations Act, which approves the national budget, required all national agencies to set aside 5% of their budgets for gender and development. In 1998, local governments were required to do likewise. This 5% allocation was meant to provide national agencies and local governments with a budget for programmes that would enhance the capability for gender-sensitive planning and budgeting. Philippines has done pioneering work in the field of expenditure, considered in terms of its gender impact.

Country	Findings
Australia (Chakraborty, 2014)	The original approach to gender budgeting was developed in Australia in the 1980s. Australia's landmark gender budgeting initiative in 1984 required government ministries and departments to analyse the impact of the annual budget on women and girls, with a focus on public expenditure. Gender budgeting was given additional impetus by the Fourth World Conference on Women, held in Beijing in 1995, whose Beijing Platform for Action called for ensuring the consideration of a gender perspective and women's needs in budgetary policies and programmes. A number of other international agreements or declarations since then reaffirm this commitment to using government budgets for gender equality and women. The Australian GRB initiative was the first attempt to analyse government budgets from a gender perspective. This initiative dates back to the mid-1980s, when federal and state governments in Australia implemented what were called Women's Budget Statements (WBS) as a tool for mainstreaming gender into economic and social policy. State governments produced WBS (official budget documents) on the anticipated impact of all ministries' budget revenues and expenditures on women and girls.
Mexico (Chakraborty, 2014)	Mexico provides an example of a country where gender-oriented fiscal efforts were undertaken both at the federal and the state levels. At the federal level, the efforts began with health. In collaboration with non-governmental organisations, the Ministry of Health diagnosed the health needs of women, assessed whether existing programmes were adequate to address these needs, allocated budgetary resources to meet those needs, and designed indicators to measure whether the needs were being met. Evidence suggests that Mexico has made progress on women's health issues, including a drop in maternal mortality and a rise in life expectancy. Federal budget reforms supported the institutionalisation of this approach more broadly in the government ministries. In Mexico City, a similar initiative was undertaken where parts of the government were tasked to identify where gender was relevant to their programmes.
Morocco (Chakraborty, 2016)	As part of its gender budgeting efforts, Morocco assessed the needs of women and girls in education, health, the judicial system, infrastructure and employment, and sought to develop fiscal and other policies to ensure their equal access to education and health care, while expanding women's labour market opportunities. Various legal reforms that accompanied the gender budgeting efforts strengthened women's rights in family law and other areas of civic, political and economic life. In 2014, changes to the organic budget law required gender equality to be considered when defining performance objectives, results and indicators in all parts of the budget, and that a gender report be included as part of each year's Finance Bill. Morocco's efforts were recognised by the international community with the Ministry of Economy and Finance receiving the United Nations Public Service Award in 2014.
United Kingdom (Stotsky et al., 2016)	In 1989, the United Kingdom Women's Budget Group (UK WBG) emerged. Gender advocates in the country began through publicly commenting on the effect of the national budget on women. To date, most of the UK WBG's work has focused on the analysis of national revenue-raising mechanisms, such as changes in taxes and social security instruments.

Key lessons on gender-responsive budgeting

From the international precedents, a few key lessons can be learnt. Ministries of finance take the lead in supporting gender equality commitments in all government programmes and policies. In India and Rwanda, for example, the ministries of finance own the process of GRB. Gender-responsive initiatives have often failed as finance ministries fail to understand and recognise that GRB is 'their reforms', i.e. finance ministries have often seen GRB as beyond their remit, instead of embracing GRB as a tool that can be used to enhance gender equality and improve the budget processes. Finance ministries should integrate gender budgeting into the whole budgeting value chain: from planning, and coordinating the budget process, to drafting and implementing the national budget. The same process should hold for ministries responsible for gender and women's programmes, acting and interfacing between themselves and the Ministry of Finance. As in Tanzania, where the government established a core gender budgeting team within the Ministry of

Finance to oversee the implementation of gender budgeting in all sectors of government, it is important for the South African government to consider the establishment of such a team within government.

GRB institutionalisation should be taken as part of finance management reforms to support the equitable institutionalisation of the gender budget in planning and processes. Amendments to budget laws have been made to ensure the mainstreaming of GRB and the realisation of gender equality. This has been achieved through gender budget reports becoming a prescribed requirement to be included in the submission of the annual budget documentation and legislation tabled in the relevant legislative authority. Budget circulars are key in starting the GRB process. These circulars should be gender sensitive. In Uganda, for example, guidelines on how to address gender-oriented goals in the budget are attached as an annexure for sector ministries and local governments. The gender budget reports include information on all aspects of the budget, such as performance indicators and gendered impacts of sector budgets.

Furthermore, various gender equality initiatives are never implemented because they do not form part of the budget decision-making processes of government. The effectiveness of gender budgeting processes has often not only been attributed to the Ministry of Finance, but to planning and economic development functions being at the forefront. The involvement of these key government functions ensure that gender budgeting requirements are included in budget circulars that direct the implementation of GRB principles in all ministries and departments. It also ensures compliance where every ministry or department integrates gender equality principles and targets, as well as women empowerment programmes, as areas of responsibility in their respective departments.

In other countries, GRB is based on a sound system of the monitoring and evaluation of targets, collecting gender disaggregated data and developing indicators on gender-oriented goals for each sector. GRB is enabled by gender disaggregated data. This is important as what can be measured is likely to be prioritised and monitored. Brambilla (2001) is of the view that mechanisms that are in place to monitor and evaluate policies, programmes and projects are largely gender blind because data is sketchy. Gender-sensitive indicators are key tools to advance gender equality commitments and women's empowerment. Moser (2017) corroborates the view that gender-sensitive measures are key for taking gender inequalities seriously. However, gendered data is limited and poorly used, which makes it difficult to know or to ascertain if equality commitments are met. Other reasons for the use of gender indicators include advocacy, improved planning, mainstreaming interventions and policies, holding institutions and policy accountable for gender equality commitments and stimulating change through data collection processes.

5.6 Concluding remarks

South Africa has committed itself to various international and national commitments with respect to GRB. As such, various legislations, policies and institutional frameworks have been put in place. However, evidence on the ground shows that, despite all the initiatives to promote a gender equal society, women empowerment and gender equality remain very weak. Many reasons account for this. As the literature cited suggests, these reasons include a lack of sustainability of the initiatives as a result of the lack of full buy-in at both political and administrative levels of government, limited enforcement of legal requirements for GRB integration, weak mainstreaming of GRB in various government departments, budget circulars and budget documents not clearly requiring this information, and lack of knowledge of government officials on gender issues.

In terms of the budget analysis, the Commission underscores the point that, without gender disaggregated data, it is difficult to implement GRB. All the departments analysed have indicators in place to measure the performance of their programmes. However, the indicators are not detailed or gender disaggregated, making it difficult to assess the impact of their budgets on men and women, as their impacts are not gender neutral. Where there is gender disaggregation, it would be by virtue of the programme targeting particular gender (male circumcision) or maternal mortality (women).

For gender goals to be realised, the international literature reviewed revealed that various reforms would be needed, including national government, through the Ministry of Finance, the DWYPD and the DPME taking the lead in GRB. The Ministry of Finance should be involved in gender budgeting processes through the distribution and allocation of resources. The DWYPD and the DPME should coordinate the entire government machinery in advancing GRB through defining norms and standards for gender-specific performance indicators and targets, as well as performance requirements. GRB institutionalisation should be prioritised and made part of the finance management reforms in order to support the equitable institutionalisation of the gender budget in planning and processes. Consideration should be given to whether current budget legislation and regulations need to be reviewed to mainstream GRB. The budget process should kickstart with MTEF guidelines that are gender sensitive. The Gender budget reports should contain gender performance and gender impact indicators of all government programmes. In addition, gender-oriented goals should form part of the medium-term expenditure plans as gender equality is a long-term goal that cannot be achieved in a short period of time. Lastly, an independent body should perform gender budget auditing to objectively analyse whether gender equality has been attained in the budgets allocated.

5.7 Recommendations

With respect to addressing gender inequality through gender budgeting in the public sector, the Commission makes the following recommendations:

1. *The Department of Women, Youth and Persons with Disabilities (DWYPD) and the DPME should finalise the institutionalisation of gender-responsive planning throughout national and provincial government as envisaged by the Gender Responsive Planning, Budgeting, Monitoring, Evaluation and Auditing Framework (GRPBMEA).*

2. *National Treasury, together with the DWYPD and the DPME, should spearhead the implementation of gender-responsive budgeting (GRB) and mainstreaming GRB throughout the entire scope of the budget process as it applies to national and provincial government. In collaboration with CoGTA, GRB implementation and mainstreaming should be extended to the local government sector.*

3. *National Treasury should create an enabling environment to institutionalise the GRPBMEA. This may include the development of an overall budget framework for the model to be implemented across the budget cycle and MTEF processes, including the revision of the format of Estimates of National Expenditure (ENE) to give specific expression to the advancement of gender equality.*

4. *National Treasury and the DWYPD should consider the introduction of a formal gender auditing process to be conducted by a relevant independent institution in respect of the non-financial performance information of departments, entities and municipalities.*

5. *The DWYPD should coordinate and spearhead initiatives focused on the capacity building of political and administrative leadership on gender-responsive planning, budgeting, monitoring, evaluation and auditing at all levels of government. Such initiatives are to include the training of budget officers on GRB and the use of gender disaggregated data in the budget process.*

6. *The DWYPD should, on an annual basis, prepare a comprehensive report on how the Division of Revenue Bill responds to gender inequality and how fiscal policies translate government's gender equality commitments. The report should be tabled for consideration by the relevant committees of Parliament.*

7. *The DWYPD, together with Statistics South Africa (Stats SA), should provide explicit guidelines for collecting and integrating gender disaggregated data to ensure the visibility of girls and women in government programme execution and in budgeting processes within government. The Department should also invest in statistical capacity building in government to improve the measurement of gender equality indicators and the collection of gender disaggregated data.*

CHAPTER 6:
Testing the Means Test: Social Assistance in South Africa and COVID-19

6.1 Introduction

The COVID-19 pandemic has forced the South African government to rely more heavily on its system of social assistance – in particular, social grants – in order to offset the negative income shocks experienced by poor households and individuals. To this end, existing grant payments were temporarily increased for six months from May to October 2020, and a new COVID-19 Social Relief of Distress (SRD) Grant was introduced to cover unemployed individuals who currently fall outside the pre-existing social safety net. Using direct cash transfers as a way to quickly reach the poor in this manner is made possible by a relatively well-developed and comprehensive grant system in South Africa that primarily benefits children, the elderly and the disabled in poor households. This system has expanded rapidly over the last two decades – the number of people receiving grants increased from just 2.4 million in 1998 to reach 18 million people by mid-2020, which is equivalent to almost one in every three South Africans (SASSA, 2020). Total coverage increases to 24 million when the temporary COVID-19 Grant is included.

Aside from existing budgetary constraints, the ability of the social grant system to effectively reach poor South Africans depends most critically on targeting. At present, almost all social grants in the country rely on a relatively simple means test as a targeting device, which determines who is poor and 'deserving' of assistance. Available evidence suggests that, in general, this has led to social grant spending being relatively well targeted towards the poor (Moore & Seekings, 2019). However, the negative impacts of COVID-19 have necessitated a reconsideration of poverty and vulnerability, at least in the short term, as previously non-poor South Africans experienced severe income shocks, and in many cases, a permanent loss of their livelihoods (Bhorat, Oosthuizen & Stanwix, 2020). An issue of central concern is whether the current means-testing approach is sufficient to ensure that the eligible poor can access social grants and that there is no significant leakage to those who are not eligible for grants. Furthermore, it is important to understand how the grant system has been used to reach vulnerable households and individuals in response to the pandemic, as well as how well targeted this effort has been thus far.

6.2 Research methodology and data

To examine whether South Africa's current system of means-tested social grants effectively targets vulnerable individuals and households, an empirical analysis of grant receipt and vulnerability was conducted. This analysis relies primarily on micro data from the 2017 National Income Dynamics Study (NIDS), with additional data from the 2020 NIDS-Coronavirus Rapid Mobile (CRAM) surveys. The NIDS is South Africa's first longitudinal, individual, nationally representative household survey. Beginning in 2008, it was conducted approximately every two years and has followed the same individuals over five waves, with the most recent wave being in 2017. The survey consists of individual and household questionnaires, and includes a wide range of demographic and socioeconomic variables relating to poverty and wellbeing, grant receipts and economic activity, to name a few. Although the analysts would have preferred to make use of more recent data, NIDS Wave 5 is the latest, most representative individual dataset, which contains detailed information on grant receipt and household income, as required for the purposes of this research.[1]

[1] Importantly, eligibility criteria for the permanent social grants did not change in response to COVID-19 and, as such, the 2017 NIDS data is suitable for the purposes of this research.

The analysis of data on social grants, household income and household size in the NIDS also relies on several absolute moneymetric poverty lines published by both the World Bank and Statistics South Africa (Stats SA), which is used to distinguish individuals according to what are classified as 'poor' and 'non-poor' households. Once poor individuals have been distinguished from non-poor individuals using these poverty lines, the distribution of grant coverage can be analysed for those classified as poor in each case, and this can be compared to actual grant receipts among eligible individuals, as stipulated by the existing means test thresholds. Put differently, the analysts will check to see how well covered the poor are by the current grant system, and how this changes when different poverty measures are used. This then provides a sense of the targeting efficacy of the existing means-tested grant system. Throughout the analysis, the relevant post-stratification survey weights are employed to account for non-random attrition, non-response and survey design.

6.3 Social grant receipt and means testing in South Africa

Critical to the performance of any social assistance system is the requirement that individuals and households who qualify for assistance should be able to access it. At the same time, the access of ineligible individuals and households to such assistance should be restricted. The primary way in which access to grants is controlled in South Africa is through the application of a means test that sets a threshold for income. For certain grants, there is an additional asset threshold. For each grant, individuals qualify if their income (or assets) is below the relevant threshold. This targeting mechanism tries to ensure that those who need the grant receive it and that those who are not in need are excluded. Means testing for grant receipt also has costs due to the administrative burden it imposes – where more complex means-testing regimes are more expensive. This fact, in combination with a situation of relatively high rates of grant coverage in South Africa, has – in the past – led to calls for an alternative approach, for example, scrapping the existing means testing system entirely. A universal system would certainly eradicate any exclusion or inclusion errors, and reduce the burden of vetting applicants. However, having no means testing would not easily ensure that only the eligible poor collected grants, which, alongside the constrained condition of the country's fiscus, suggests that scrapping means testing is not feasible at present. Put simply, doing so would significantly expand coverage and reduce the progressivity of the system. Moving in the other direction (introducing a more comprehensive targeting system) would be administratively more expensive, and would only be warranted if there were problems with the current approach.

At present, all social grants in South Africa, except for the Foster Care Grant (FCG), the Grant-in-aid, and the COVID-19 SRD Grant, are means tested. In other words, the income status of the person applying for social assistance is evaluated to determine whether they are below the stipulated threshold and thus eligible to receive a grant. The current grant system predominantly benefits children, the elderly and the disabled in poor households. The Child Support Grant (CSG) is the largest grant in the system, accounting for 71% of total grants distributed in 2019/20. About 13 million CSGs are distributed monthly to 7.2 million primary caregivers on behalf of their eligible children – 98% of whom are women (SASSA, 2020). As of June 2020, nearly two in every three children in South Africa (64%) had a caregiver who received a CSG on their behalf. The grant's large growth in take-up over time can mostly be attributed to the gradual increase in the age eligibility threshold, and a less stringent means test. The Older Persons' Grant (OPG) (formerly the Old Age Pension) and the Disability Grant (DG) are the second- and third-largest grants in terms of coverage, respectively, collectively accounting for over 4 million recipients. The grant amounts for the OPG and the DG are more than four times larger than for the CSG.

The existing academic literature shows that spending on social grants in South Africa is relatively well targeted towards the poor, a fact that can largely be attributed to the use of means testing as a targeting device (Van der Berg, 2014). The means-test thresholds vary according to grant type and marital status.

Table 6.1 presents the details of these means tests for each grant, as of 2020/21. In addition to income-based means tests, three grants – the OPG, the DG and the War Veterans' Grant – are also subject to an asset-based means test. The threshold amounts for a given means test differ for married couples and individuals, where the threshold for married individuals is simply twice the threshold for a single person for a given grant. For example, if one disregards other relevant eligibility criteria, a single individual applying to receive a CSG of R450 per month will be eligible if their income does not exceed R54 000 per year or R4 500 per month, and this threshold will be doubled if they are married.

Table 6.1: Means test thresholds of social grants in South Africa by grant type

Social grant	Amount (2020 rands per month)	Income means test (2020 rands per annum)		Assets means test (2020 rands)	
		Single	Married	Single	Married
Child Support Grant	450	54 000	108 000	NA	
Older Persons' Grant	1 860	86 280	172 560	1 227 600	2 455 200
Disability Grant	1 860	86 280	172 560	1 227 600	2 455 200
Foster Care Grant	1 040	NA		NA	
Care Dependency Grant	1 860	223 200	446 400	NA	
Grant-in-aid	450	NA		NA	
War Veterans' Grant	1 880	86 280	172 560	1 227 600	2 455 200

Notes: [1] Grant data as of October 2020. [2] Table excludes the COVID-19 SRD Grant, which, according to the eligibility criteria, would have an income-based means test of R0 and no applicable asset-based test.

Source: Commission's compilation; SASSA (2020).

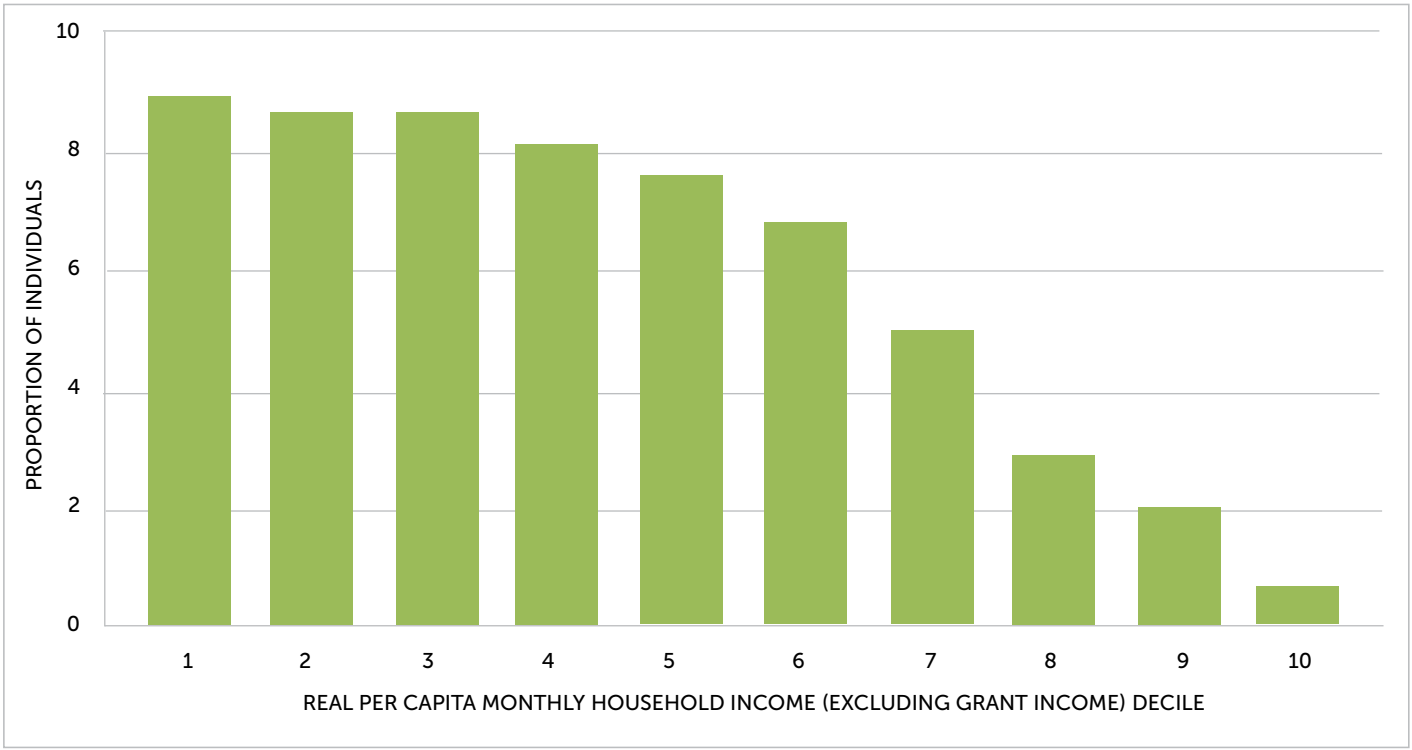
Grant receipt and vulnerability in South Africa

Against the basic background of the grant system in South Africa, the receipt of grants will be examined across the income distribution categories to assess how well the existing means tests cover those in poorer households. To begin with, household grant receipt is plotted across the income distribution categories in Figure 6.1, where households are divided into deciles; Decile 1 being the poorest. The distribution of grant receipt confirms that, indeed, grant coverage in South Africa remains pro-poor. Overall, it is estimated that nearly 60% of individuals (or 32.9 million people) either receive a grant personally or co-reside with a grant recipient. Looking at this by household income level, approximately 80% of individuals who live in the poorest half of households either personally receive a grant or co-reside with a recipient. This is equivalent to 23.3 million people, or over 40% of the population. In contrast, just 6.5% of individuals in the richest 10% of households (or 365 000 people) co-reside with a grant recipient or receive a grant themselves.

The targeting efficacy of social grants – i.e. how pro-poor social grant spending is – varies by grant type given the differences in eligibility criteria. To examine the relative progressivity of social grants, the three largest grants are considered, chosen according to the number of grants distributed monthly in 2019/20 – 12.8 million CSGs, 3.7 million OPGs and 1.1 million DGs. These three grants collectively account for approximately 97% of all the grants distributed.

In Figure 6.2, the concentration curves are presented that plot the cumulative share of grants received, for each grant, against the population (ordered from poorest to richest using per capita household income). Notably, these curves are estimated using household income exclusive of grant income.

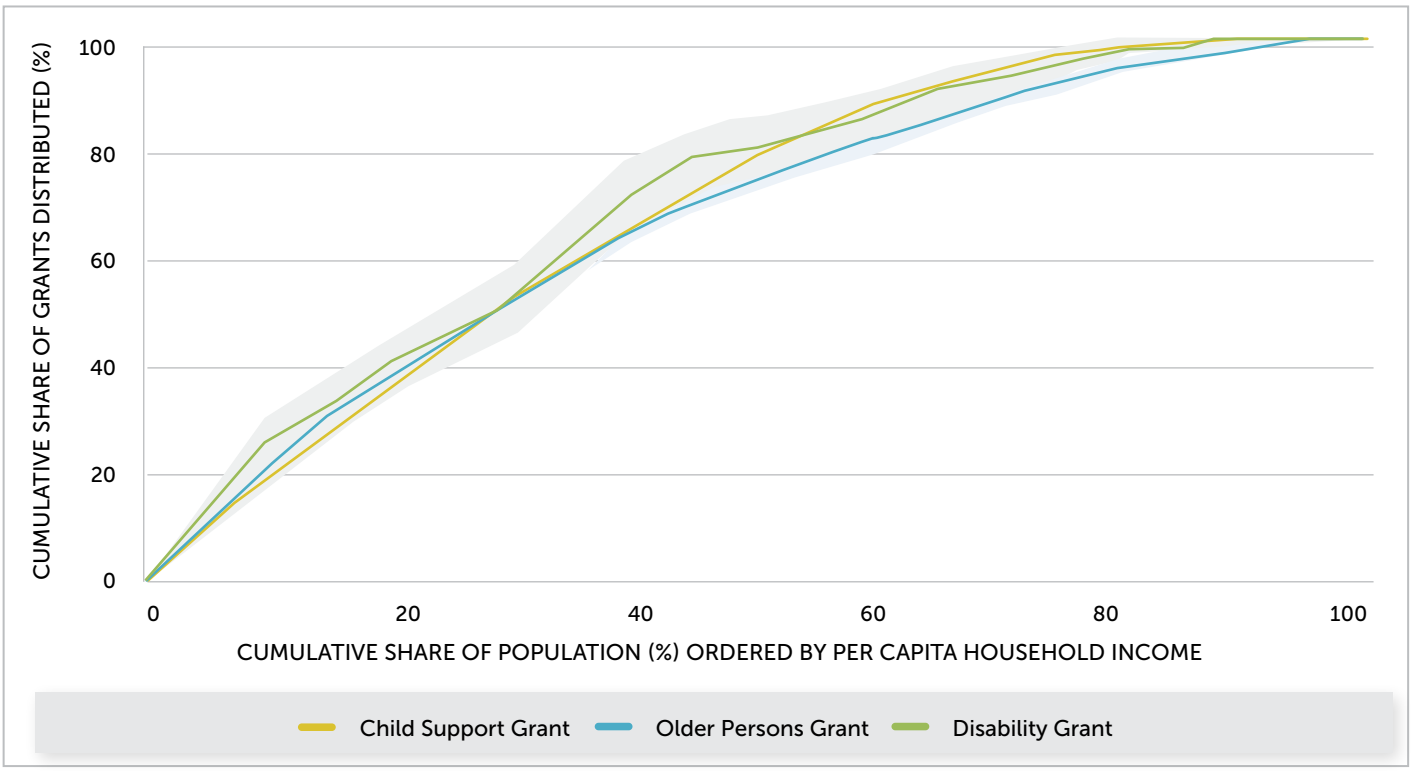
Figure 6.1: Distribution of household-level social grant receipts across the household income distribution, 2017



Notes: [1] All estimates are weighted using relevant post-stratification sampling weights. [2] The 95% confidence intervals are presented as capped spikes.

Source: Commission's calculations; NIDS (Southern Africa Labour and Development Research Unit, 2017).

Figure 6.2: Concentration curves of expenditure on social grants, by grant type, in 2017



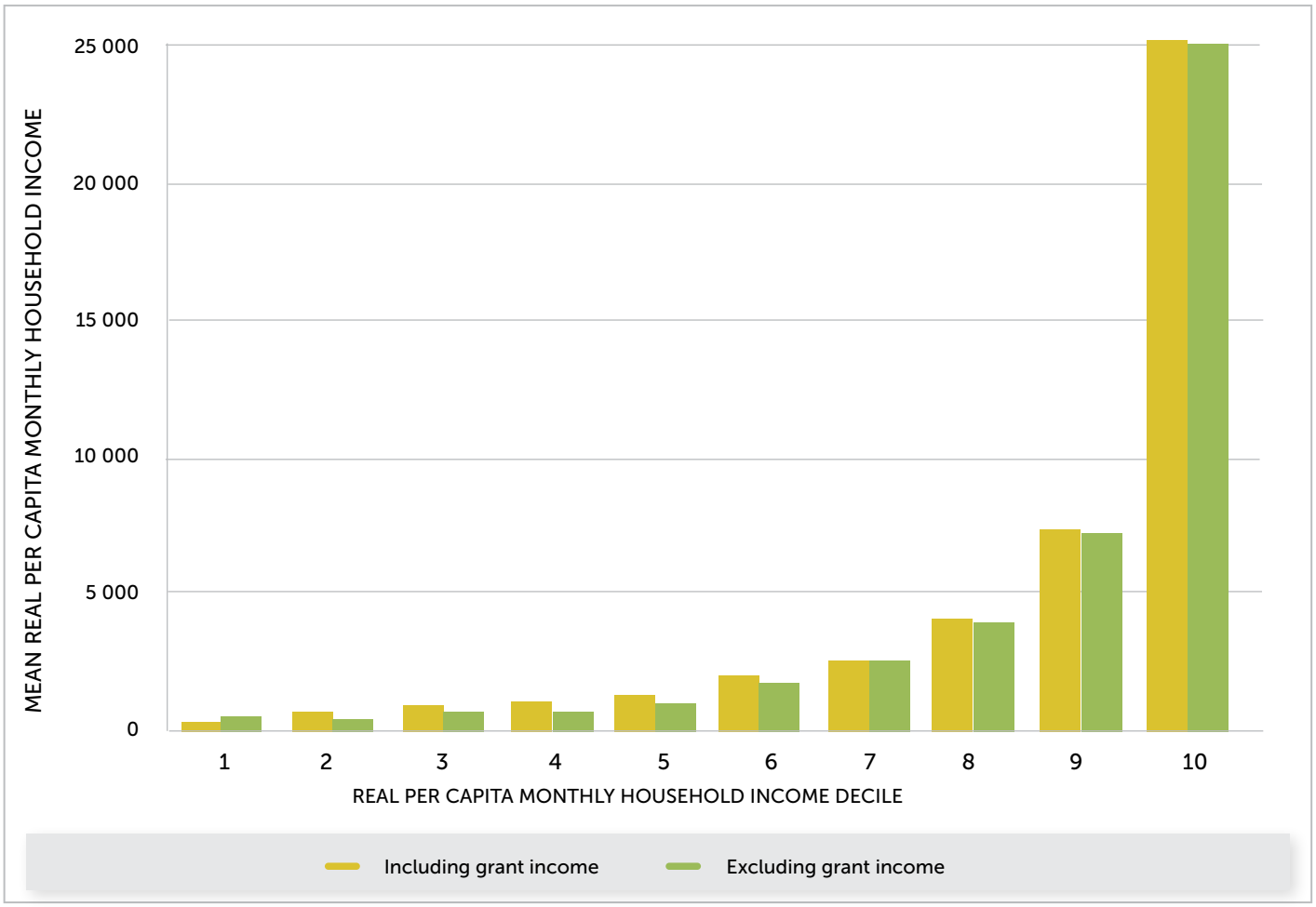
Notes: [1] All estimates are weighted using relevant post-stratification sampling weights. [2] The shaded regions represent the 95% confidence intervals. [3] The CSG receipt refers to receipt by a primary caregiver who receives the grant on behalf of their child/children. [4] Household income excludes income from social grants.

Source: Commission's calculations: NIDS (Southern Africa Labour and Development Research Unit, 2017).

Curves that are above the 45° dotted line are pro-poor – where the concentration of grant receipt exceeds the share of household income. It is clear that the levels of progressivity of all three grants are very similar, and they are all pro-poor. If one takes the CSG as an example, it can be observed that about 80% of CSG recipients live in the poorest 50% of households.

Next, the importance of grant income is considered as a source of household income for poorer households. In Figure 6.3, the distribution of household income in South Africa is plotted, adjusted for inflation and expressed in April 2020 rands, both with and without grant income. To start with, the figure highlights two familiar characteristics of the South African income distribution: First, it exhibits the extreme income inequality. Second, it highlights that the majority of households earn very little. For example, about 70% of households have a per capita monthly income that is below R3 500 – equivalent to the national minimum wage – for a single person. In addition, the figure makes it clear that social grants represent a significantly larger share of household income among poorer households. This is indicated by the difference between household income when grant income is included – and is again suggestive of progressive targeting. Among the poorest 10% of households, the average household has a per capita household income of R352, including grant income, but this falls to only R90 when grant income is excluded – a difference of R261. For the richest 10%, this difference is only R29. In other words, for the poorest 10% of households, 74% of household income is accounted for by social grants, in contrast to just 0.1% of household income for the richest 10% of households.

Figure 6.3: Distribution of real per capita monthly household income, 2017



Notes: [1] All estimates are weighted using relevant post-stratification sampling weights. [2] The shaded regions represent the 95% confidence intervals. [3] The CSG receipt refers to receipt by a primary caregiver who receives the grant on behalf of their child/children. [4] Household income excludes income from social grants.

Source: Commission's calculations; NIDS (Southern Africa Labour and Development Research Unit, 2017).

Grant coverage and poverty: The efficacy of targeting

Next, grant receipt among the poor is examined more directly, where the poverty lines introduced above are used as a measure of targeting efficacy. This allows one to more clearly assess the extent to which grant coverage overlaps with measured poverty levels, and thus to identify the levels of 'inclusion error' under South Africa's current targeting regime; i.e. how many of those who receive grants are classified as poor under a given poverty line, and whether there are cases of people who are classified as poor, but who are not eligible for a grant. Table 6.2 presents both absolute and relative poverty measures alongside grant receipt estimates for each of the three largest grants. Several observations emerge from the data presented in this table.

Table 6.2: Estimates of poverty and grant receipt, by poverty line

		World Bank			Stats SA		
		Extreme poverty line ($1.90 pppd)	LMI poverty line ($3.20 pppd)	UMI poverty line ($5.50 pppd)	FPL (R585 pppm)	LBPL (R840 pppm)	UPBL (R1 268 pppm)
	Absolute	**20 200 039**	**28 475 172**	**36 363 596**	**15 093 663**	**19 938 996**	**26 472 972**
Poor	As a percentage of the South African population	35.74	50.38	64.34	26.70	35.28	46.84
CSG recipients	Number of poor	7 065 818	9 225 696	10 783 283	5 514 802	6 993 641	8 754 485
	As a percentage of all recipients	60.20	78.61	91.88	46.99	59.59	74.59
OPG recipients	Number of poor	1 664 466	2 174 988	2 500 784	1 295 607	1 636 253	2 034 501
	As a percentage of all recipients	54.64	71.40	82.09	42.53	53.71	66.79
DG recipients	Number of poor	419 828	622 303	689 950	361 227	418 628	584 972
	As a percentage of all recipients	52.87	78.37	86.89	45.49	52.72	73.67

Notes: [1] All estimates are weighted using relevant post-stratification sampling weights. [2] pppd = per person per day; LMI = Lower Middle Income; UMI = Upper Middle Income; FPL = Food Poverty Line; LBPL = Lower Bound Poverty Line; UBPL = Upper Bound Poverty Line; CSG = Child Support Grant; OPG = Older Persons' Grant; DG = Disability Grant. [3] The CSG recipients refer to the recipient children. [4] Pre-grant per capita household income is used.

Source: Commission's calculations; NIDS (Southern Africa Labour and Development Research Unit, 2017).

First, there are no instances of people who are classified as poor, but who are excluded from receiving a grant by the existing means tests; i.e. the means tests are all set above even the highest poverty line selected in Table 6.2.

Second, it is clear that the poverty line that one selects leads to very different conclusions about the adequacy of grant coverage, as well as the level of inclusion error. For example, if one uses the three most conservative (or lowest) poverty lines, which are the World Bank's extreme poverty line and Statistics SA's food poverty line (FPL) and lower-bound poverty line (LBPL), one finds that between 47% and 60% of CSG recipients are regarded as living in poor households (before receiving their grant income). The implication is that between 40% and 53% of CSG recipients are classified as non-poor according to the three lowest poverty lines. If the World Bank's upper middle income (UMI) poverty line is used, however, one will observe that nearly all CSG recipients (92%) would be classified as poor. It is important to note that even the upper-bound poverty line (UBPL) should not be seen as providing a decent living, as it equates to approximately R1 750 per month. According to the higher poverty lines, the CSG is relatively well targeted to the poor.

Third, even though both the OPG and DG have higher income eligibility thresholds, one can observe relatively high rates of receipt among the poor, even when using the conservative poverty lines. One finds that between 43% and 55% of recipients are living in poor households, where income is measured before grant receipt. Higher rates of receipt are observed using higher poverty lines – with over 80% of recipients living in poor households if the World Bank's UMI is used as a benchmark.

Finally, the majority of grant recipients in the country are classified as poor. Using the World Bank's UMI poverty line, the proportion of recipients who are poor is 82% for the OPG, 87% for the DG and 92% for the CSG. Certainly, the benchmark for means testing should not be linked directly to one of the poverty lines included here, but they provide a useful guide, suggesting that South Africa's grant system is unlikely to have any substantial problems of including non-eligible individuals.

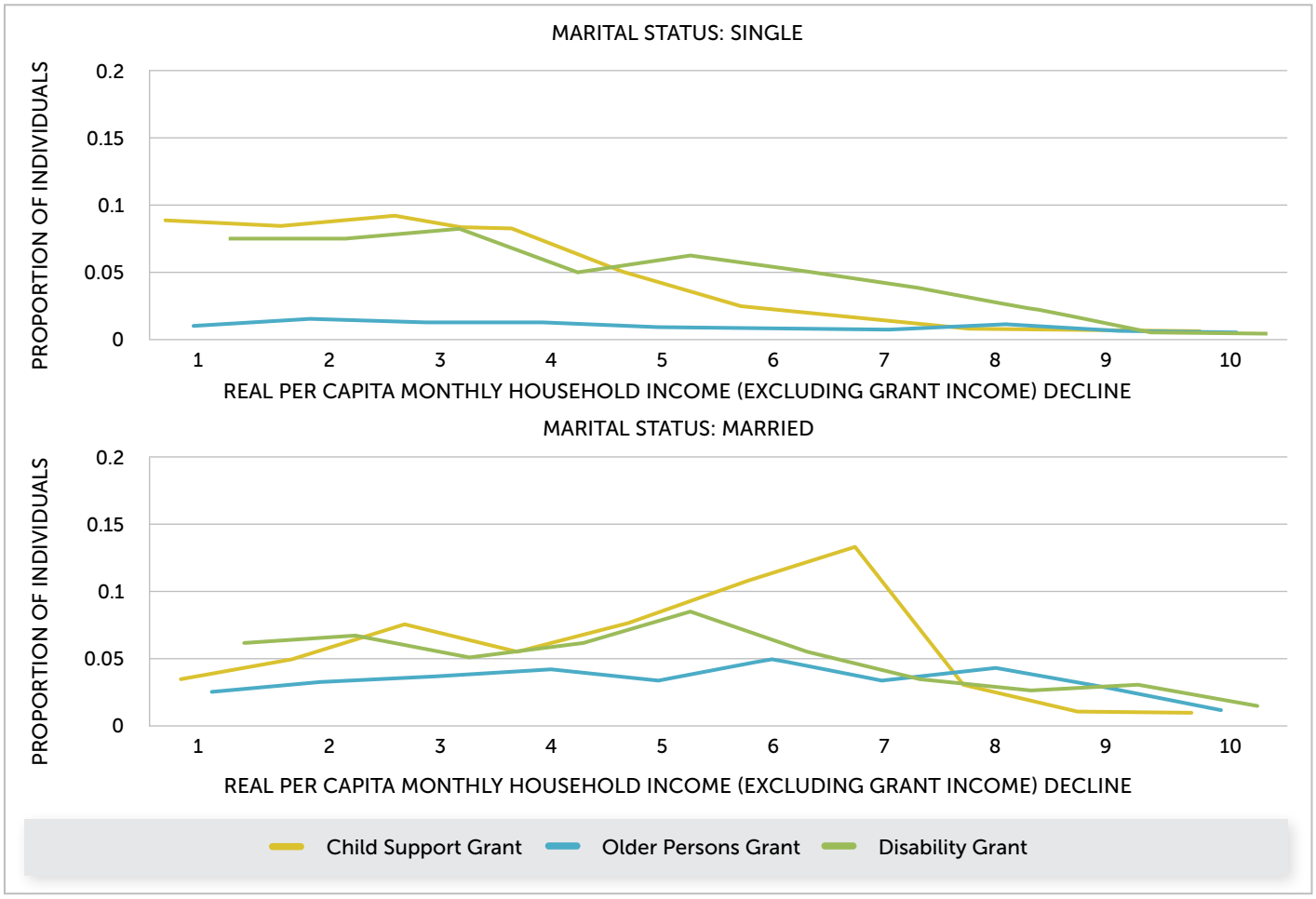
A separate issue that requires consideration is the extent to which individuals are eligible for a given grant, but do not receive it. This represents a form of exclusion from the existing system. In Figure 6.4, estimates are presented of the extent of this form of 'exclusion error' across the household income distribution, by grant type. To be clear, because current grant means tests in South Africa are above even the highest poverty line that is used here, no individuals classified as poor are ineligible for a grant based on their income. Rather, exclusion is explored in the context of being eligible, but still not receiving a grant, which points to other issues that may prevent individuals from registering and receiving grants despite being eligible. The figure allows one to see, at each decile of the income distribution, how many people are eligible to receive a given grant as opposed to how many people actually receive it. On aggregate, a relatively low level of exclusion error is found for the CSG and OPG, but higher rates exist for the DG.

Specifically, it is estimated that just under 400 000 single individuals and 150 000 married individuals are eligible to receive the CSG on behalf of their child(ren), but do not receive it. Roughly, then, if one assumes that those who already receive the grant are eligible, approximately 13.3 million people are eligible for the CSG. Of these, 96% currently receive the grant and 4% do not. For the OPG, it is estimated that the number of people who are eligible, but excluded, stands at 75 000 single individuals and 235 000 married individuals. This is relative to the 3.9 million people who currently receive the grant, which equates to a rate of exclusion error of under 8%. In the case of the DG, it is estimated that there are approximately 1.2 million single individuals and 340 000 married individuals who are eligible to receive the DG, but do not receive it. Given that there were just over one million DG recipients in 2020, this suggests that over 50% of those eligible to receive the grant do not receive it. Moreover, the extent of error for the DG among single individuals appears to be regressive; i.e. it is highest among those in poorer households.

These estimates should, however, be seen as upper bounds, given that the survey data does not provide all the information necessary to fully determine eligibility and exclusion. For both the OPG and the DG, in addition to the income means test, there is an asset means test, which the analysts were unable to account for because the NIDS does not provide detailed information on asset wealth. Thus, some proportion of

those who are identified as being eligible based on their income level may, in fact, not be eligible if their asset wealth is accounted for. Furthermore, for the DG in particular, there may be discrepancies between those who report a disability in the NIDS and those who have been certified as having a disability by a medical practitioner. As such, it can be expected that the level of exclusion error estimated above should be interpreted with caution and should be treated as an upper bound.

Figure 6.4: Exclusion error across the household income distribution, by grant type and marital status



Notes: [1] All estimates are weighted using relevant post-stratification sampling weights. [2] The 95% confidence intervals are presented as capped spikes. [3] Exclusion error refers to being eligible to receive the grant, but not reporting receipt. [4] Eligibility, in general, refers to individuals who have per capita pre-grant household incomes less than a given grant's means test threshold for either single or married applicants. [5] Eligibility for the OPG is restricted to individuals at least 60 years old; that of the DG to individuals who report having a disability; and that of the CSG to individuals who report having biological children 18 years or younger living with them.

Source: Commission's calculations; NIDS (Southern Africa Labour and Development Research Unit, 2017).

The role of social assistance during the COVID-19 crisis

The South African government expanded social assistance in response to the COVID-19 crisis by increasing the amounts of all existing grants and introducing the new COVID-19 SRD Grant. Before the onset of the pandemic, South Africa's social assistance system did not extend to cover prime-aged, able-bodied individuals who, in theory, would be able to support themselves through the labour market.

This gap in the country's social safety net was partially addressed through the introduction of the new COVID-19 SRD Grant – the first grant in South Africa to specifically target unemployed adults.

In Table 6.3, the suite of social grants in South Africa is collated, tracking how they were increased from May 2020 in response to the pandemic.

All existing grants were increased by R250 per month, which represents a relative increase of between 13% and 24%, depending on the initial grant amount. This increase remained in place for six months – from May to October 2020. The one exception to the standard increase was the CSG, which was increased by R300 per child for the month of May, and then by R500 per caregiver (regardless of the number of eligible children) from June onwards. Bhorat and Köhler (2020) showed that the per-child top-up to the CSG was marginally more progressive than the per-caregiver top-up, largely due to the fact that most CSG-receiving households have more than one eligible child. Despite this, the authors note that the chosen policy was significantly cheaper than the alternative per-child top-up for the whole period.

Separate from these permanent grants, the COVID-19 SRD Grant was set at R350 per person and was aimed at unemployed people who did not receive any other form of government assistance. It was later extended to January 2021, and then further to the end of April 2021. By December 2020, the grant had brought millions of previously unreached individuals – mostly non-employed young men – into the system, representing a substantial reach in a relatively short period of time. Collectively with other grants, the social assistance system directly supported almost 40% of the South African population during this time.

Table 6.3: Changes to South Africa's social grants: May to October 2020

Grant	Pre-COVID-19 amount (rand per grant per month)	Absolute (rand per grant per month) and relative (percentage) increase		COVID-19 amount (rand per grant per month)	
		May	June–October	May	June–October
Older Persons' Grant*	1 860	250 (13.44%)	250 (13.44%)	2 110	2 110
War Veterans' Grant	1 880	250 (13.30%)	250 (13.30%)	2 130	2 130
Disability Grant	1 860	250 (13.44%)	250 (13.44%)	2 110	2 110
Care Dependency Grant	860	250 (13.44%)	250 (13.44%)	2 110	2 110
Foster Child Grant	1 040	250 (24.04%)	250 (24.04%)	1 290	1 290
Child Support Grant + 500 per caregiver	440	300 (68.18%)	500 per caregiver	740	440 per grant
COVID-19 SRD	NA	NA	NA	350	350

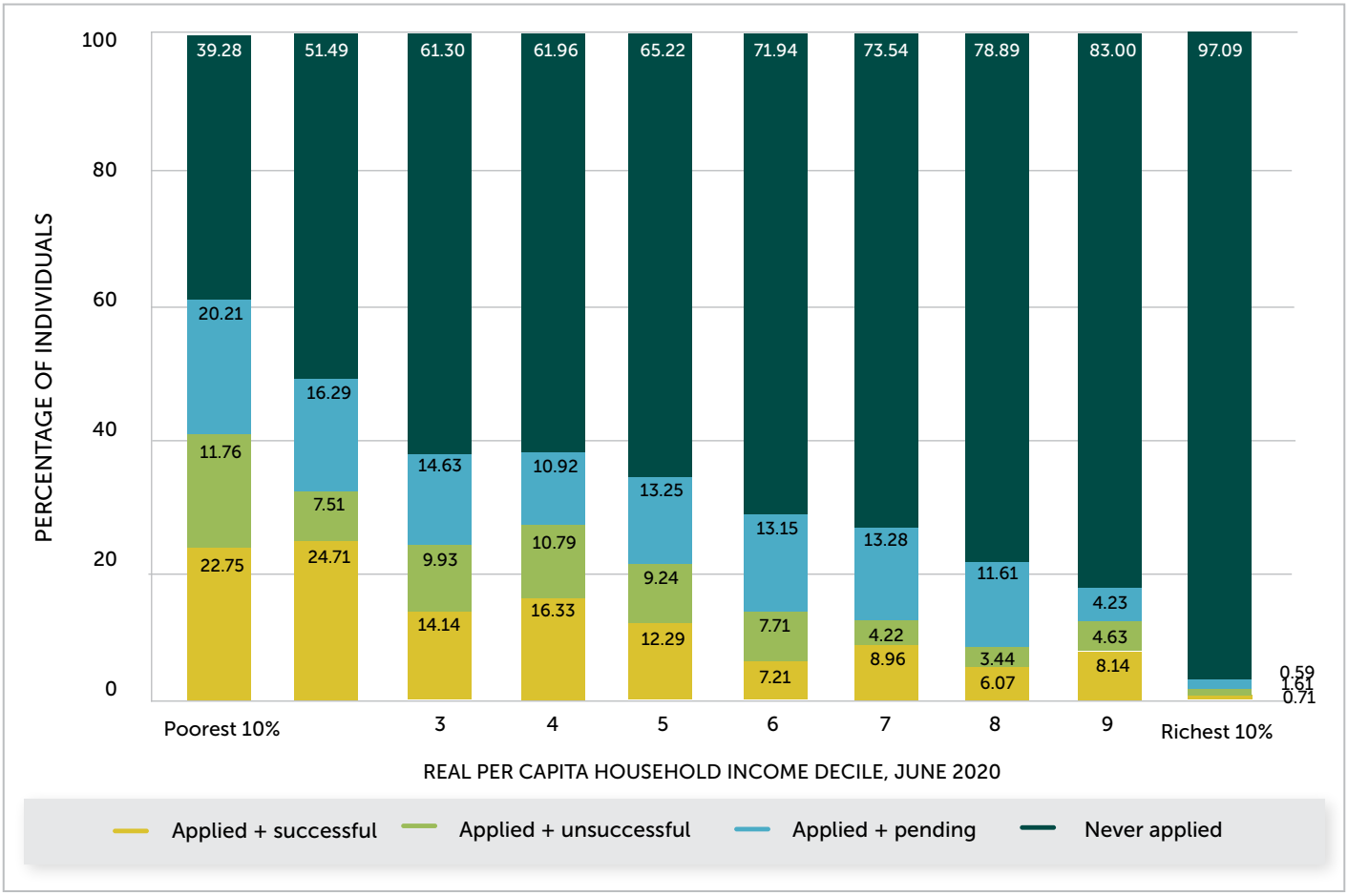
*Note: * The Older Persons' Grant amount of R1 860 is for people aged 60–75 years; it increases to R1 880 for people older than 75.*

Source: Bhorat and Köhler (2020)

Given the extent of vulnerability across the household income distribution, it was expected that many people would apply for the COVID-19 SRD Grant. Figure 6.5 shows the distribution of applications for, and receipt of, the grant across the household income distribution. It is estimated that, in November/December 2020, of the 11.9 million individuals who reported applying for the grant, over 6 million (51%) were successful. The remaining 5.9 million individuals either reported a pending (1.5 million) or rejected (4.4 million) application. However, both the application for and receipt of the grant were relatively pro-poor – most people who applied for the grant and were successful are in the middle and lower parts of the household income distribution.

Put differently, conditional on applying, 23% of individuals in the poorest 10% of households were successful, in contrast to 0.71% in the richest decile. Pending applications do not vary considerably across the distribution, and nearly all individuals in the richest decile (97%) did not even apply, in contrast to 40% of those in the poorest decile. In both absolute and relative terms, the distribution of the COVID-19 Grant has been progressive. However, many eligible people did not receive it. Of the estimated 6.5 million eligible non-recipients in June 2020, nearly half live in the poorest third of households (Bhorat and Köhler, 2020).

Figure 6.5: COVID-19 SRD Grant application outcome, by household income decile: October 2020



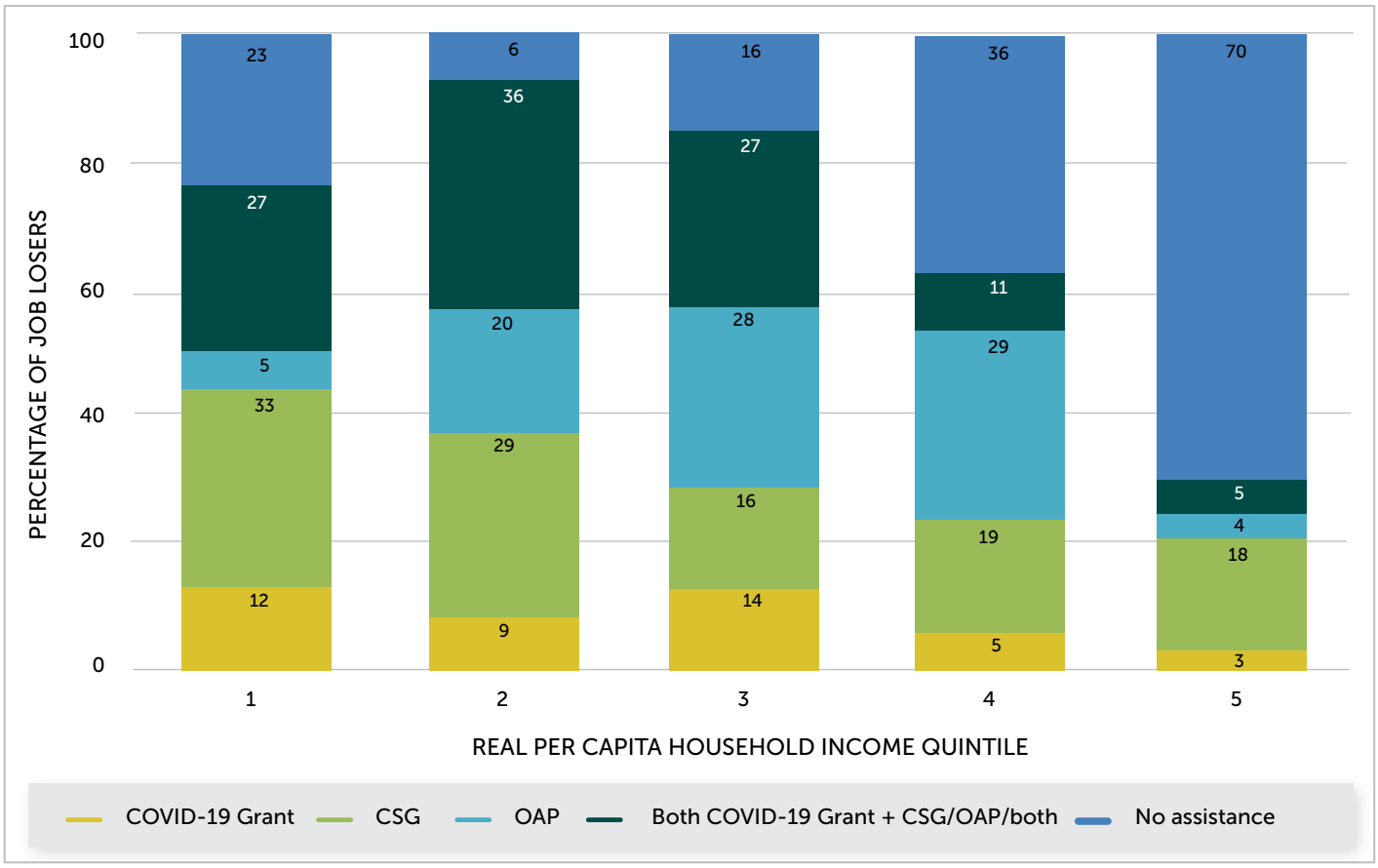
Source: Commission's calculations; National Income Dynamics Study – Coronavirus Rapid Mobile Survey, Waves 2 and 3 (2020).

It is useful to examine how well the social grant system was able to compensate those individuals who have been made worse off by the COVID-19 pandemic and the measures taken to contain it. Perhaps the most direct way to assess this is to consider individuals who lost their jobs after the second quarter of 2020 (during the first full lockdown in South Africa), and to what extent they had access to some form of income relief – noting that all grant payments had been increased and that the SRD Grant had been introduced. In Figure 6.6, the distribution of grant receipt is investigated across the income distribution for job losers, at the household level.[2,3]

[2] Job losers are defined as those who were employed in February 2020 (pre-lockdown), but not in October 2020 (during lockdown).
[3] Temporary Employer(ee) Relief Scheme (TERS) receipt – another core part of the South African government's policy response to the pandemic – would be another source of income relief to consider. However, considering that this analysis considers job losers, and that only those who remained employed were eligible for TERS pay-outs, the policy is not considered here.

It was found that about 80% of job losers lived in a household that received some form of social assistance in October 2020, and this support appears to be relatively progressive. Nearly 80% of job losers in the poorest 20% of households received support, in contrast to 30% of those in the richest 20%. Among those job losers in the poorest households, support came largely through either the COVID-19 Grant (12%) or the CSG (33%). A further 27% of those who became unemployed lived in a household that received a combination of the COVID-19 Grant, the CSG or the OPG. Importantly, within the sample of those who lost their jobs, some groups can be classified as being more vulnerable – where this takes into account the burden of job loss they had to bear in relative terms. In relative terms, it is observed that social assistance coverage appears to have been better for women, those who were in less-skilled employment, those earning lower incomes, and for people residing in rural areas.

Figure 6.6: Household-level social assistance coverage among job losers: October 2020



Source: Commission's calculations; National Income Dynamics Study – Coronavirus Rapid Mobile Survey, Waves 2 and 3 (2020).

It also appears that the introduction of the COVID-19 Grant significantly reduced the prevalence of poverty and the degree of household income inequality. As shown in Table 6.4, it was found that the COVID-19 Grant played a significant role in reducing poverty, particularly among the poorest individuals. Specifically, using Stats SA's FPL, it is estimated that the grant reduced poverty by 2 percentage points (or 5.3%). This is in line with the findings of Jain, Bassier, Budlender and Zizzamia (2020). When using higher poverty lines, the poverty-reducing effect remains negative, but expectedly becomes smaller, reflecting the progressivity of the grant. Considering household income inequality, it was found that the grant reduced inequality by between 1.3% and 6.3%, depending on the inequality measure. Despite these observed positive effects on both poverty and inequality, it is important to note that both poverty and inequality remain high, regardless of the measure or line used.

Table 6.4: Ex ante poverty and inequality effects of the COVID-19 Grant, June 2020

	Household income excluding COVID-19 Grant	Household income including COVID-19 Grant	Change in inequality or poverty (percentage)
Inequality measures			
Gini Coefficient	0.693	0.684	-1.282
Theil Index	1.036	1.010	-2.447
Atkinson Index	0.634	0.591	-6.726
Poverty measures			
Stats SA FPL (%)	38.430	36.380	-5.334
Stats SA LBPL (%)	50.040	49.250	-1.579
Stats SA UBPL (%)	62.010	61.570	-0.710

Notes: [1] Estimates are weighted using computed bracket weights. [2] Per capita, household income and poverty lines were inflated to January 2021 rands. [3] Poverty measures refer to the percentage of individuals who live in households with per capita household incomes less than the stipulated poverty line. [4] FPL = Food poverty line of R598.74 per person per month; LBPL = Lower-bound poverty line of R859.72 per person per month; UBPL = Upper-bound poverty line of R1 297.77 per person per month. [5] Inequality aversion parameter of the Atkinson Index = 1.

Source: Commission's calculations; National Income Dynamics Study – Coronavirus Rapid Mobile Survey, Wave 2 (2020).

One notable concern regarding the COVID-19 Grant is that it seems to have disproportionately benefited men (63% of recipients as of October 2020), despite women representing a greater share of the unemployed. This gap is likely explained by the grant's eligibility criterion, where those receiving other grants are not eligible – most of whom are women (85% as of December 2020). Arguably, unemployed women who receive the CSG on behalf of a child have been unfairly excluded from receiving the COVID-19 Grant as a means of support for themselves, disadvantaged by their childcare (Casale & Shepherd, 2020). It has therefore been argued that the COVID-19 Grant ought to be allowed to be held concurrently with the CSG as a means of targeting support to unemployed men and women. Overall, the evidence here suggests that the COVID-19 Grant has been an important, effective means of providing progressive income relief to the unemployed. Together with the temporary top-ups to pre-existing grants, the COVID-19 Grant has been channelled into households that, for the most part, were most in need. This is supported by Bhorat and Köhler (2020), who show that the COVID-19 Grant helped to mitigate a rise in poverty, and reached the informally employed who were negatively affected by the pandemic.

Examining alternative means-testing systems

As noted above, in an ideal scenario, social grants would be able to achieve perfect beneficiary targeting, where, when taking the poverty line as a benchmark, only the poor receive transfers, and no one that is poor is excluded from receiving transfers. There would also be perfect transfer targeting, where the transfer budget wholly goes to the poor, and the poor receive the exact difference between their income and the poverty line (Coady & Le, 2020). However, in reality, there are a number of imperfect targeting methods that are deployed to reach the poor with varying levels of efficacy. Coady, Grosh and Hoddinott (2004) explore six types of targeting mechanisms that can be used. These are noted in Table 6.5 in order to place South Africa's system in a broader context.

Broadly, the six different types of targeting can be classified as follows: categorical targeting, geographical targeting, means tests, proxy means tests, community-based targeting and self-targeting. Each of these mechanisms is explored in Table 6.5 – how the mechanism is deployed, the advantages and disadvantages,

examples of countries that have used such mechanisms, and for some, how much it could cost if implemented in South Africa. In practice, a combination of the mechanisms described in the table is deployed by a country to allocate social grants, where each approach will have varying coverage rates and administrative cost burdens attached to them. In general, the more complex the targeting approach and the means testing requirements, the higher the administrative cost burden becomes. It is important to note that many countries use more than one targeting method. An analysis of 186 social transfer programmes by Dodlova, Giolbas and Lay (2018) showed that 60% of programmes globally relied on multiple targeting methods.

Means-based testing as a targeting strategy is already established in South Africa, and – at present – removing this to allow for self-targeting is unlikely to be feasible given the country's fiscal constraints. In addition, based on the evidence above, which suggests that South Africa's current system is relatively effective, an alternative targeting mechanism of the forms noted here does not appear to be warranted at present. However, if the grant system were to be expanded in some form, the various alternative targeting options presented here provide a starting point to consider which approach might work best.

6.4 Conclusions

The role that social assistance plays in South Africa is significant both in terms of its coverage and the positive impacts it has on households and individuals. The COVID-19 crisis has resulted in adjustments to the social assistance package offered by the state, with temporary grant top-ups used to assist poor households, and the introduction of the COVID-19 SRD Grant for those previously not receiving any form of assistance. Here, the support offered for unemployed and informal workers via the SRD Grant appears to have had positive impacts on welfare, but has also raised questions about the viability of a more permanent grant of this type. It is noted that, at present, the fiscal sustainability of such an option remains under-researched.

To qualify to receive a grant under South Africa's current system, one has to earn below a certain income level, and for several grants, one can also not own assets above a certain value. However, even the lowest income means test (R4 500 per month for the CSG) is above the highest poverty line used in the analysis. This confirms that, for potential grant recipients, according to the standard moneymetric measures, no individual that is classified as poor is excluded from receiving a grant based on their income level. Thus, one does not find any significant exclusion error in South Africa's grant system, where a means test prevents those who are poor from accessing a grant income. There are, however, many working-age individuals who are poor and are not covered by a permanent social grant. This is further evidenced by the large take-up of the COVID-19 SRD Grant.

In the case of both the pre-existing grants and the COVID-19 SRD Grant, it is found that coverage is very progressive, where the vast majority of recipients are in the lower portions of the household income distribution. It is estimated that around 80% of individuals who live in the poorest half of the income distribution either personally receive a grant or co-reside with a recipient. It is also shown that, without grant income, both the poverty rate and the inequality rate would be significantly higher. This suggests that the current means-testing regime works well insofar as it does not include large numbers of the non-poor.

To examine this more carefully, one should consider the overlap between poverty and grant receipt, which shows that most grant recipients are classified as income poor. When using the World Bank's UMI poverty line, the percentage of grant recipients who are classified as poor rises above 80% for both the OPG and the DG, and above 90% for the CSG. This shows that levels of inclusion error appear to be relatively low. Given that the existing means-testing system does not appear to include a significant number of non-eligible recipients, it is suggested that there is no obvious reason to adopt a more complex targeting approach that would identify the poor more accurately, and ostensibly limit grant access to a greater extent.

Regarding coverage and exclusion, it is observed that, overall, a large number of individuals classified as poor currently do not receive any grant income, but the majority of these are working-age individuals who are not eligible for any of the existing grants. It was observed that, among those who are eligible for a grant, there was a gap between eligibility and receipt. The number of individuals who qualify for the three largest grants, but who do not currently receive any grant income, varies both according to grant type and across the income distribution. The estimates cannot fully account for eligibility, given data constraints, but one can observe relatively low numbers of eligible non-recipients for the CSG, slightly higher levels for the OPG, and substantial levels for the DG. The reasons for these gaps are not clear, but this observation is in line with previous work on the subject.

In response to the COVID-19 crisis, the grant system was used as a way to channel additional funds to poor households and mitigate some of the negative economic impacts of the pandemic. In this regard, one finds that the expansion of the grant system was relatively successful at targeting income relief to those who were placed in precarious positions as a result of the pandemic. Considering job loss as a proxy for COVID-19-induced welfare loss, the data suggests that, in total, 80% of those who lost their jobs in 2020 had access to some form of grant income via their households. Moreover, the analysis shows that the distribution of income relief through the grant system during the pandemic has been relatively pro-poor. Thus, the temporary top-ups and the introduction of the SRD Grant would have been channelled into households that, for the most part, were most in need. These results are hopeful in that they highlight the potential of social protection policies to respond to national challenges, and how the architecture of South Africa's grant system makes this possible.

However, one notable concern of the SRD Grant is that it disproportionately benefited unemployed men, despite women representing a greater share of the unemployed. Although the grant has brought in a large group of previously unreached individuals, it has excluded another. This gap is likely explained by the grant's eligibility criterion that recipients of other grants are not eligible – most of whom are women. Arguably, unemployed women who receive the CSG on behalf of a child have been unfairly excluded from receiving the COVID-19 Grant as a means to support themselves.

6.5 Recommendations

With respect to the existing social grant system, the Commission makes the following recommendations:

On social grants and COVID-19:

1. *The Minister of Finance, in the Division of Revenue, should continue monitoring the outcome of the existing social grant system that appears to be effective and pro-poor. The social grant system was used effectively to protect vulnerable households from some of the negative effects of COVID-19 in the short term. Receipt of the Social Relief of Distress (SRD) Grant has been concentrated among the poor.*

In response to the COVID-19 pandemic, the grant system was used to channel additional funds directly to poor households and mitigate some of the negative economic impacts. By December 2020, the SRD Grant had brought millions of previously unreached individuals – mostly non-employed young men – into the system, representing a substantial reach in a relatively short space of time. The SRD Grant appears to have had both a poverty- and an inequality-reducing effect.

Overall, the grant system was relatively successful at targeting those who had been placed in precarious positions as a result of the pandemic. Looking at job loss as a proxy for COVID-19-induced welfare loss, the data shows that, in total, 80% of those who lost their jobs in 2020 had access to some form of grant income via their households. Moreover, the distribution of income relief through the grant system during the pandemic has been relatively pro-poor. Thus, the temporary top-ups have been channelled into households that, for the most part, were most in need.

Depending on the fiscus, and the trajectory of the pandemic, policymakers ought to consider further extending the availability of the SRD Grant. Such an extension could either be put in place temporarily, conditional on the recovery of the labour market, or could form part of the country's social assistance system to fill the gap in the current social safety net and provide regular support to the transient and chronically unemployed. Additionally, any extension ought to consider altering the eligibility criteria of the grant to allow primary caregivers to concurrently hold the CSG with the COVID-19 Grant as a means of supporting themselves. Finally, if a permanent grant to the unemployed were to be introduced, there could be some conditionalities linked to receipt in order to encourage training or labour market participation.

On eligibility:

2. *The Minister of Social Development, with the Minister of Finance, should investigate the reasons for the exclusion of those persons who are eligible to receive an income grant, but do not receive it, and develop and implement appropriate remedial action.*

Among those who are eligible for social grants, there is a gap between eligibility and receipt. The number of individuals who qualify for the CSG, the OPG and the DG, but who do not currently receive a grant income, varies according to grant and across the income distribution. Survey data cannot fully account for the eligibility, given the data constraints, but the results show relatively low numbers of eligible non-recipients for the CSG, slightly higher levels for the OPG, and substantial levels for the DG. The reasons for these gaps are not clear, but the observation is in line with previous work on the subject.

On alternative means-testing regimes:

3. *It is advised that the Minister of Finance, together with the Minister of Social Development, should consider alternative means-testing regimes of the social grant system, such as an asset-based system of means-testing.*

In terms of alternative targeting mechanisms, a brief overview of common approaches was given. The use of a more complex system would make assessing eligibility more difficult and would also require a more complicated administrative process. Such an approach is likely to be more costly than the current system. Given that the existing means-testing system does not appear to include a significant number of non-eligible recipients, it is suggested that there is no obvious reason to consider more complex targeting to identify the poor more accurately and limit grant access to a greater extent.

On the COVID-19 SRD Grant being a precursor to a Basic Income Grant:

4. *On the COVID-19 SRD Grant being a precursor to a Basic Income Grant (BIG): The experience of the COVID-19 lockdown and the implementation of the SRD Grant have provided some impetus for the discussion of a BIG. The current iteration of the debate is still new, but the Minister of Finance should consider the fiscal impact of such a grant.*

The costs associated with a standard BIG are large. A true, universal BIG, set at R350 per month (equivalent to the SRD Grant) would cost approximately R243 billion per year, based on the 2020 Mid-year Population Estimates. This amounts to 5% of GDP. The cost would increase the revised budget deficit from 15.67% of gross domestic product (GDP) to 20.15%. However, a more streamlined grant of R350 per month to target the unemployed (using the expanded definition) between the ages of 18 and 59 years would cost R44.8 billion per annum, or 0.9% of GDP. Naturally, the total costs estimated here are high and would be lower if the BIG were to partially or totally displace grants in the existing system.

Table 6.5: Grant-targeting mechanisms

Mechanism	Approach	Advantages	Disadvantages	Examples	Example, if done in South Africa
Categorical targeting	Benefits are given conditional on belonging to a specific category (i.e. age or gender). If the category targeting mechanism is deployed without any targeting parameters, then the transfer is universal rather than poverty-targeted.	Easy to administer Useful as a first-level targeting measure	Inclusion and exclusion errors	Old Age Pension, Lesotho Disability Pension, Namibia	All children aged 0–18 in South Africa (R450 per month): R8.9 billion All adults aged 60+ in South Africa (R450 per month): R2.4 billion
Geographical targeting	Transfers are allocated to regions identified as the poorest within a country using indicator(s) that are associated with a high level of poverty such as consumption measures or literacy rates.	Easy to administer Useful as a first-level targeting measure	Inclusion and exclusion errors Can encourage migration	Chipata Cash Transfer, Zambia (urban)	Poorest provinces: Eastern Cape (R450 per person): R3 billion Limpopo (R450 per person): R2.7 billion KwaZulu-Natal (R450 per person): R5.1 billion
Means test	Transfers are allocated based on an income assessment of a household or individual by an official. This requires documental and verifiable information on income through tax records, wage information from employers or financial information from banks. This is more difficulty to do with high rates of informal labour.	Focused on the poor Reduces inclusion errors	Very costly and difficult to administer Requires regular and frequent monitoring Administrative compliance results in exclusion errors Possible stigma	Child Support Grant, South Africa	Current: income- and asset-based (see cost and coverage rates in the report)

Mechanism	Approach	Advantages	Disadvantages	Examples	Example, if done in South Africa
Proxy means test	Similar to means tests, proxy means tests use observable household characteristics that are highly correlated with poverty to calculate a score for households' economic situations, rather than income. Proxies can include quality of housing, ownership of durable goods, education level, etc.	Focused on the poor and vulnerable Reduces inclusion and exclusion errors	Difficult to construct valid proxy indicators Introduces perverse incentives to meet proxy criteria Costly and difficult to administer	BEAM, Zimbabwe PAM, Zambia INAS, Mozambique	Cost dependent on selected proxy means test
Community-based targeting	A group of members or a community leader decides on the eligibility of a programme. This mechanism leverages social capital, given that local actors have more information at a lower cost than grant administrators.	Reflects local understanding of poverty and vulnerability	Large inclusion and exclusion errors Perpetuates local patronage structure and gender bias Can be divisive	Kalomo Cash Transfer, Zambia Social Cash Transfer Programme, Malawi	Cost and coverage dependent on the eligibility criteria set out by community leaders
Self-targeting	Although this approach is open to all, it uses strong incentives to discourage use by the non-poor. For example, public works programmes that use self-targeting have a work requirement with wages that are below the market wage for unskilled labour.	Lower administrative costs Can be linked to skills development and income generation Can generate improved infrastructure (i.e. public works)	High exclusion errors (for all who cannot participate) Potential bias against women Opportunity costs to participation Stigma	MASAF Public Works, Malawi Zibambele Programme, South Africa	Varies by type of scheme

Source: Coady et al. (2004); Houssou and Zeller (2011) and Commission's calculations

CHAPTER 7:
COVID-19 and Food Security

7.1 Introduction

The COVID-19 pandemic is a health and human crisis that threatens the food security and nutrition of millions of people around the world. Hundreds of millions of people were already suffering from hunger and malnutrition prior to the pandemic and, unless immediate action is taken, we could see a global food emergency (UN, 2020). The pandemic has spread rapidly and extensively around the world since late-2019, and has had profound impacts on food security and nutrition. The unfolding crisis has affected food systems and has threatened people's access to food via multiple dynamics. We have not only witnessed a major disruption to food supply chains in the wake of lockdown levels, triggered by the global health crisis, but also a major global economic slowdown (FAO, 2020).

Issues of household meals and nutrition security have obtained growing global attention because the impact of climate change and hard economic conditions places new and extra strain on food systems (Stats SA, 2019). A record by means of the Food and Agriculture Organisation (FAO) (in collaboration with the International Food Policy Research Institute (IFPRI) (2017)) warned that the world is not heading in the right direction to get rid of starvation by 2030 as anticipated in the Sustainable Development Goals (SDGs). Recent evidence suggests that approximately 821 million people in the world were undernourished in 2017; the same number as in 2010 (FAO, IFAD, Unicef, WFP & WHO, 2018). The situation deteriorated significantly in sub-Saharan Africa, where the number of undernourished people increased from 195 million in 2014 to 237 million in 2017, with 6.8 million in South Africa, dropping from 13.5 million in 2002. Furthermore, the Global Hunger Index (GHI) showed that 52 out of 119 nations had GHI rankings rating them as having 'extremely alarming' starvation in the same 12 months (FAO, 2017)

The South African government has made significant efforts to foster food security and to cultivate global indicators on food security to observe improvements in various organs of the state. This was shown with the development of an interministerial National Food Security and Nutrition Plan by the authorities of South Africa, coordinated by The Presidency. Additionally, the National Development Plan (NDP) acknowledges agricultural productivity and rural development amid the vital priorities to create employment and financial boom, to lower poverty and to address food security in South Africa (Stats SA, 2019). Through these efforts, the share of the populace that was food insecure dropped from 31.6 million in 2006 to 27.3 million in 2011. However, it increased to 30.4 million in 2015, the major reason being the long-lasting impact of the global financial crisis on the African continent (Stats SA, 2018b). According to Ngema, Sibanda and Musemwa (2018), the country has a tradition of evidence-based choice-making. Grounded within the findings of countrywide surveys, there is little evidence to signify that the national sustainability food security programmes that have been carried out have yielded successful results. Again, the authorities do not do justice to information dissemination by no longer supplying the public with distinctive reviews about these programmes.

South Africa is commonly perceived to be food secure, either in relation to generating sufficient staple food or in its capability to import sufficient and nutritious meals for its populace (FAO, 2017). While there is sufficient food available for everybody in South Africa through food produced domestically and food imports, Mkhawani, Motadi, Mabapa, Mbhenyane and Blaauw (2016) argue that households' means to access food remains an obstacle to some families due to high income inequality levels. High unemployment levels exacerbate the situation. According to the Quarterly Labour Force Survey (QLFS), the unemployment

rate stood at 28.14% in the last quarter of 2019. The COVID-19 pandemic has further aggravated the accessibility to food with an increase in unemployment to around 30.1% in the second quarter of 2020. In addition, small traders were not going to work, remaining without a source of income, relying only on the Unemployment Insurance Fund (UIF), which was around R350 a month, far below the poverty line of R810, by April 2019.

The current decade (2011 to 2021) has been an economic rollercoaster for South Africa, driven by a combination of worldwide and domestic factors, including a low and an anaemic economic boom, persevering unemployment levels, higher consumer prices as seen by rising inflation, coupled with low commodity prices, decreased investment levels, greater family dependency on credit and coverage uncertainty, as reported by Stats SA (2019). This has made food security, mainly affordability and accessibility, a greater challenge at the household level since fewer families were involved in agricultural activities, and at national level due to import restrictions, which were a result of the COVID-19 lockdown.

To attain food security, there is a need to always have adequate quantities of appropriate food. The United States Agency for International Development (USAID) defines food security as a state in which every person always has bodily and economic access to sufficient meals to meet their dietary requirements for a productive and healthy life. Hence, the South African Government's Bill of Rights, section 27(1)(b) of the South African Constitution, Act No. 108 of 1996, states that everyone has a right to have access to enough food. In addition, people want to have sufficient income or a different way of being able to buy or trade for food. Furthermore, Stats SA (2018b) indicated that many South African families are not capable of buying food, mainly due to constrained income-generating possibilities. This is mainly dominant in rural areas that mostly rely on government grants as a source of income.

The World Health Organisation (WHO) declared COVID-19 a pandemic in March 2020. This led governments around the world to take unprecedented measures to contain the spread of the virus. The COVID-19 pandemic has come at overwhelming health and economic costs to many countries, including South Africa. In response to the WHO, governments implemented various degrees of lockdown policies. Inevitably, these measures caused a sharp reduction of activity, a fall in employment and income, and an increase in poverty and inequality. According to Hirvonen, De Brauw and Abate (2021), and Laborde, Martin, Swinnen and Vos (2020), international humanitarian organisations expressed concern about the potential for increases in food insecurity due to the pandemic.

Food prices rose almost immediately following the spread of the outbreak of the COVID-19 pandemic (Torero, 2020), and as a result, there has been increased concern that poverty and food insecurity will rise, and that the nutritional status of low-income households and vulnerable groups will fall, as the pandemic continues (Laborde et al., 2020). In April 2020, the World Food Programme made projections that the number of acutely food insecure people in the world could double by the end of 2020 without concerted action (World Food Programme, 2020).

Like most countries, South Africa was hit by this pandemic at the beginning of March 2020. COVID-19 delivered a significant shock to the already structurally troubled economy. In effect, the pandemic, in combination with the policies adopted to mitigate it, reinforced the existing structural inequality and poverty.

Like the rest the world, in the absence of vaccines and pharmaceutical interventions, South Africa had to adopt social distancing in the form of a nationwide lockdown as the only instrument available to mitigate the effects of the pandemic on its population. Through successive lockdown levels, its policymakers tried to balance the positive health gains of the distancing measures against their economic costs, especially the burdens imposed on low-income and food-insecure households. Many observers report that the

South African lockdown measures imposed large economic costs with negative implications for the factor distribution of income (Arndt, Davies, Gabriel, Harris, Makrelov, Robinson, Levy, Simbanegavi, Van Seventer & Anderson, 2020).

Inter alia, the lockdown was expected to present an enormous, real income shock, with its consequent effects undermining the food security of households with low levels of educational attainment and a high dependence on labour income. Although total income for low-income households is significantly insulated by government transfer payments, it is not clear whether these transfer policies insulated the households from food security reversals, considering such rapid and severe shocks imposed by COVID-19. For the most part, social protection programmes span interventions that respond to seasonal and regional supply shocks, such as the Productive Safety Net (PSN) programme in Ethiopia (World Bank, 2018), productive asset transfers in Rwanda, India, or multi-faceted 'graduation packages' that tackle the causes of economic and social exclusion (Banerjee, Duflo, Goldberg, Karlan, Osei, Pariente, Shapiro, Thuysbaert & Udry, 2015).

Burgeoning literature exists on the effects of social transfer and the shocks on household food security. Barrientos and Hulme (2016), the World Bank (2018) and Hidrobo, Hoddinott, Kumar and Olivier (2018) have ascertained the effect of social transfers on the consumption of households that cannot afford to meet their subsistence needs. Another class of literature that investigated the impacts of macroeconomic shocks on household food consumption or insecurity includes that of Galasso and Ravallion (2004), while other authors cite refugee and protracted crises (Brück, Cuesta, De Hoop, Gentilini & Peterman, 2019; Valli, Peterman & Hidrobo, 2019) and natural disasters (Skoufias, 2003). Still, there exists a strand of literature that focuses on the response to supply shocks, such as food shortages, famines and droughts (Sen, 1986; Gilligan & Hoddinott, 2007; Aker, Boumnijel, McClelland & Tierney, 2011; Asfaw, Carraro, Davis, Handa & Seidenfeld, 2017).

In this chapter, COVID-19 and its response policies are considered as a major shock to food security. The COVID-19 pandemic led to a wider set of events, which ranged from a rapid rise in the share of the population infected by a widespread sickness with a positive and non-trivial probability of death (especially for the elderly and those with co-morbidities) to public health policies designed to contain the pandemic (see Arndt et al., 2020). South Africa, like many other countries, used cash transfers as a means of providing financial support to poorer and vulnerable households in response to the pandemic. However, the lack of a detailed, verifiable and legally enforceable database that forms part of the country's tax and welfare systems makes targeting very difficult.

Nonetheless, these public health policies, which were deployed in response to the pandemic, have far-reaching consequences of constraining economic activities and attendant income flow. These policy shocks are expected to be large enough to drive many households into food insecurity, especially in the absence of countervailing policies such as social protection. Inter alia, the COVID-19 lockdown measures can spur food insecurity owing to the associated shock to households' income rather than through a supply shock such as would occur in the case of a drought (food price hike). However, there is good reason to believe that the COVID-19 lockdown is likely to amplify existing food securities at the household level induced by variabilities in climate, which vary widely across provinces, and by rural-urban divides.[1] This chapter sets out to evaluate the effect of the COVID-19 lockdown policy on household food security.

Although food security incidents existed in pre-lockdown South Africa, extant literature of social protection confirm that the Child Support Grant (CSG) and Older Persons' Grant (OPG) have been important elements

[1] Although South Africa produces an adequate supply of food and is considered food secure at the national level, this outcome has not translated into food security at the household level (Hendriks, 2014; Hendriks, 2005; Altman, Hart & jacobs, 2009). Recent statistics suggest that only 45.7% of South Africans are food secure; 26% are food insecure and 28.3% are at a risk of hunger (Hendriks, 2014).

to bolster household income and mitigate the risk of falling into a poverty trap. However, food security incidents were still pervasive in some contexts, suggesting that these grants were not adequate for some to mitigate food shortages.

Using recent survey data of 2018, Wills, Kika-Mistry and Kotze (2020) confirmed that about 21% of all households had run out of money for food purchases in the preceding 12 months, 14% had skipped any meal in the preceding 12 months due to inadequacy of money to purchase food, and the rate of either an adult or a child going hungry in the preceding 12 months stood at 14%. Moreover, this chapter added that, in terms of an indicator of depth of food poverty, 5% of households had skipped any meals for five days in the preceding 30 days.

7.2 Problem statement

The Living Conditions Survey (LCS) is part of Statistics South Africa (Stats SA)'s household survey programme and affords certain facts on a household's living conditions, in addition to their income and expenditure styles. The survey, which was done in 2014 and 2015, suggests both the poverty headcounts and the percentage of poverty for every province in 2015. The provinces with the highest headcount of individual poverty are Limpopo (67.5%), the Eastern Cape (67.3%), KwaZulu-Natal (60.7%) and North West (59.6%). More than half of the population in these four provinces was residing in poverty. Gauteng and the Western Cape had the bottom share of adults residing in poverty at 29.3% and 33.2%, respectively. From the poverty statistics, one can deduce that black Africans and coloured people had the highest poverty rate in comparison to other population groups. Of those less privileged races, the female-headed families accounted for about 52.5%. The Western Cape reported the highest percentage of female-headed households suffering from hunger at about 17.4%, followed by KwaZulu-Natal with about 15.6%, with the lowest being Limpopo with about 3.8% (Stats SA, 2018b). An indistinguishable pattern is observed when looking at child hunger. This enables one to analyse the variances across province, gender and race.

There are various ways in which the COVID-19 pandemic may result in increased food insecurity in low- and middle-income countries. Restrictions on movement may have had the largest early negative impact on food security (Béné, 2020; Resnick, 2020). Devereux, Béné and Hoddinott (2020) argue that disruptions to food systems from the pandemic, both related to the food production side (i.e. production and processing) and to the demand side (i.e. economic and physical access to food), could adversely affect food security. Informal markets may be disrupted to a greater extent than formal markets. Of particular concern on the demand side is the way value chains function within countries (Reardon, Bellemare & Zilberman, 2020). If value chains are disrupted, prices for disrupted chains are likely to adjust upwards. However, if value chains quickly find ways to be resilient to the pandemic, then the shock of movement restrictions, which weigh most heavily early in the pandemic, may not have longer-term effects on prices (Reardon & Swinnen, 2020).

As the COVID-19 pandemic progresses, there is a need to contain the virus and avoid a food security crisis, as this will hurt the most vulnerable in society: the poor. Larborde et al. (2020) argue that, although no major food shortages have emerged yet, agricultural and food markets are facing disruptions because of labour shortages created by restrictions on the movement of people and shifts in food demand resulting from the closure of restaurants and schools, as well as from income losses. Export restrictions imposed by some countries have disrupted trade flows for staple foods such as wheat and rice. The pandemic is impacting on all four pillars of food security: availability (whether the supply of food is adequate), access (whether people can obtain the food they need), utilisation (whether people have enough intake of nutrients) and stability (whether people can always access food). COVID-19 is most directly and severely impacting on access to food, even though impacts are also felt through disruptions in availability, shifts in consumer demand towards cheaper, less nutritious foods, and food price instability.

The COVID-19 pandemic is likely to result in even more food shortages in South Africa, mostly affecting low-income households. Considering that South Africa is a highly unequal society and that the poor are the majority, COVID-19 can reverse gains made by government to increase food security. The poor are usually characterised by low skills and job insecurities, and therefore business closures due to the COVID-19 restrictions, especially in the manufacturing and industry sectors, which is their biggest employer. This is likely to see their income declining significantly, which, in turn, will worsen their food security. As a result, it is plausible that their poverty may worsen significantly, and, by default, also their food security.

Labour with low education levels (mainly made up of poorer and more vulnerable households) is much more strongly affected than labour with secondary or tertiary levels of education. It is therefore not surprising that households with low levels of educational attainment and high dependence on labour income would experience an enormous, real income shock that would clearly jeopardise the food security of their households. In South Africa, the total incomes for low-income households are significantly insulated by government transfer payments (Arndt et al., 2020). However, this chapter is not at the household level, so it remains unclear how the poor are affected by COVID-19 in South Africa.

According to Pereira and Oliveira (2020), the COVID-19 pandemic may result in drastic increases in poverty and food insecurity levels, resulting from the absence of or weak political, economic and social interventions to maintain jobs, as well as compromised food production and distribution chains and constrained access to healthy foods in different regions around the world, particularly in poorer regions, where social and economic inequality was already historically high. The pandemic heightened and uncovered the vulnerability of poor populations. COVID-19-related shocks to employment, working hours, earnings and food security among low-wage and vulnerable workers worsened the already high levels of poverty and inequality in South Africa. For this reason, an estimation of the magnitude of welfare loss for the poor and vulnerable is critical, something this chapter attempts to do, although it only focuses on the extent of food insecurity of this group.

7.3 Research methodology and data

Data from the last wave of the National Income Dynamics Study (NIDS) and the first wave of the NIDS-Coronavirus Rapid Mobile (CRAM) Survey will be used. This is a nationally representative survey that targeted 10 000 South Africans. Its sampling design followed a two-stage stratified cluster sampling. The first wave of this data was collected between 7 May and 27 June 2020 (during the third and fourth stages of the nationwide lockdown) and the second wave between 13 July and 13 August 2020 (during the advanced third stage of the lockdown). The third wave of NIDS-CRAM is currently being completed. The survey covers income and employment, household welfare (various expenditures), grant receipt, and knowledge and behaviour related to COVID-19.

In terms of food security/insecurity, the survey included the following questions that capture information on the qualitative and quantitative measures of food insecurity:

- In the month of June, did your household run out of money to buy food?
- In the last seven days, has anyone in your household gone hungry because there wasn't enough food?
- How often did they go hungry? (Options: Never; 1 or 2 days; 3 or 4 days; almost every day; every day)
- In the past seven days, has any child in your household gone hungry because there wasn't enough food?
- How often did they go hungry? (Options: Never; 1 or 2 days; 3 or 4 days; almost every day; every day)

Responses to these questions will be used to develop a measure of household insecurity, which includes information on whether a household faced hunger, the frequency of hunger, and the duration of the hunger. Other variables were also prepared that are expected to be correlates of food security/insecurity apart from the COVID-19 policy shock.

7.4 Analysis and findings

Descriptive statistics

The descriptive statistics of the study sample follows. As alluded to above, this research is aimed at investigating the effects of employment status on households and individual food security outcomes during COVID-19. Moreover, the researchers sought to ascertain whether that relationship interacted with alternative social protection grants, such as the CSG, OPG and COVID-19 Grant. Table 7.1 presents descriptive statistics of variables within the sample. The sample comprises all the adults who were employed in the month before the COVID-19 lockdown came into effect. Following Casale and Posel (2021), the study distinguishes between those employed in February 2020 and April 2020, adults who were working and earning a non-zero income, adults who were not working, but were still earning an income (and therefore most likely on paid leave), and adults who were neither working nor earning an income, but who stated that they had a job to return to (they were referred to in the research as furloughed[2]).

Table 7.1: Descriptive statistics of the analysis sample

Variables	Description of variables	Mean	Standard deviation
Food insecurity			
child_hunger	Child gone hungry in the last seven days	0.151	0.005
Hunger frequency	Frequency of hunger incidence to the household	2.921	0.026
Anyone hunger	Anyone; adult or child gone hungry in the last seven days	0.469	0.006
food_money	Household ran out of money to buy food in April	0.470	0.006
Employment			
workingW1	An individual was working	0.277	0.005
paidleaveW1	An individual was on paid leave	0.092	0.003
furloughW1	An individual was furloughed	0.071	0.003
unemployed	An individual lost job due to lockdown	0.253	0.006
employed	A combination of those working and on paid leave	0.272	0.005
Social grants			
grant	Receipt of any grant (yes = 1; no = 0)	0.179	0.005
hh_csg	Living with household receiving CSG (yes = 1; no = 0)	0.519	0.006
hh_opg	Living with household receiving CSG (yes = 1; no = 0)	0.320	0.006
csg	Receipt of CSG (yes = 1; no = 0)	0.058	0.003
opg	Receipt of OPG (yes = 1; no = 0)	0.086	0.003
c19_grant	Receipt of COVID-19 Grant (yes = 1, no = 0)	0.006	0.079
csg_unemp	Lost job and received CSG (yes = 1; no = 0)	0.036	0.002
opg_unemp	Lost job and received OPG (yes = 1, no = 0)	0.079	0.003
c19_grant_unemp	Lost job and received COVID-19 Grant (yes = 1; no = 0)	0.004	0.001
Other covariates			
w1_female	Gender (female = 1; male = 0)	0.530	0.006
urban1	Rural	0.141	0.004
urban2	Urban	0.824	0.005
urban3	Farm	0.036	0.002
race1	African	0.784	0.005
race2	Coloured	0.096	0.004
race3	Asian	0.024	0.002
race4	White	0.096	0.003
Observations (n)		7 073	7 073

[2] A furlough is a temporary leave of absence of employees due to special needs of a company or employer, which may be due to economic conditions of a specific employer or in society as a whole.

The descriptive analysis of the data suggests that a quarter (25%) of adults reported that their household had lost a job since lockdown came into effect in South Africa on 27 March 2020. Moreover, it can be seen that 47% reported that their household ran out of money to buy food; 47% reported that someone in the household had gone hungry in the preceding seven days; and 15% reported that a child had gone hungry in the preceding seven days. Households had encountered these incidents at least twice before the date of the survey. However, these incidents are context-specific.

The additional descriptive statistics show that the prevalence of child hunger is 17.9 percentage points in rural areas compared to 14.3 percentage points in urban settings; the average frequency of encountering hunger is 2.85 in a rural area compared to 2.941 in an urban area; and the prevalence of adult hunger is 51.6 percentage points in rural areas compared to 45.9 percentage points in urban areas.

In addition to the urban-rural divide, the researchers also estimated the distribution of these incidents across different grant receipts. They found that child hunger is 14.2 percentage points in rural areas among those receiving a CSG, compared to 26.4 percentage points in urban areas; the frequency of hunger is 2.92 among rural CSG recipients, compared to 2.86 in urban areas; and adult hunger is 46.2 among rural CSG recipients compared to 59.6 percentage points in their urban counterparts. Child hunger is 14.8 percentage points among OPG recipients compared to 17.5 among non-recipients of OPG; the frequency of hunger is 2.91 among recipients of the OPG compared to 2.95 among non-recipients; and adult hunger is 46.8 percentage points among recipients the OPG compared to 49.1 among non-recipients.

Estimation

Following a description of the nature of the sample data, the results of the analysis are presented. Models were employed to estimate the effect of COVID-19-induced job loss, furlough, the receipt of various social grants on households, and individual food insecurity measures taken during COVID-19. As expected, job loss is a significant cause of food insecurity, regardless of food security measures considered. In the baseline models, it was found that incidents of child hunger were 5.63 percentage points higher in households that had lost a job (a main source of household income) relative to households that had not lost a job. Households that had experienced job losses were also 12.7 percentage points more likely to have run out of money to buy food in April 2020 following the COVID-19 lockdown. Likewise, households that faced furlough were 12 percentage point more likely to run out of money to buy food in April 2020 than those that did not face furlough.

It is worth noting that, in addition to the CSG, these households are also largely reliant on labour income (wage or salary). The descriptive analysis of the NIDS data suggests that, in 2018, about 57 grant-receiving households had at least one employed household member. Arndt et al. (2020) observed that employed persons of grant-receiving households work in low- to medium-skilled jobs or occupations/industries, which are low-paying and more susceptible to experiencing the hardest brunt of the lockdown.

It follows that the chance of job losses for these households during lockdown appears to loom larger than in households not working in such occupations/industries. Notwithstanding, it was found that the receipt of a CSG by a household that had lost a job during lockdown reduces the incidence of child hunger by 7.59 percentage points.

Unlike the receipt of a CSG, the estimates show that the OPG and COVID-19 Grant protected households from the shock of food insecurity. Specifically, it was found that the receipt of an OPG reduces the incidence of child hunger by 8.16 percentage points and the recurrence of household hunger by 47.6 percentage points. However, household hunger is 77.6 percentage points more likely to recur among households that received an OPG and had lost a job. It was also found that the COVID-19 Grant reduces child hunger and the recurrence of household hunger by 10.3 and 87.2 percentage points, respectively.

Upon running additional models, it was also found that job loss caused an increase in child hunger by 28.9 percentage points, the likelihood of running out of money for food purchases by 28.4 percentage points and the recurrence of household hunger by 7.8 percentage points. Likewise, job furlough caused an increase in the likelihood of running out of money for food purchases by 31.4 percentage points and the recurrence of household hunger by 10.1 percentage points.

In terms of social grant policies, the effect of the receipt of a CSG is not statistically significant when conditioned on job loss, suggesting that this instrument does not bode well to protect households against the food insecurity shock. However, the results show that the OPG reduced the likelihood of running out of money for food purchases by 59.6 percentage points among households that experienced job losses. An individual living in an OPG-receiving household is 17.3 percentage points less likely to experience a shortage of money for food purchases. The COVID-19 Grant reduces child hunger by 12.3 percentage points. Finally, it was found that a combination of a CSG and an OPG reduces the incidence of child hunger by 77.8 percentage points, suggesting that increasing the social grant affords the highest protection against the food insecurity shock.

7.5 Conclusion

The COVID-19 crisis has resulted in lower incomes and higher prices for some foods, putting food beyond the reach of the poor and most vulnerable. This unfortunately undermines the right to food and jeopardises efforts to meet SDG 2: Zero hunger. The situation is fluid and dynamic, and is characterised by a high degree of uncertainty. A significant number of South Africans were already suffering from hunger before the virus hit, and, unless immediate action is taken, we could see a countrywide food emergency with impacts expected to continue through 2021 and into 2022. In the longer-term, the combined effects of COVID-19 itself, as well as corresponding mitigation measures and the emerging global recession, could, without large-scale coordinated action, disrupt the functioning of food systems. Such disruption can result in consequences for health and nutrition of a severity and scale never before seen in this country, which can reverse years of developmental gains.

Many observers confirmed that the South African COVID-19 lockdown measures have resulted in large economic costs with negative implications for the factor distribution of income (Arndt et al., 2020). Inter alia, the lockdown was expected to present an enormous, real income shock, with the consequent effects of undermining food security among households with low levels of educational attainment and a high dependence on labour income, as it caused massive job losses. Being an exogenous force, this shock serves as a natural experiment to evaluate the effects of job loss on individual and household food insecurity.

The consequent exogenous variation of individual employment regimes took a unique form, characterised by outright layoffs, retaining jobs to return to, but for the duration of the lockdown not working or earning an income (furloughed), or retaining jobs with pay throughout the lockdown period. Thus, poverty and food insecurity may increase as the threat of COVID-19 spreads. The emergence of COVID-19 in highly unequal countries such as South Africa and Brazil (see Ribeiro-Silva, Pereira, Campello, Aragão, Guimarães, Ferreira, Barreto & Dos Santos, 2020) further explained the massive discrepancy between different social realities that co-exist in the country, rekindling discussions about food and nutrition security.

Using this unique natural experiment, the researchers showed that households of adults who had been employed prior to the lockdown and those who had lost their jobs during lockdown or whose jobs were furloughed were more vulnerable to food insecurity both at household and child levels. It was also found that, while the OPG and COVID-19 Grant proved more effective in protecting households from the food insecurity shock, a combination of the CSG and the OPG affords the highest protection against this shock.

Social grant targeting: Although South Africa provides a plethora of social assistance to protect the poor from downside welfare shocks, the findings underscore the need to carefully target those who are hit the hardest through job loss due to the covariate shock of the COVID-19 lockdown. As argued earlier, cash transfer programmes, such as the one rolled out by the South African government in response to the COVID-19 pandemic, provide important financial support to the poor and the vulnerable. Although any government response to crises will be imperfectly targeted, with vital inclusion and exclusion errors, in economic and public health crises, the benefits from improving targeting can be enormous. During pandemics such as COVID-19, the government relies on expanding social assistance initiatives, even if their targeting is not perfect.

Social grant expansion: Although social packages in South Africa target poor households, they are not necessarily designed to mitigate job loss or income shocks. They can be made more generous in this time of crisis, and be extended to new beneficiaries, which requires both information on potential beneficiaries and the payment infrastructure to reach them. The study's findings show that combining the CSG and OPG provides the highest form of protection against the food insecurity shock relative to their separate effects; particularly to mitigate child hunger. This highlights the need to expand the existing social grant assistance.

Efficiency social grant administration: While transfer policies such as social protection grants accrue significant opportunity costs in terms of forgoing other public services, such costs loom even greater when the inefficiencies are associated with the rollout of such programmes. An elite capture and the recent slow rollout of the COVID-19 Social Relief of Distress (SRD) Grant, largely due to limited administrative capacity and an inability to determine eligibility, are cases in point. Overcoming these hurdles and thereby attaining the roll-out efficiencies provide an important avenue to expand the social grant and target resources to vulnerable groups. However, the potential for mistargeting programme funds is high and there were many claims of those who were left out. A poorly administered transfer programme has the potential to adversely impact on the intended target group in a way that extends far beyond purely the financial costs.

7.6 Recommendations

With respect to food security during the COVID-19 pandemic, the Commission makes the following recommendations:

1. *The Minister of Finance, in the Division of Revenue, should incentivise the Department of Social Development (DSD) to engage and involve local governments and non-profit organisations to collect more detailed tracking information on vulnerable individuals and households to improve targeted delivery and food assistance during pandemic times such as COVID-19. This will create a more comprehensive, updated government registry, as this can be used for future social assistance programmes.*

2. *The Minister of Finance, in the Division of Revenue, should continue supporting the Department of Basic Education (DBE) in school-feeding programmes during COVID-19.*

CHAPTER 8:
Water and Sanitation Access, Distribution Efficiencies and Tariff Setting in South Africa

8.1 Introduction

Prior to COVID-19, the global water sector was impacted by five major trends: climate change, which has led to an increase in extreme floods and droughts, challenging the resilience of water and sanitation systems; an increasing proportion of people living in areas facing water stress, which increases supply vulnerabilities; rapid urbanisation, which strains existing water resources and ecosystems; the emergence of megacities, which adds the challenge of extending water and sanitation services to about 1 billion people living in informal settlements not served by water networks; and aging infrastructure, which has increased pressure to accelerate investments in more advanced markets, following decades of underinvestment (Butler, Pilotto & Mutambatsere, 2021). These trends have also emerged in South Africa, with water droughts more pronounced in large cities such as Cape Town, which came close to Day zero during 2018. Dikgang, Mahabir & Murwirapachena (2017) state that South Africa is a water-scarce country, and sustainable solutions should be developed to sustain both its limited water resources, and its industries that are water-intensive.

The ongoing COVID-19 pandemic brings forth the urgency of ensuring improved access to safe drinking water and improved sanitation as it is critical for effective COVID-19 preventive measures such as hand washing, sanitation and overall public health. Washing hands with soap and water is one of the most effective measures against COVID-19, yet a significant proportion of the population does not have access to clean and safe drinking water. The public health crisis has also brought to light the urgency of recognising the need for efficiency within the water and sanitation sector, more investments to maintain and expand water and sanitation infrastructure, and fiscal instruments to deal with shocks in the sector.

The pandemic has impacted several sectors of the economy. In the water sector, it led to a change in demand for water: the demand for residential water increased, while the demand for non-residential demand decreased. The net effect of the COVID-19 pandemic on total water demand varies from community to community. Certainly, the poor in society suffer the most. Providing water and sanitation services in the context of water scarcity, climate change, high poverty and high inequality, as is the case in South Africa, is a difficult balancing task, which is compounded by the COVID-19 pandemic for the water service authorities (WSAs) and water service providers (WSPs). Nonetheless, well-designed policy instruments, such as water tariff structures that incorporate the principles of fairness, equity, affordability, cost recovery, efficiency, sustainability and political feasibility, could go a long way towards providing good-quality water services in acceptable quantities, and equitably for all South Africans.

This chapter is structured in a way that the next sections look at the problem statement, followed by the research objectives and the literature review, the methodology, findings and concluding remarks, and finally the policy recommendations.

8.2 Problem statement

Water and sanitation distribution has several challenges, including the 'coverage' of water and sanitation provision, the unreliability of water services, poor maintenance, and water loss and leakages, leading to non-revenue water (DWS, 2011). To improve water supply and serve more consumers (in particular from low-income areas, which often remain unserved), the capacities of water supply systems must be increased. The necessary increase can be achieved through water loss reduction and investment in new infrastructure and technology, which will increase water supply. The growing water demand must also be reduced by using technology, pricing and behavioural approaches.

Economic value is not measured by market price. Now that we are aware of the economic concept of value, the question arises whether it is appropriate to apply this concept to water. Is water an economic commodity, and can it be analysed using the conceptual framework of economics in the same way as any other? The answer is contested ground between economists and their critics (Hanemann, 2006).

One of the four Dublin Principles, adopted at the 1992 International Conference on Water and the Environment in Dublin, holds that "water has an economic value in all its competing uses and should be recognised as an economic good". Similarly, Baumann & Boland (1998) write: "Water is no different from any other economic good. It is no more a necessity than food, clothing or housing, all of which obey the normal laws of economics".

In contrast, Barlow & Clarke (2002) proclaim it as a "universal and indivisible" truth that "the earth's freshwater belongs to the earth and all species, and therefore must not be treated as a private commodity to be bought, sold and traded for profit... the global freshwater supply is a shared legacy, a public trust, and a fundamental human right, and therefore, a collective responsibility". Shiva (2002) writes in a similar vein about a clash between two cultures: "a culture that sees water as sacred and treats its provision as a duty for the preservation of life and another that sees water as a commodity, and its ownership and trade as fundamental corporate rights. The culture of commodification is at war with diverse cultures of sharing, or receiving, and giving water as a free gift".

The view of Hanemann (2006) lies somewhere between these two positions. Baumann & Boland (1998) are undoubtedly correct when they point out that food, clothing and shelter, like water, are necessities of life, and they are typically provided through the market without any complaint. Why, they ask, should water be different. There are two reasons why this is so. First, water is clearly viewed by many people as being different. The fact that water, unlike other household commodities, arouses such passion speaks for itself: for better or worse, water is perceived as having a special significance that most other commodities do not possess. This itself has economic consequences. Second, water has some other economic features that make it distinctive. These features make water different from, say, bread or land, as an economic commodity, yet they are often overlooked by economists.

They matter greatly because they affect the demand for water, its value, and the social and institutional arrangements by which it is supplied. To explain them, one needs to understand several more items from the economists' conceptual toolkit: water as a private good, water as a public good; the mobility of water; the variability of water; the cost of water; the price of water; the essentialness of water; the heterogeneity of water; the fallacy of using average value; and the benefits of water.

In short, while there clearly are some distinctive emotive and symbolic features of water that make the demand for water different, there are also some distinctive physical and economic features that make the supply of water different and more complex than that of most other goods. This fact has often been overlooked by economists and non-economists alike (Hanemann, 2006).

In governing water demand, like any economic commodity, three approaches are mainly used: the commanding approach (regulation), the market-based approach (price and incentives) and the mixed approach, where both regulation and incentives are applied. In most cases, the commanding approach has been challenged for not being economically efficient. In theory, a price should be designed to reflect the scarcity, and to nudge consumers into a rational behaviour change (that may lead to a reduction in demand and improvements in environmental quality) in a more efficient way compared to the commanding approach.

Moreover, the pricing approach has several additional or ancillary benefits, such as creating a permanent incentive for technological innovation, stimulating the efficient allocation of water resources, raising revenues to maintain and upgrade the provision of water services, and promoting water use efficiency. Due to these benefits, the pricing approach has been widely accepted and adopted by water authorities as the pricing policy tool to govern water demand (Delacámara, Dworak, Gómez, Lago, Maziotis, Rouillard & Strosser, 2013).

The pricing tool has been viewed as a conservation tool in improving the conservation effort, not only as a cost-recovering instrument (Maggioni, 2015). During the last few decades, numerous international organisations have emphasised the role of the pricing policy as a tool to achieve the objectives of efficiency, environmental sustainability and cost-recovery in the management of water resources (Lopez-Nicolas, Pulido-Velazquez, Rougé, Harou & Escriva-Bou, 2017; Rogers, De Silva & Bhatia, 2002).

In addition, there is currently a debate on how to fund the water sector. Investments in water and sanitation are often 'lumpy' and require high capital investments. Many countries seek out the private sector to modernise and expand their water and sanitation infrastructure and/or to improve the efficiency of the water system.

8.3 Research questions/objectives

The main objective of this chapter is to conduct a comprehensive and systematic investigation on the impact of COVID-19 on access to water and sanitation. Based on the findings, fiscal policy measures will be recommended that will ensure a faster and more sustainable recovery of the economy following the outbreak of COVID-19. Many people still do not have access to reliable water and sanitation services, which has widened with the outbreak of the pandemic.

The specific objectives of the research are as follows:

- Scrutinise the water and sanitation access (quality, quantity, reliability) challenges in South Africa
- Evaluate water and sanitation distribution inefficiencies and investigate alternative technologies that municipalities can leverage upon to improve water and sanitation provision efficiencies
- Investigate the cost reflectiveness of the water pricing models in municipalities
- Investigate how the private sector can be incentivised to play a part in the water and sanitation provision value chain
- Assess Intergovernmental Fiscal Relations (IGFR) instruments that can be adapted to address challenges (e.g. maintenance) in the water and sanitation provision value chain.

This chapter has five objectives that deal with heterogeneous issues based on the type of problems or questions asked, as well as the methodologies used to approach them. The objectives can be treated as independent sections; hence we will present each as a separate section.

8.4 Findings

Access to water and sanitation

a) Access to water

Table 8.1 illustrates access to tap or piped water during the ongoing COVID-19 pandemic.

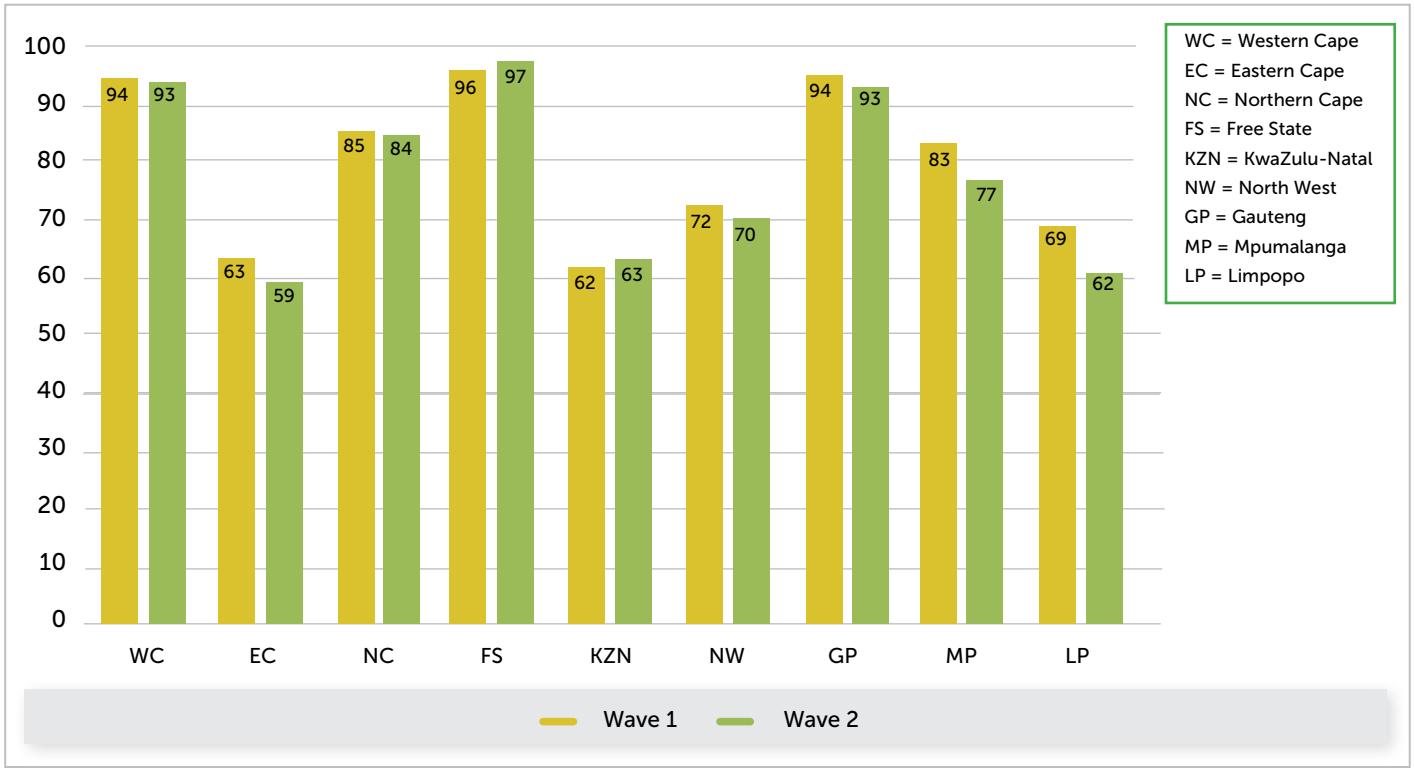
Table 8.1: Access to tap/piped water during the COVID-19 period

Piped or tap water inside dwelling/house/ in yard	Wave 1 (from May to June)	Wave 2 (from July to August)	Mean	Standard deviation
	Frequency	Percentage	Frequency	Percentage
Refused	5	0.079	1	0.02
Yes	4.311	75.95	4.218	74.31
No	1.36	23.96	1.457	25.67
Total	**5.676**	**100.00**	**5.676**	**100.00**

Source: Commission's calculations from NIDS-CRAM 2020 dataset

Data collected in the first two waves of the National Income Dynamics Study (NIDS)-Coronavirus Rapid Mobile (CRAM) study[1] during COVID-19 shows that access to tap or piped water in a yard has been declining. At the national level, total access declined from 76% in the first wave to 74% in the second wave, as indicated in Table 8.1. Furthermore, the researchers analysed access to tap or piped water during COVID-19 according to provinces. The findings are illustrated in Figure 8.1.

Figure 8.1: Access to tap/piped water during the COVID-19 period by provinces



Source: Commission's calculations from NIDS-CRAM 2020 dataset

[1] The researchers used the NIDS-CRAM 2020 dataset since it tracks the same person over time, thus providing more robust differences.

Figure 8.1 shows that the most significant decline in access to tap/piped water during COVID-19 was experienced in Limpopo by 7%, Mpumalanga by 6% and the Eastern Cape by 4%. These are the country's more rural provinces, suggesting that access is disproportionally impacted in rural areas. However, some provinces experienced an increase, including the Free State and KwaZulu-Natal, by 1%. The reasons for some households not accessing in-yard water over the same year could be attributed, among others, to a change in employment status, as illustrated in Table 8.2, and a change in household income, as depicted in Table 8.3.

Table 8.2: Change in employment status during COVID-19

Employment status	2020	
	Quarter 2	Quarter 3
Employed	33.7	34.83
Unemployed	10.13	15.3
Discouraged job seeker	5.83	6.32
Other not economically active	50.34	43.55
Total (%)	**100**	**100**
Total population	**42 543 486**	**42 723 796**

Source: Commission's calculations from NIDS-CRAM 2020 dataset

Table 8.2 shows that the number of unemployed populations increase by 5% in 2020, which would subsequently affect the household income as shown in Table 8.3:

Table 8.3: Change in income status during COVID-19

Variable	Observed	Mean	Standard deviation	Minimum	Maximum
Total household income in June (Wave 2)	5.671	3190.968	8323.728	-9	230 000
Total household income in April (Wave 1)	5.670	3262.37	9781.169	-9	400 000

Source: Commission's calculations from NIDS-CRAM 2020 dataset

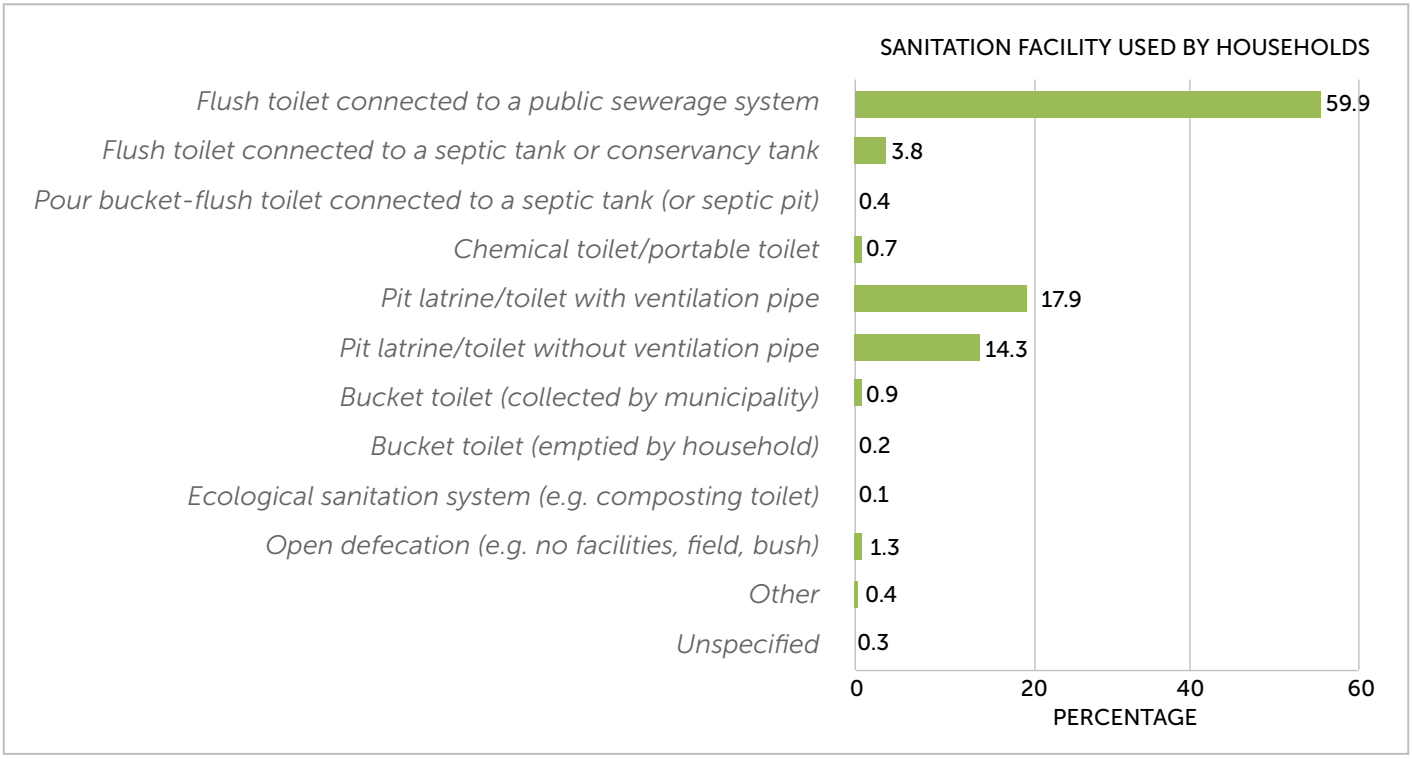
As shown in Table 8.3, the average household income decreased from R3 262,70 to R3 190,90 per month. The decrease in income would affect the household affordability, which impacts negatively on water affordability.

b) Access to sanitation

The analysis starts by assessing the main types of sanitation facilities used by households, and then determining whether the source or facility had improved. The results are presented in Figure 8.2.

The results in Figure 8.2 show that, in South Africa, 60% of households use flush toilets connected to a public sewage system. Moreover, other common toilet facilities include a pit latrine with a ventilation pipe, which is used by 18% of households, and a pit latrine/toilet without a ventilation pipe, which is used by 14% of households. However, some households do not have proper toilets, so bucket toilets and open defecation are used by 1% of households, respectively. The picture that emerges here is one of a significant number of South African households being without access to hygenic sanitation. This analysis is further broken down by province and the results are provided in Table 8.4.

Figure 8.2: Main source of sanitation facility used by households



Source: Commission's calculations from NIDS-CRAM 2020 dataset

Table 8.4: Type of toilet facility by province

Type of toilet facility	Western Cape	Eastern Cape	Northern Cape	Free State	KwaZulu-Natal	North West	Gauteng	Mpumalanga	Limpopo	South Africa
Flush toilet connected to a public sewage system	92.2	42.3	60.3	70.2	44.7	39.6	84.8	37.2	18.5	**60.0**
Flush toilet connected to a septic tank or conservancy tank	2.1	2.7	10.3	2.8	5.3	9.6	1.2	5.4	5.8	**3.8**
Pour bucket flush toilet	0.1	0.5	0.3	1.7	0.4	0.0	0.3	0.1	0.5	**0.4**
Chemical toilet/portable toilet	1.6	0.2	0.0	0.1	0.4	0.1	1.2	0.1	0.1	**0.7**
Pit latrine/toilet with ventilation pipe	0.1	41.9	12.3	7.4	30.5	19.5	3.7	21.0	38.5	**17.9**
Improved	**96.1**	**87.7**	**83.2**	**82.3**	**81.4**	**68.9**	**91.1**	**63.9**	**63.4**	**82.7**
Pit latrine/toilet without ventilation pipe	0.3	6.9	7.8	13.6	16.2	28.6	6.5	33.9	34.4	**14.3**
Bucket toilet (by municipality)	2.1	0.5	0.9	1.3	0.1	0.0	1.6	0.1	0.1	**0.9**
Bucket toilet (by household)	0.7	0.0	0.2	1.0	0.1	0.0	0.2	0.0	0.0	**0.2**
Ecological sanitation system	0.1	0.0	0.0	0.0	0.0	0.1	0.2	0.0	0.0	**0.1**
Open defecation	0.4	4.1	4.9	1.0	1.3	2.2	0.1	1.8	1.7	**1.3**
Other	0.3	0.6	1.9	0.7	0.9	0.2	0.2	0.3	0.4	**0.4**
Unspecified	0.0	0.0	0.2	0.1	0.0	0.0	0.1	0.0	0.0	**0.0**
Unimproved	**3.9**	**12.1**	**15.9**	**17.6**	**18.6**	**31.1**	**8.9**	**36.0**	**36.6**	**17.3**
Total (%)	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Total households (000)	**1 933**	**1 703**	**350**	**922**	**2 985**	**1 248**	**5 072**	**1332**	**1 620**	**17 163**

Source: Commission's calculations from NIDS-CRAM 2020 dataset

The most common toilet facility in the provinces of the Western Cape and Gauteng is a flush toilet connected to a public sewage system, which is used by 92.2% and 84.8% of households, respectively. The results indicated that, countrywide, 82.7% of households have access to improved toilet facilities, while 17.3% (South African average) are without improved toilet facilities. The Western Cape has 96.1% of households with improved toilet facilities, followed by Gauteng with 91%. Other provinces with percentages above the national average include the Eastern Cape and the Northern Cape. The remaining provinces are below the national average, with the highest percentage of unimproved toilet facilities being Limpopo (36.6%), Mpumalanga (36%) and North West (31.1%). It would be interesting to assess the impact of the pandemic on the gains achieved by government on improving sanitation.

Table 8.5: Type of toilet facility by metro

Type of toilet facility	Metro	Non-Metro	Total
Flush toilet connected to a public sewage system	84.1	40.2	60.0
Flush toilet connected to a septic tank	1.4	5.8	3.8
Pour bucket flush toilet	0.2	0.5	0.4
Chemical toilet/portable toilet	1.2	0.3	0.7
Pit latrine/toilet with ventilation pipe	4.2	29.1	17.9
Improved	**91.1**	**75.8**	**82.7**
Pit latrine/toilet without ventilation pip	6.0	21.1	14.3
Bucket toilet (by municipality)	1.7	0.2	0.9
Bucket toilet (by household)	0.2	0.2	0.2
Ecological sanitation system	0.1	0.0	0.1
Open defecation	0.4	2.1	1.3
Other	0.4	0.5	0.4
Unspecified	0.1	0.0	0.0
Unimproved	**8.9**	**24.2**	**17.3**
Total	**100**	**100**	**100**
Total households (000)	**7 725**	**9 438**	**17 163**

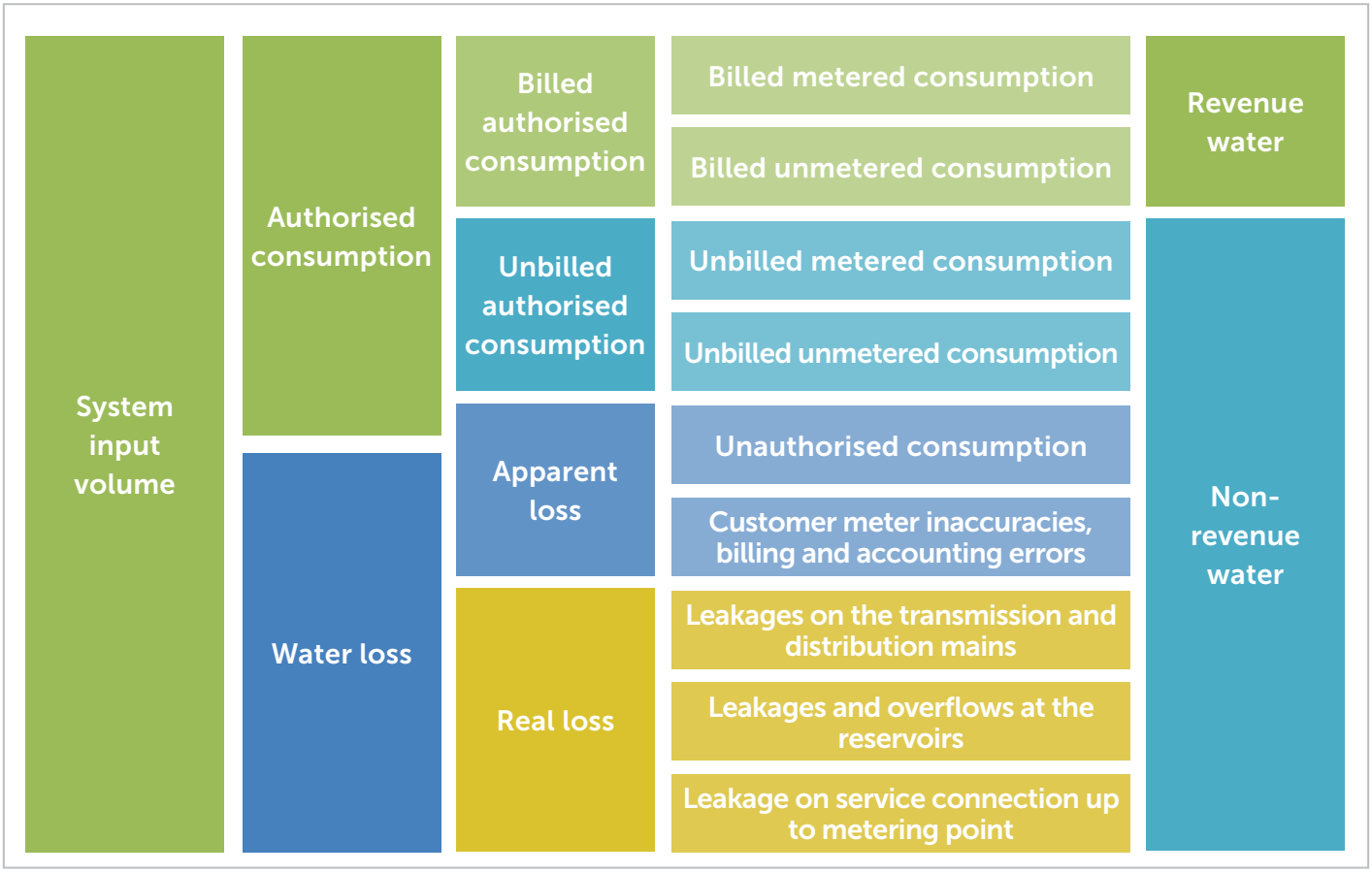
Source: Commission's calculations from NIDS-CRAM 2020 dataset

The picture that emerges is that of bigger municipalities doing relatively better than smaller municipalities. Metros are characterised by improved access to sanitation. A big component of the non-metros are rural municipalities. Backlogs reflected in Table 8.5 for non-metros signal sanitation backlogs in rural municipalities, which are expected to be higher than the figure shown for that category. Unfortunately, the data did not allow for further disaggregation. A further limitation is the unavailability of data for access to sanitation during the ongoing COVID-19 pandemic.

Water and sanitation efficiency analysis

The WSAs have a mandate to provide water at affordable tariffs. However, evidence reveals that some of them can barely cover their operational costs through their revenue, due to low tariffs, among other reasons, such as non-revenue water. Corruption, slackness and ineptitude have been evident in South African municipalities, with some even failing to efficiently provide basic services (Van der Westhuizen & Dollery, 2009). The diagram in Figure 8.3 highlights the distribution aspects and sources of inefficiencies in the provision of water services.

Figure 8.3: Depiction of a system input volume



Source: Lambert and Hirner (2000)

Water distribution starts with accumulating water in the reservoirs and, in some cases, this is typically undertaken by water boards such as Rand Water in South Africa. Some municipalities purchase their water in bulk and fill their reservoirs. The amount of input volume determines how much water should be distributed to customers or consumers. However, not all water from the input (reservoirs) reaches the customers or consumers. Some water gets lost in the process. Water loss can be divided into two aspects: apparent loss and real loss.

Apparent loss is attributed to unauthorised consumption (such as illegal connections), customers' meter inaccuracies, billing and accounting errors. Real loss relates to the aging of infrastructure and maintenance issues, which result in leakages on the transmission and distribution mains, leakages and overflow at the reservoirs, and leakages between the service connection and the metering point. These two types of water loss contribute to the non-revenue water component, as does unbilled, authorised consumption, both in terms of unbilled, metered consumption and unbilled, unmetered consumption (these are legal connections, but without meters, which are thus unbilled).

Real loss represents a complete loss of water, as it does not get to the intended consumer at all, while apparent loss and the unbilled, authorised consumption component allows water to get to the consumer, but they do not paid for it. Thus, the WSA only collects revenue for billed, authorised consumption.

As argued earlier, not all the 257 municipalities are WSAs or WSPs. Of the 152 WSAs, the efficiency of 84 WSPs was evaluated using 2018 data due to data constraints. The research sample consists of 36 urban and 44 rural WSPs. Table 8.6 provides a statistical summary of the sample data used in this chapter to compute the efficiency of WSAs in South Africa.

Table 8.6: Descriptive statistics for selected water operational variables

Variable type	Variable	Observed	Mean	Standard deviation	Minimum	Maximum
Output	Water distributed	84	2.31e+07	5.61e+07	220606	3.11e+08
Input	Labour	84	2070.833	4915.057	146	27184
	Operating costs	84	4.11e+08	1.16e+09	1322662	7.35e+09
	Network length	84	12501.19	100282.1	55.15686	920328.6
Determinants	Non-revenue water	84	1.44e+07	2.98e+07	127400	1.92e+08
	Customer density	80	91096.73	184220.6	2065	872578
	Location: urban	84	.4285714	.4978439	0	1

Source: Commission's calculations from NIDS-CRAM 2020 dataset

The statistics shows that, on average, the non-revenue water, as a percentage of system input volume, amounts to 34%. While other WSAs perform significantly well with only 3%, some WSAs perform relatively poorly with non-revenue water, as a percentage of system input, amounting to 83%.

According to the biased efficiency scores, 16 urban and four rural WSAs were among the top 20 most efficient WSAs in 2018. Among the urban WSAs, the City of Johannesburg Metro, Ekurhuleni Metro, Emfuleni and Newcastle were in the top 20 most efficient WSAs in 2018. Dr JS Moroka, Kou-Kamma, Ugu and Mantsopa are the rural WSAs that were in the top 20 most efficient WSAs in 2018. Given the fact that the municipalities differ between rural and urban, an analysis was then conducted for the subsamples. Table 8.7 lists the descriptive statistics of efficiency results.

Table 8.7: Summary statistics of the bias-corrected efficiency score

Groups	Observed	Mean	Standard deviation	Minimum	Maximum
Whole sample	80	2.020858	0.8930791	1.077569	4.686464
Urban	36	1.609104	0.5739152	1.096011	3.346317
Rural	44	1.89209	0.8242816	1.216108	4.302514

Source: Commission's calculations from NIDS-CRAM 2020 dataset

The average bias-corrected efficiency score of the overall sample is 2.021. This means that an average WSA can decrease its inputs by 49% to perform as efficiently as the benchmarked WSA, while maintaining the same level of output. The urban sample performed better than its rural counterpart as its mean is 1.609, which implies that it can decrease its inputs by 39% compared to the benchmarked WSA, while maintaining the same level of output. Moreover, its standard deviation is smaller, showing that most of the WSAs in urban areas perform relatively close to the mean. The mean of 1.892 in the rural sample implies that its efficiency is 46%, thus it can decrease its inputs by 47% and still deliver the same level of output. This has implications in terms of economies of scale, whereby an urban WSA has a comparative advantage over its rural counterpart. Many smaller municipalities do not have the necessary economies of scale, skills and specialisation to efficiently and effectively provide a water services function. Empirical studies have shown that inefficiencies in water supply are, to a large extent, due to non-water revenue, water losses due to poor maintenance, inaccurate or incomplete billing and water theft, and decreased water supply due to climate change and water scarcity.

Cost recovery rate results

The results[2] show that the average cost recovery rate for WSAs is 87%, which indicates that most of the municipalities can generate sufficient revenue to cover their operating expenditure. The results show that, out of the 112 WSAs (municipalities), only 51 (46%) could cover their operating expenditure from their revenue. Table 8.8 presents descriptive statistics for the overall cost recovery rate variables.

Table 8.8: Overall cost recovery rate

Variable	Observed	Mean	Standard deviation	Minimum	Maximum
Water operating expenditure	112	3,08e+08	1.02e+09	1322662	7.35E+09
Water revenue	112	3,07e+08	8.86e+08	2027324	6.56E+09
Cost recovery rate	112	86,91852	40.7595	4.515483	192.5802

Source: Commission's calculations from NIDS-CRAM 2020 dataset

The standard deviation shows that there is huge dispersion in the WSAs, as shown by the range, whereby the poorest performing WSA can only recover 25% of its operating expenditure from the revenue it collects, while the best performaing WSA can collect revenue almost double (192%) its operating expenditure. These results were further presented in Table 8.9 based on the category of the municipality.

Table 8.9: Summary of overall cost recovery rate by category of municipality

Category	Variable	Observed	Mean	Standard deviation	Minimum	Maximum
A	Water operating expenditure	8	3.18E+09	2.45E+09	5.97E+08	7.35E+09
	Water revenue	8	2.82E+09	2.02E+09	5.11E+08	6.56E+09
	Cost recovery rate	8	108.8223	28.58679	66.50274	161.961
B1	Water operating expenditure	15	2.39E+08	1.96E+08	2.07E+07	6.91E+08
	Water revenue	15	4.07E+08	3.81E+08	7.85E+07	1.63E+09
	Cost recovery rate	15	73.11412	43.5754	4.515483	140.9717
B2	Water operating expenditure	14	8.49E+07	7.38E+07	1.20E+07	2.67E+08
	Water revenue	14	1.20E+08	9.39E+07	1.79E+07	3.22E+08
	Cost recovery rate	14	70.96575	20.99796	29.85882	104.7337
B3	Water operating expenditure	64	2.81E+07	3.73E+07	1322662	2.49E+08
	Water revenue	64	3.27E+07	3.91E+07	2027324	2.86E+08
	Cost recovery rate	64	85.49082	42.64535	5.946436	192.5802
B4	Water operating expenditure	3	1.44E+08	7.29E+07	6.27E+07	2.03E+08
	Water revenue	3	1.03E+08	4.45E+07	5.43E+07	1.42E+08
	Cost recovery rate	3	136.1183	18.08126	115.5944	149.6982
C2	Water operating expenditure	8	2.54E+08	1.63E+08	5.37E+07	5.15E+08
	Water revenue	8	2.09E+08	9.09E+07	8.00E+07	3.16E+08
	Cost recovery rate	8	111.787	34.94081	52.69112	165.9337

Source: Commission's calculations from NIDS-CRAM 2020 dataset

[2] The results should be interpreted with caution as the sample was based on the availability of data and is not based on the sampling procedure, thus, the results may differ if the full population of WSAs was obtained or a systematic sampling procedure considered.

The results show that the large city (Category A), on average, could only recover its costs by 109%. However, there are cities that are doing less with a cost recovery rate of 67%, while other large metros can collect up to 162% of their operating costs. The municipalities in the middle category (B1–B3), on average, could only cover their costs by 70–85%. Small municipalities (B4 and C2) could cover their costs by 136% and 112%, respectively. These results are not conclusive as to whether economies of scale really matter as far as the cost recovery ratio is concerned. The study further breaks the results up by province. The results are presented in the map in Figure 8.4.

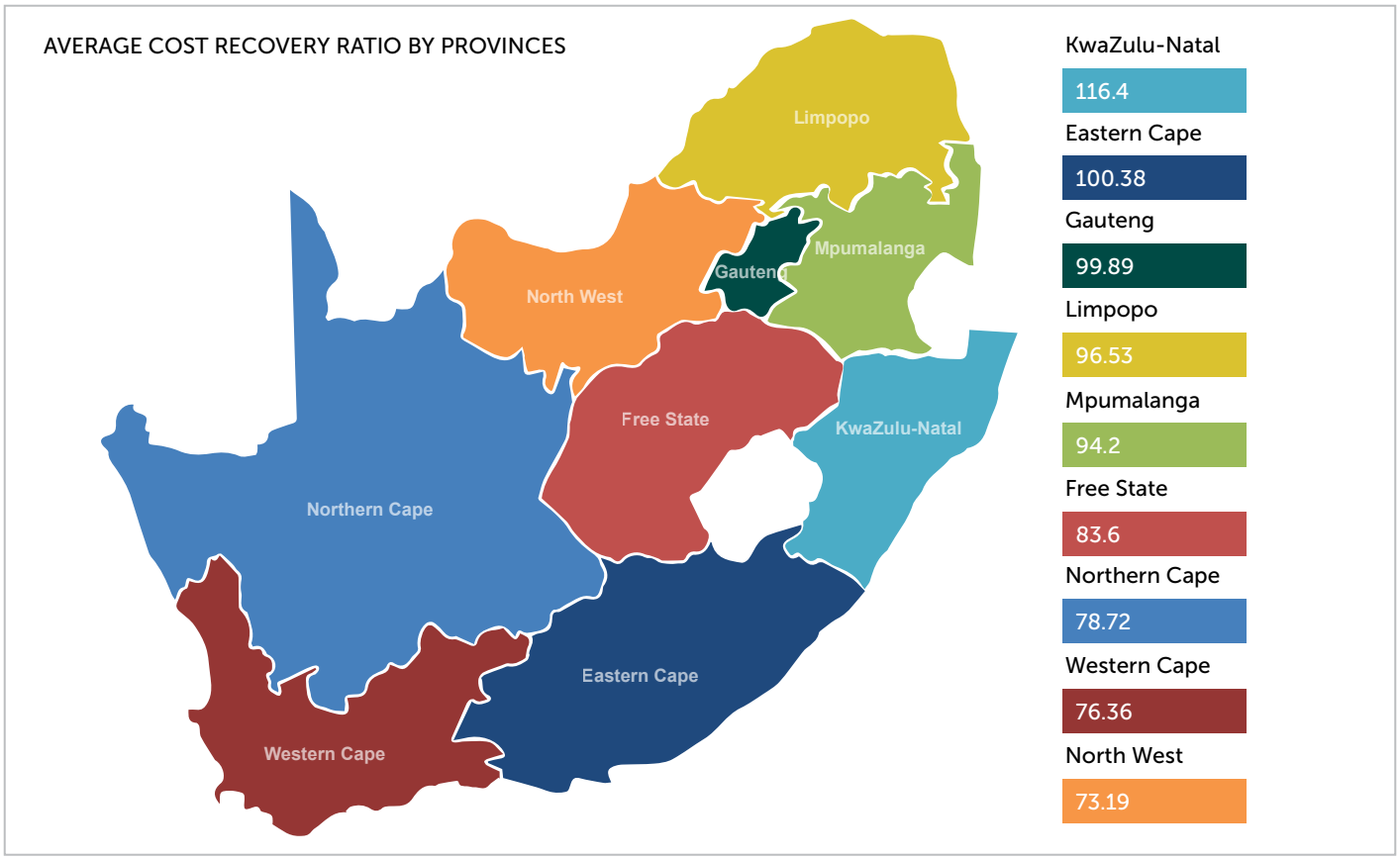
The map in Figure 8.4 indicates that, on average, the WSAs in KwaZulu-Natal (116%), the Eastern Cape (100%) and Gauteng (99%) could cover their operating costs from their revenue. Moreover, at province level, the averages are still promising as even the lowest provincial recovery rate (North West) was at least 73%.

In a nutshell, setting water tariffs or pricing is a complex issue in the sector due to its multiple objectives, including cost-recovery, economic efficiency, environmental conservation, equity and affordability. However, increasing water tariffs may not be politically feasible. Other options to increase water revenue exist. These include, among others, reducing non-revenue water, reducing non-labour costs, increasing efficiency and increasing consumer coverage, which will reduce the unit costs.

Private sector participation

Public-private partnerships (PPPs) offer the South African water sector an opportunity to access private capital and skills to build or upgrade, operate and manage public water and sanitation infrastructure services that are provided and run by WSPs. Access to private finance can speed up the provision of public water services, where WSPs face budgetary constraints. However, the water sector attracts the least investment flows, well below other infrastructure sectors.

Figure 8.4: Summary of the average cost recovery ratio by province



Source: Commission's illustration based on NIDS-CRAM 2020 dataset

Compared to other infrastructure sectors, water and sanitation projects are differentiated by their unique characteristics. The PPPs for the water sector present complex and integrated partnerships across the public and private sectors. These partnerships often involve several million to billions of rands for a project, commit a range of local and national WSPs to responsibilities for up to 40 years in project length, and involve private water operators or developers, as well as design and construction firms, in the financing, planning, operation and maintenance of water facilities (KPMG, 2011; Rouse, 2014; Nickson & Vargas, 2002).

The water sector in developing countries has witnessed partnership arrangements of this nature since the 1990s (Marin, 2009), owing to the fiscal constraints that drive governments to tap into private finance to meet their ever-increasing water and sector investment requirements (Rouse, 2014; Meng, Zhao & Shen, 2011; World Bank, 2006) and receive potential returns for private water operators (Hall, Lovina & De la Motte, 2005). The World Bank's infrastructure project database indicates the following generic PPP types and subtypes:

- **Concession:** The sector's assets remain under public ownership, but the private party obtains exclusive usage rights over all assets and has complete functional responsibility for the operation, maintenance and investment during the concession period (Rees, 1998). Between 2002 and 2014, the concession model attracted 234 projects, including 150 rehabilitate-operate-transfer (ROT) projects, 81 build-rehabilitate-operate-transfer (BROT) projects and three rehabilitate-lease-transfer (RLT) projects.
- **Greenfield projects:** These projects attract private finance to build major water facilities. A total of 288 projects reached financial closure between 2002 and 2014, including 276 build-operate-transfer (BOT) variants and 12 build-own-operate (BOO) projects.
- **Divestiture:** This involves the transfer of ownership of all or part of the sector's assets, and partial or complete responsibility for operation, maintenance, revenue generation and capital investment to the private party. Only 14 projects have been awarded over the 12-year period: two under full divestiture and 12 under partial divestiture.
- **Management and lease contracts:** These are typically used to improve performance and governance in existing water utilities. They have attracted 89 projects between 2002 and 2014, with 62 under management and 27 under lease.

Refer to Rees (1998) for a discussion of the above forms of PPP.

It has been argued that private sector participation (PSP) in water provision would, among other things, help the poor to access services at an affordable price. However, experiences with PSP worldwide suggest that there is a significant conflict between social development, public health, environmental concerns and poverty reduction, on the one hand, and the private sector's motive of maximising profits, on the other (Prasad, 2006). Recent developments indicate that large multinational organisations are not interested in low-income countries where there is limited commercial viability for water supply operations (Global Water Intelligence, 2005). Prasad (2006) argues that the policy of PSP in water supply is economically flawed and politically difficult. Despite signs of decreased PSP in water services, its main proponents have repackaged the concept, and are relaunching it as a PPP.

China has emerged as one of the world's most active markets for PPPs in the water and sanitation sector, while the pace of such developments around the world has slowed in recent years. It is vital to understand the dynamics of developing PPP projects in the Chinese water sector (Qian, House, Wu & Wu, 2019) and to empirically investigate whether lessons from these experiences can be applied to the South African water sector. Lessons can also be learnt where such initiatives have failed elsewhere. To date, there is little or no robust econometric evidence on the effects of water privatisation in South Africa.

The usefulness of Intergovernmental Fiscal Relations instruments

To become more effective in financing interventions for water services and water security, governments, official development assistance (ODA) suppliers and private sector investors could consider the following recommendations, adapted from good practice in developed economies. The ultimate objectives are to de-risk potential investment deals and lower transaction costs for the investor.

- Financial risk mitigating measures can be explored to make projects more attractive, such as contingent subordinated guarantees to better share risk, a facility to cover debt service default risk emanating from regulatory changes, a counterparty risk cover facility, and a refinancing facility to allow commercial banks to extend the tenor of their loans – with water projects often demanding tenors of up to 30 years; which is commonly longer than for loans in the energy sector or in industry (OECD, 2019).
- Blended finance is increasingly recognised as an important innovative tool, where concessional finance is applied ('structured' into a deal), specifically to help lower risk profiles and transaction costs with the aim of facilitating the entry of commercial finance for development purposes. Several financial and development institutions are actively piloting different arrangements to use concessional funds to crowd in commercial funds.
- Intermediary institutions can be designed to better connect the interests and capabilities of the water and financing industries. Intermediary agencies can pool specialised knowledge on finance supply and investment projects.
- Debt in the local currency denomination may prove superior to dependence on international markets using denominations in strong currencies, even considering the comparatively high interest rates prevailing in local markets.
- The development of institutional capacity (the 'capacity to act') is a systemic requirement for development in the water sector. However, the financing community and its regulators are also dependent on reliable data and information, and require the institutional capacity to utilise this information and translate it into effective decision making. Institutional capacity development is also known as knowledge management in the corporate sector (Alaerts & Kaspersma, 2009).
- Finally, the focal area of enhancing the creditworthiness of water supply utilities can be addressed by taking simple straightforward steps. Service providers (WSAs or WSPs) are expected to cover their operating and maintenance costs, and create a basic surplus (assumed as having cash revenues exceeding costs by at least 20%), which is a requirement for access to commercial credit (World Bank, 2017). Full creditworthiness is more likely to occur when the provider recovers at least 150% of the operating costs.

8.5 Concluding remarks

Water availability is finite in South Africa, which requires controlled usage due to rapid population growth, urbanisation, uneven population distribution and a growing economy. Domestic water usage is one of the major consumptive uses of water, which not only uses the precious water resource, but also imparts considerable environmental effects. Controlling domestic water usage can help reduce water consumption and protect the environment. For this purpose, water conservation can go a long way in preserving this precious water resource. A comprehensive plan is needed that accounts for water demand, supply, system loss, pricing strategies, and groundwater level and per capita water consumption in South Africa. The Commission is suggesting an integrated, sustainable water demand management approach, which incorporates optimum pricing, ground and surface water regulation, water conservation, sustainable water consumption and a smaller water footprint to ease groundwater depletion.

Water pricing (i.e. tariffs) has evolved significantly in the past decades. This evolution is increasingly linked to demanding requirements, or objectives that WSPs must achieve (e.g. stricter water quality standards and

infrastructure maintenance levels, cost recovery and social concerns, such as equity and environmental protection). Considering how useful water tariffs can be, there is increased scrutiny on how water utilities prioritise them. The design of municipal water tariffs requires balancing multiple criteria such as financial self-sufficiency for the WSP, equity among customers (access), and economic efficiency for society. This chapter has focused on the last two objectives, although the context is different. The Commission is interested in determining access to safe drinking water and sanitation, as well as the cost reflectiveness of the tariff in a COVID-19 environment.

The realisation of the scale, magnitude and complexity of the water and sanitation problem has compelled the South African government to increase its resolve to face the challenge. This challenge (i.e. the disparities in access to water and sanitation) is recognised internationally, hence the attempts of Sustainable Development Goal (SDG) 6 to achieve universal and equitable access to improved drinking water and sanitation for all by 2030. Although the South African government has done relatively well in addressing this challenge, it is important to track inequalities in access to drinking water and sanitation, particularly during economic shocks such as COVID-19, to assess progress with regard to universal coverage under these challenging economic times.

The ongoing COVID-19 pandemic and economic crisis that emerged in 2020 have only highlighted the need to better understand and address the impacts of access to safe drinking water and sanitation services. The pandemic may potentially reverse the gains made since 1994. Moreover, access to water and sanitation is a key determinant for infectious disease control and prevention; thus, limited access creates a challenge for transmission control. COVID-19 resulted in a slight decrease (2%) in access to safe and clean drinking water in South Africa.

In the context of the COVID-19 pandemic, many WSPs may have been slow in responding to residential piped water infrastructure failures. Loss in employment by households reduced the ability of households to resolve piped water infrastructure problems. The result is that the poorest received the COVID-19 shock on top of existing major water and sanitation service deficits, which points to a potentially overwhelming burden to contain the virus. There is a need to implement crisis emergency measures to enhance access to water and sanitation.

The WSPs need tailored support that is focused on transferring capacity to the organisation that will rely on internal capacities. Supporting increased internal capacities requires a focus on internal performance evaluation and improvement planning, support for financial systems and ring-fencing, support for improvement plan and project development, and linking these with financing.

Closing the water sector infrastructure gap will require billions of rands in investment for each year up to 2030, in addition to the cost of maintaining and upgrading the existing networks. Investments in access expansion may decline during COVID-19. The operations of WSPs are typically funded by customer receipts (water tariffs and once-off connection charges), grants and taxes. Tariffs are set to achieve equitable access, thus at levels that are insufficient to recover operating costs. Therefore, WSPs require support from other sources, usually the government's budget. Additional revenue pressures come from inefficient operations such as high non-revenue water (leakages, water theft and uncollected revenues), which are significant in South Africa. Capital expenditure is mostly funded by the national government. Considering funding gaps and budget constraints from government, borrowing and public financing with private capital is required.

It is reasonable to expect new capital projects to be delayed as WSPs prioritise their operating expenditure and emergency response due to COVID-19. One can therefore expect declines in capital expenditure in the water sector in the short term, after which WSPs may resume activity at pre-crisis levels. It is currently unclear by how much the water and sanitation capital expenditure will decline and how long it will take to return to pre-COVID-19 investment levels. Moreover, municipalities have indicated that it will take them at least until 2023 to return to the pre-COVID-19 level, and one can therefore expect them to defer investments. This will lead to downscaled or reduced water provision. COVID-19 has reinforced the importance of access to safe and reliable water and sanitation services. National Treasury, through grant support, should mitigate the impact of deferred investments and declining revenues to fund capital expenditure, at least until municipalities (WSPs) return to their pre-COVID-19 environment. It is hoped that investments in strategic projects such as the Lesotho Highlands Water Project will not be delayed due to COVID-19 as that can result in water insecurity in South Africa.

The World Bank's Private Participation in Infrastructure database implies that the rate of development of PPPs in water provision and sewer services has slowed significantly as the number of new projects reaching financial closure has declined drastically since 2007, when the growth of PPPs in the water sector peaked (Qian et al., 2019). Some scholars considered the downward pattern to be a signal that water provision and sanitation is too essential to public and environmental health to be left to the private sector, but industry and sector commentary has pointed to increased investor scepticism following the high-profile cancellations of PPP projects in Latin America and South-East Asia (Gleick, Wolff, Chalecki & Reyes, 2002; Scanlon, Cassar & Nemes, 2004).

In contrast, China has seen a massive proliferation of PPPs in the water sector since 2000, although the number of PPP projects reaching financial closure has also been off from its peak in 2007. The development of water PPPs in the last two decades has turned China into one of the few bright spots for such projects globally. Between 2008 and 2018, there were 267 PPP projects in the water sector in China, accounting for nearly two-thirds of the total number of such projects globally. The rapid expansion of PPPs in the water sector in China, particularly against the backdrop of the downward trend globally, raises several fundamental issues of paramount importance to the future development of PPP as a policy option for many developing countries (Qian et al., 2019), such as South Africa. Can the path of development of water PPPs in China be replicated in South Africa? What are their key drivers and main challenges? What lessons can be learnt from China's success? And what are the policy implications for the South African water sector?

One of the key questions in the debate on the regulation of water supply is on the establishment of independent water regulatory agencies, and whether they will make a difference. South Africa already has the National Energy Regulator of South Africa (Nersa) as an 'independent' energy regulator. Debates are ongoing about whether there is a need for a similar independent regulator in the water sector to set tariffs for the water sector. While the marginal transaction costs of having an independent regulator, together with the political salience of water, significantly outweigh the marginal benefits, there is little incentive for government to establish an independent water regulatory agency.
This hypothesis concerning why there is no progress for the establishment of an independent water regulator requires further testing. This is also true around the world, where the establishment of water regulators is more the exception than the rule. Debates about the type of reforms that are needed to make the water sector more efficient include consolidating the water boards and having one water entity responsible for this task. Some have however, cautioned against such consolidation in light of the failure of state enterprises such as South African Airways and Eskom. Failure of the same magnitude in the case of one WSP for the country would be catastrophic given the unique nature of water provision.

8.6 Recommendations

With respect to water and sanitation access, distribution efficiencies and tariff setting, the Commission makes the following recommendations:

1. *Municipalities, advised by SALGA, should approach tariff adjustment, taking account of the poor during the duration of the COVID-19 crisis.*
2. *The Department of Water and Sanitation (DWS) should establish a benchmarking of water service providers' service level agreements, aligned to the Department's performance indicators in terms of infrastructure, socio-political and financial indicators.*
3. *The Minister of Finance should ensure that water and sanitation projects also form part of the economic stimulus to help mitigate the impact of the COVID-19 crisis.*
4. *The Minister of Finance and the Minister of Water and Sanitation, together with the municipalities, should systematically develop water investment by structuring mechanisms to de-risk private investments. However, long-term sustainability depends on the capacity of water service providers, governance mechanisms to safeguard corruption and the ability of the private sector to manage both higher-level government demands and possible public opposition.*

PART 4
Oversight and Leadership

Municipalities are responsible for the delivery of key basic services (water, electricity and sanitation) to households, businesses and government departments. A healthy, well-functioning local government is thus critical to social and economic development. However, the poor financial and service delivery performance of municipalities has presented a stubborn challenge, which has characterised the local government sphere in South Africa. Reasons underlying this poor performance are numerous.

In Part 4 of the Annual Submission, the Commission focuses on two aspects that, if they were more effective, could assist in putting local government back on the right track towards meeting the needs of citizens and ensuring better value for money.

The first chapter in this section focuses on the enabling environment, specifically the intergovernmental system of monitoring and support that underpins the functioning of municipalities. The second chapter uses an institutional lens and looks at the complex issues of leadership, management and governance to illustrate the fundamental impact that leadership, management and governance have on service delivery.

CHAPTER 9:
The Role of Intergovernmental Oversight and Support in Avoiding a Section 139 Intervention

9.1 Introduction and problem statement

The Constitution of South Africa establishes three spheres of government in the form of national government, nine provincial governments and 257 local governments. The Constitution assigns key service delivery responsibilities to each sphere, with local government being largely responsible for the delivery of key basic services in the form of water, sanitation, energy and refuse removal. While it recognises each sphere as "distinctive, interdependent and interrelated", the Constitution also promotes the principle of cooperative governance. As part of this cooperative governance framework, the Constitution formalises an oversight and support role for national and, particularly, provincial government over local government towards the achievement of its constitutional mandate. Further effect is given to the principles of cooperative governance by the Intergovernmental Relations Framework Act, 2005. The purpose of the Act, as set out in clause 4, is to provide a "framework for the national government, provincial governments and local governments to facilitate coordination in the implementation of policy and legislation, including coherent government, effective provision of services, monitoring implementation of policy and legislation and the realisation of national priorities.

This oversight and support role is realised through a range of clauses in the Constitution. Firstly, section 155(6) and section 155(7) outline the need for intergovernmental monitoring, in essence creating a framework of regulation and monitoring of local government performance. Secondly, section 154(1) of the Constitution extends the need for monitoring by obligating national and provincial government to support municipalities to build the necessary capacity to perform their constitutional duties and functions. The culmination of these clauses ensures that the performance of local government in achieving its mandate is appropriately regulated and monitored in order to ensure support to municipalities when there are challenges with performance. Section 139 of the Constitution allows for provincial intervention in municipalities where there is a gross failure to perform such duties and functions, i.e. total performance failure. To reiterate, the Constitution embeds an oversight and support role to national and provincial government over local government within the system of cooperative governance to ensure that municipalities meet their service delivery obligations to communities.

The vision of the Constitution resulted in various pieces of supporting legislation that outline the nature of the oversight and support required from national and provincial government. Since the establishment of a consolidated local government sphere in 2000, national and provincial government oversight and support to local government have been a patchwork of initiatives, ranging from the regulation of municipal activities and various monitoring mechanisms to non-financial and financial support, the latter of which includes capacity-building conditional grants. All these methods were intended to build sufficient capacity in local government to ensure that they fulfil the constitutional obligations and avoid gross failures that could lead to a section 139 intervention. During this period, these various initiatives and mechanisms of national and provincial oversight were intended to be anchored around national programmes to improve local government performance. These national programmes are presented in Table 9.1.

Table 9.1: National measures to improve local government performance

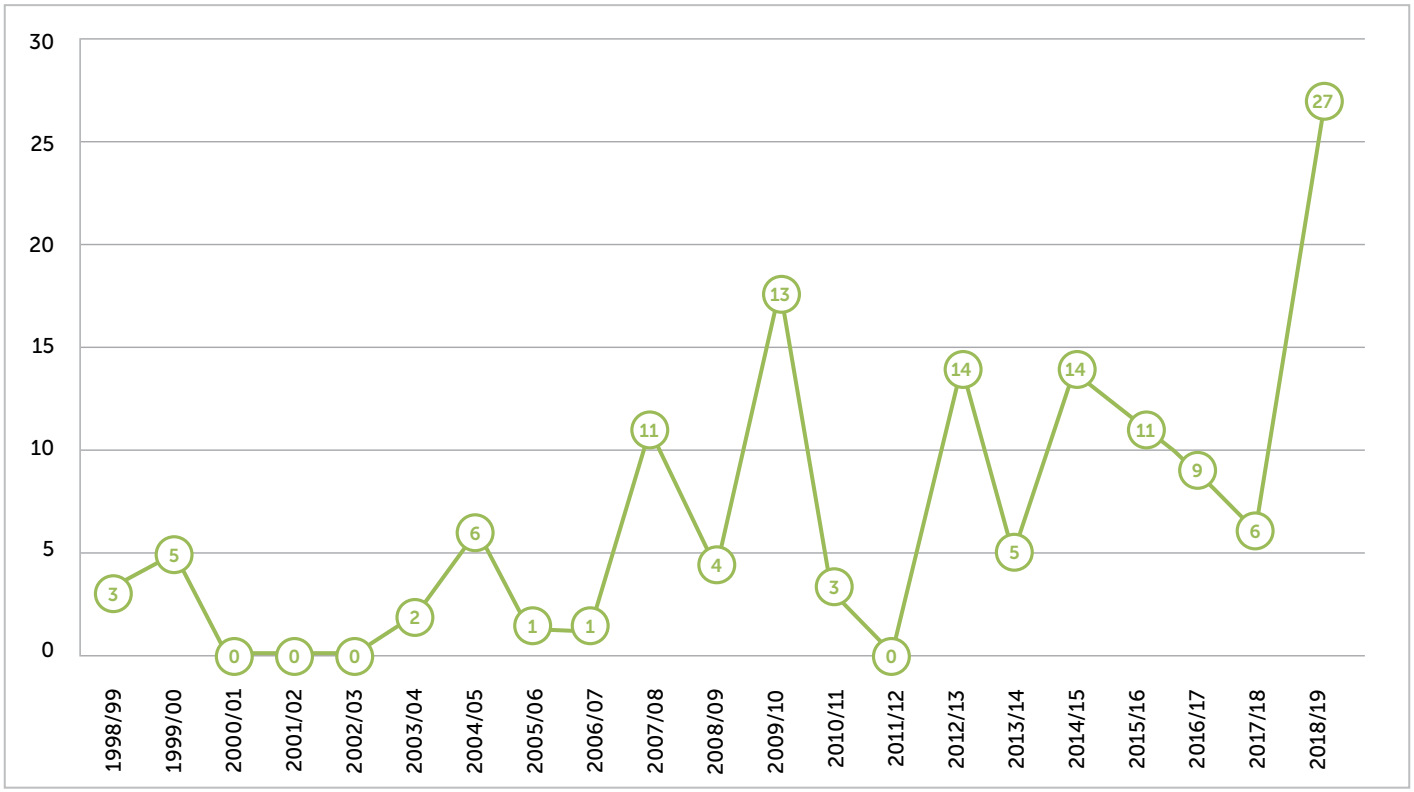
National Programmes	Description
Project Viability	Established in 1995 with the aim of discouraging a culture of non-payment for services in communities.
Project Consolidate	Launched in 2004 with the intention of building capacity in 140 ailing municipalities.
Siyenza Manje Programme	Commencing in 2006, the scope of the programme was to strengthen engineering, project management and financial management capacity.
Local Government Turnaround Strategy	Introduced in 2010, it has had numerous focus areas, including the significant reduction of infrastructure backlogs, ensuring access to basic services for all citizens, and reducing unfavourable audit outcomes.
Back to Basics Programme	Established in 2014, it was aimed at getting the basics right in five priority areas: basic services to create decent living conditions, good governance, public participation, financial management and institutional capacity
District Development Model (DDM)	President Cyril Ramaphosa initiated the DDM in his 2019 Budget Speech. The model consists of a process by which joint and collaborative planning is undertaken at local, district and metropolitan level by all three spheres of governance, resulting in a single, strategically focused One-Plan, One-Budget for each of the 44 districts and eight metropolitan geographic spaces in the country, in which the district is seen as the 'landing strip'.

The success of these national initiatives is questionable, at best, given that a proper evaluation of previous programmes was often not undertaken prior to new initiatives being introduced. Therefore, it is difficult to say why certain national initiatives were replaced with others, or whether incumbent national programmes are the product of the successes and lessons learnt from preceding initiatives. Furthermore, it is also unclear to what extent these national flagship local government development programmes inform or guide the implementation of oversight and support initiatives and mechanisms currently in the system. For example, one does not see any introduction of new grants or practices that accompanies the introduction of a national initiative or fundamental changes to existing grants or practices.[1]

Notwithstanding these various oversight and support mechanisms and national programmes, municipalities around the country have been plagued by deep-rooted capacity challenges that have resulted in consistent service delivery failures. These service delivery failures manifest in perennial service delivery protests by communities, gross financial mismanagement and several dysfunctional municipalities that are in a consistent state of financial distress. In addition, section 139 interventions in municipalities are common. This is an indication of gross failure at municipal level. Figure 9.1 shows the extent of section 139 interventions in municipalities from 1998 to 2019.

[1] To appropriately qualify this statement, it is not that there are no changes in certain aspects of the oversight framework. For example, the Municipal Systems Improvement Grant (MSIG) Framework was adjusted to implement the Back to Basics Programme from 2014, and then the District Development Model (DDM) in 2020.

Figure 9.1: Number of section 139 interventions per year from 1998/99 to 2018/19



Note: Includes all actual and attempted interventions, i.e. including those set aside

Source: Ledger and Rampedi (2019)

There have been 140 section 139 interventions since 1998. Of these interventions, 114 were first-time interventions, while 26 municipalities required additional interventions over the period (Ledger & Rampedi, 2019). This includes three municipalities that required five interventions. Multiple interventions suggest that no long-term capacity is being built in the municipalities that underwent section 139 interventions. Interestingly, Ledger and Rampedi (2019) confirm that there is a direct relationship between the success of a Section 139 intervention and the financial and operating state of the municipality prior to intervention i.e. "the worse the state of the municipality prior to intervention... the less likely it is to be able to return to a stable financial and operating position" (Ledger & Rampedi, 2019:13). The dire state of some municipalities prior to intervention brings into question the effectiveness of the oversight and support initiatives of national and provincial government as part of their responsibility to help build a local government sphere that is capable of managing its affairs and carrying out its constitutionally mandated functions.

The oversight and support framework that underpins local government is extensive and ranges from regulation, statutory and non-statutory monitoring[2] to financial and non-financial support. Several such methods enter and exit the system on an ad hoc basis, with very little evaluation of their successes or failures. A section 139 intervention should be the final step in the entire constitutional framework governing local government, where municipal autonomy is temporarily curtailed to remedy gross failure. As such, it is a constitutional responsibility of national and provincial government to monitor performance and provide the necessary support to municipalities to ensure that they do not reach a stage of gross dysfunction and failure.

[2] Statutory monitoring would consist of monitoring through reporting or other mechanisms that are contained in legislature. An example of this would be the Municipal Finance Management Act (MFMA)'s Section 71 financial reporting requirements. Conversely, non-statutory monitoring would include any monitoring or reporting requirement not specified in legislation or ad hoc requests. An example of this would be monitoring the implementation of municipal indigent policies through the collection of data via the non-financial census of municipalities implemented by Statistics South Africa (Stats SA).

Assuming that the implementation of a section 139 intervention is an indicator of gross dysfunction and failure, the persistence of such interventions indicated in Figure 9.1, brings into question the effectiveness of the preceding oversight and support framework to build local government capacity and to identify and solve municipal challenges prior to an institutional or financial collapse.

BOX 1 - The District Development Model: Many "unknowns"

In response to the ongoing service delivery, coordination and policy implementation challenges in local government, the government introduced the District Development Model. The DDM is meant to improve cooperative governance and encourage joint planning, budgeting and implementation. In the view of the Department of Cooperative Governance and Traditional Affairs (CoGTA), the DDM is anchored in the development of the One-Plan, One-Budget system; an intergovernmental plan that sets out a long-term strategic framework to guide investment and service delivery in 44 district and eight metropolitan spaces. This plan is meant to be jointly developed and agreed to by all spheres of government. There is substantial evidence that CoGTA has put a lot of thought into the development of the DDM, more so in the context of the performance challenges facing municipalities. However, the jury is still out; at least until the study results of the pilot (in the OR Tambo, Waterberg, and Ethekwini municipalities) emerge about how the DDM, and more specifically the One-Plan, One-Budget system, will work in practice, and more importantly, what this will mean for the much-valued autonomy of municipalities.

The model has not clearly spelled out the role of municipalities in policy implementation other than to describe the involvement of politicians and senior officials in the political structures that oversee the planned model. In attempting to address the challenges of service delivery, care should be taken not to dilute municipalities' powers. Building their capability to deliver basic and other services should not come at the price of subjugation to the all-powerful centre.

Moreover, greater clarification is needed on how the DDM will move resources to underdeveloped, mainly rural areas. Hopefully, the three pilot studies will provide some insights into how the DDM will cater for rural development. The timeframes around the DDM are not at all clear. Is a permanent arrangement being proposed or is this a strategy to address the short- to medium-term challenges of skills deficiencies? In other words, is the DDM going to be a permanent feature on the political landscape or is it a temporary measure to help local government turn service delivery around. If it is the former, one should be concerned about the ability of national government to understand the needs of citizens at the local government coalface and to respond effectively to the associated challenges.

One of the most important prerequisites for economic growth at the municipal level is local economic development (LED). However, there is no detailed analysis of LED in the CoGTA documents relating to the DDM, especially on the importance of 'bottom-up' LED to increase employment and economic growth. In the debate on the viability of the DDM, it is vital that the South African Local Government Association (SALGA), as the representative of municipalities, critically interrogates the planned workings of the DDM, particularly its impact on the revenue accruing to municipalities. Most importantly, there is an urgent need to assess the implications of the DDM on the configuration of the state, including the Constitution, and the current three-sphered system, which simultaneously addresses the twin issues of cooperation and autonomy.

9.2 Chapter objectives

Against this backdrop, a comprehensive assessment and critical analysis of national and provincial oversight and support prior to a section 139 intervention is required to ascertain the integrity and effectiveness of the framework, as envisioned in the Constitution. This chapter focuses specifically on the effectiveness of the various regulatory, oversight (statutory and non-statutory) and (financial and non-financial) support initiatives in improving local government's financial performance and building long-term capacity in efforts to prevent gross financial dysfunction and failure in municipalities. While the focus of this chapter is on financial management, it is acknowledged that other aspects of municipal operations, such as governance and institutional issues, contribute equally to local government failure.

The chapter aims to achieve the following objectives:

- Outline the oversight and support framework applied to local government in terms of municipal financial management and performance
- Ascertain whether the current elements of the framework have improved short- and long-term financial performance in local government
- Identify the challenges and bottlenecks within the current framework that potentially inhibit its success and impact

9.3 Oversight and support of local government within a cooperative governance framework

A note on concepts: Supervision relative to oversight

Section 40(1) of the Constitution of South Africa establishes three spheres of government as "distinctive, interdependent and interrelated". Many researchers view this clause as highlighting the autonomy of the spheres of government (Moeti & Khalo, 2007; Schwella, 2016). Furthermore, the explicit emphasis on cooperative governance in the Constitution is an indication of respect afforded to the 'distinctive' nature and integrity of local government, which is further entrenched by the clear division of powers and functions across spheres and the exercising of local government's "legislative and executive authority in its area", in accordance with section 155 of the Constitution. Consequently, the White Paper on Local Government describes local government as "a sphere of government in its own right, and is no longer a function of national and provincial government" (RSA, 1998).

While the autonomy[3] of local government is implicitly emphasised in the Constitution, section 139 of the Constitution provides insight into specific instances where local government's authority and autonomy can be limited (Moeti & Khalo, 2007). Given this, it can be argued that the prescripts of the Constitution intend to balance a degree of subnational autonomy with intervention features through a system of cooperative governance. It is therefore important to place the monitoring and support functions of national and provincial government over local government within the nature of the South African state implicitly captured in the Constitution.

During the Certification of the Constitution of South Africa,[4] the constitutional vision for local government was captured as "a structure for (local government) that, on the one hand, reveals a concern for the autonomy and integrity of (local government) and prescribes a hands-off relationship between (local government) and other levels of government and, on the other, acknowledges the requirement that higher levels of government monitor (local government) functioning and intervene where such functioning is deficient or defective in a manner that compromises this autonomy."[5] The oversight and support of local government by national and provincial government is thus contextualised as necessary to ensure that poor performance does not compromise local government expressing its autonomy within its constitutional duty towards its citizens. Therefore, it places an obligation on national and provincial government to ensure support to municipalities and build capacity where necessary.

The final Constitution placed oversight and support within the context of cooperative governance, where the Constitution promotes "an integrated system of government in which both national and (local) governments are deeply implicated in each other's functioning" (Schwella, 2016:77). However, some authors consider this oversight as 'intergovernmental supervision' with national and provincial government acting as a 'superior authority' over local government that is distinctive from cooperative governance (Reynecke, 2012).

While acknowledging this view, it can also be argued that the vision of the Constitution promotes an ideal of cooperation between spheres to ensure autonomy and effective service delivery, and subsequently mandates national and provincial spheres of government, in the first instance, to oversee and support

[3] To reiterate, autonomy, in this case can be defined within the context that local government has a distinct function, but operates in a manner that it is interrelated and interdependent with the national and provincial spheres of government. In other words, in cooperative government, in the spirit of 'trust and good faith', noting the obligation by national and provincial government to provide support to local government to enable it to execute its functions.

[4] The Certification of the Constitution was a process that attempted to confirm whether the proposed (draft) Constitution adhered to the constitutional principles established in Schedule 4 of the Interim Constitution of the country. This process formed an integral part of the processes towards the adoption of the new Constitution of South Africa.

[5] Ex parte Chairperson of the Constitutional Assembly, in: re – Certification of the Constitution of the Republic of South Africa 1996(4) SA 744 (CC) para 373.

municipalities and, where this does not work, to intervene. However, all these aspects need to occur against the backdrop of cooperative governance. As such, it is the position of this analysis that the term 'intergovernmental oversight and support' better captures the cooperative nature of its intended application within the intergovernmental system; as opposed to 'supervision', which implies a hierarchical relationship. The notion behind the obligation that national and provincial government have to support local government is driven by the concept of decentralisation, where higher levels of government are better placed to identify and remedy common and exogenous challenges that may impact on subnational governments.

Framework of oversight and its components

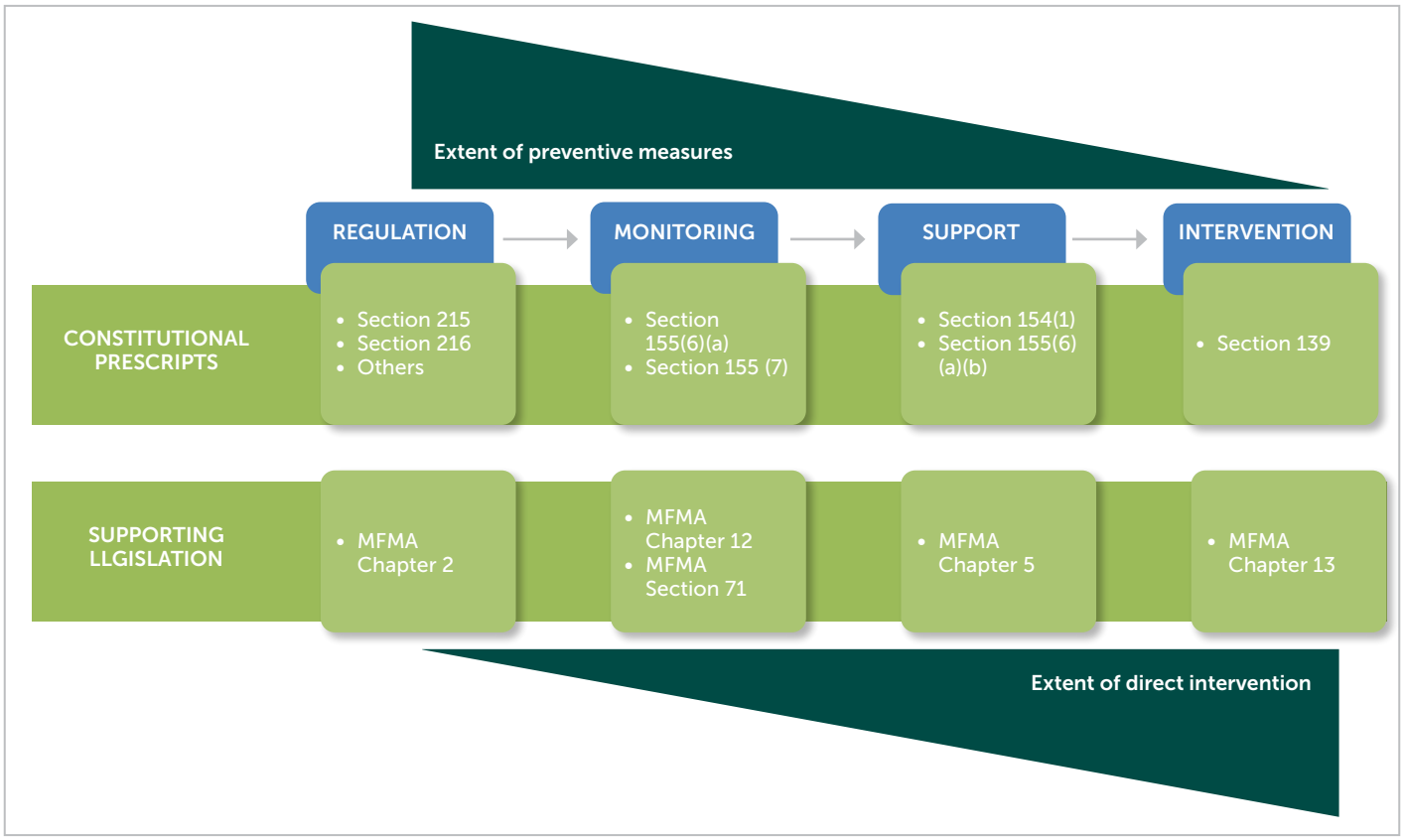
The oversight and support responsibility of national and provincial government is realised through a range of clauses in the Constitution that embeds and balances the notion of the oversight and autonomy of each sphere within a flexible framework of cooperative governance. In essence, local government autonomy is protected to the extent that service delivery and the vision of government are achieved. In instances where this is not the case, cooperation and support from another sphere serves as the first and preferred means to improve performance and assist local government in realising the exercise of its constitutional functions. The Constitution only suggests intervention as a last resort to empower national (and provincial) government to ensure that the obligations of the government are achieved and to realise progressive improvement of service delivery to citizens.

The oversight and support framework, and the emphasis of additional support for local government from other spheres, recognises that municipalities are likely more susceptible to economic and social challenges experienced in the country. These challenges can be due to the legacy of apartheid that resulted in asymmetric development across different areas of the country. This has resulted in varying operating contexts and levels of capacity across the local government landscape. Furthermore, municipalities are also most susceptible to economic shocks and the impacts of other social pressures on their operating environment, such as inequitable education and health outcomes across the country. Therefore, this oversight role recognises the potential constraints at a local government level and proposes a framework to ensure that local government is capacitated to fulfil its obligations (in accordance with section 154(1) of the Constitution).

The overall objective of oversight and support is to ensure that municipalities do not fail in their duties towards their respective communities. However, as depicted in Figure 9.2, oversight and support do not occur in isolation. On the one hand, it is informed by regulation, and on the other, it can determine whether or not more active intervention, via section 139 of the Constitution, is required. While the process is primarily sequential, there is considerable feedback between processes in that lessons learnt from a subsequent component can be used to improve previous components. For example, during the process of monitoring, one can find issues with the regulatory framework that warrant a potential amendment to improve the overall framework. Looking at the oversight and support framework in more detail, the following two points should be noted:

- Oversight or monitoring is informed by regulations that prescribe the municipal operating framework. Regulations and legislation articulate what municipalities are compelled to do. This is the entry or the reference point for monitoring – regulations and legislation delineate what must be monitored. The key point of monitoring is to identify and diagnose potential problems and challenges that can lead to failure.
- Following oversight is support. Support should be activated when a problem is diagnosed or an opportunity observed through monitoring activities. Support can take the form of capacity building through skills development, technical support and/or conditional grants, legislative as well as other financial or in-kind resources. If oversight, through monitoring and support, is not effective in alleviating or solving the performance challenges experienced by a municipality, and failure or breakdown in service delivery occurs, the next step available to government is intervention via section 139 of the Constitution.

Figure 9.2: The process of the oversight and support framework



Source: Financial and Fiscal Commission

9.4 Approach

This chapter critically evaluates the current oversight and support framework applied to local government, using a combination of quantitative and qualitative analyses. The goal of the quantitative analysis is to provide descriptive statistics on the evolution of the framework in local government and to undertake a high-level overview of the successes of national and provincial government initiatives to build municipal capacity and improve performance. The quantitative analysis particularly focuses on financial support in the form of capacity-building grants.

The qualitative analysis took the form of a case study analysis of the oversight and support framework applied in five provinces. The qualitative analysis attempts to achieve the following:

- Undertake a high-level audit of the current national and provincial oversight and support initiatives being implemented
- Determine how the national and provincial departments' initiatives and programmes conform with legislative requirements
- Understand when each initiative was introduced and the goals of such initiatives
- Determine whether such initiatives had achievable goals within certain timeframes
- Determine whether the initiative is well designed to identify failure or to act on failure
- Determine the role the initiative plays in building capacity and providing support to municipalities
- Determine whether the initiative is a diagnostic measure or a support measure. If it is diagnostic, what steps are being taken after the initiative has identified a problem and is subsequent support provided to address the problem?
- Determine the system failures in the municipality
- Determine whether grants or support programmes are targeted to these issues
- Determine municipal experiences with national and provincial support
- Determine municipal experience with capacity-building grants

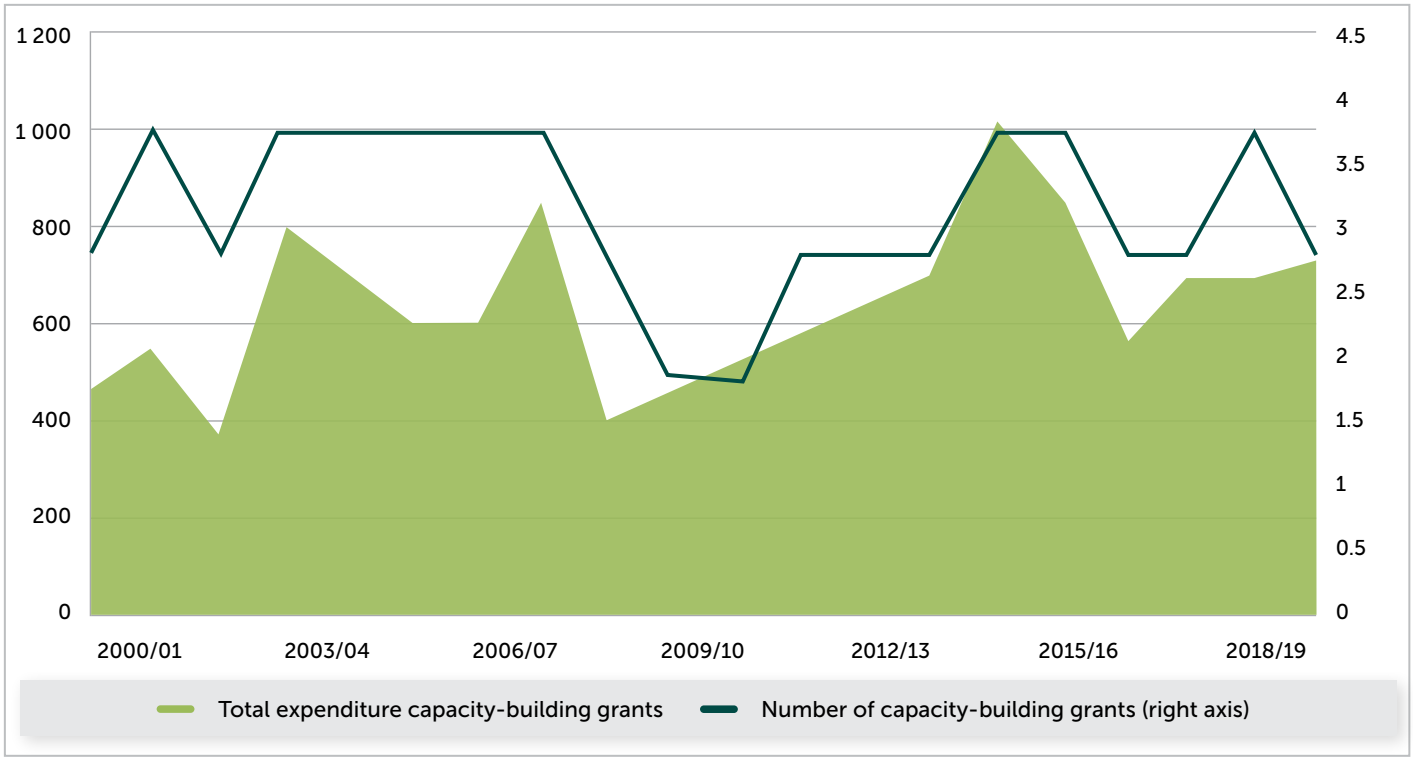
Ideally, a well-designed oversight and support framework should follow the process outlined in Figure 9.2 towards long-term local government capacity and no formal intervention (section 139 intervention) should be necessary. If this process is not followed and if a monitoring mechanism is not followed by support, it is likely that long-term capacity will not be achieved.

9.5 Presentation of findings

Evolution and analysis of capacity-building grants

Since the consolidation of municipalities and the subsequent inception of local government in 2000, capacity-building grants were incorporated into the system to support municipalities. Having recognised the asymmetric financial, institutional and human capacity across municipalities, such grants were necessary to facilitate the restructuring of municipalities and support the formal development of local government in various areas of the country, where none had existed previously. Capacity-building grants form part of the overall support framework that is implemented by national and provincial government. It should be considered as the financial subcomponent of support, complementing non-financial support such as skills development and direct technical support.

Figure 9.3: Evolution of capacity-building grants, 2000–2020 (R' million)



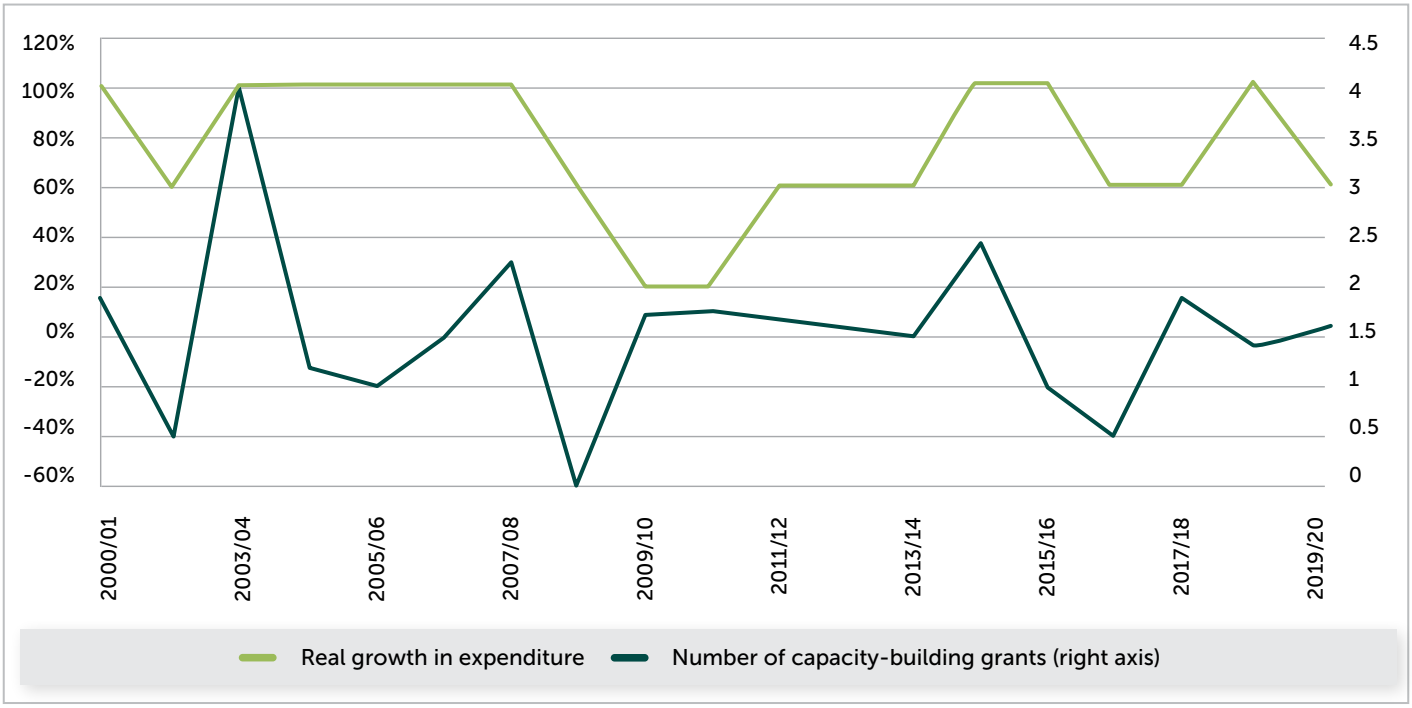
Note: The direct and indirect components of some grants are counted as separate grants in this analysis.
Source: Division of Revenue (2000–2020)

Figure 9.3 shows the evolution of the capacity-building grants in local government's fiscal framework from 2000/01 to 2019/20 in terms of the total allocations for capacity building and the total number of capacity-building grants in the system.[6]

From 2000 to 2020, a total of approximately R14 billion was spent on various capacity-building grants in the local government fiscal framework. The total expenditure for capacity building reached a peak in 2014/15, where just over R1.1 billion was spent. This corresponds with the highest number of capacity-building grants in the system, i.e. four.

Figure 9.4 shows the real growth of total capacity-building grant expenditure relative to the number of grants over the same period. Accounting for the introduction of new grants, which may overestimate the growth rates, there were considerable, real increases in expenditure in 2007/08. The large increases in 2003/04 and 2014/15 were largely driven by the introduction of new grants. Real growth was largely low and even negative from 2014/15 onwards, apart from 2017/18, when there was a substantial injection into the Financial Management Grant (FMG).

Figure 9.4: Real growth in total capacity-building grant expenditure



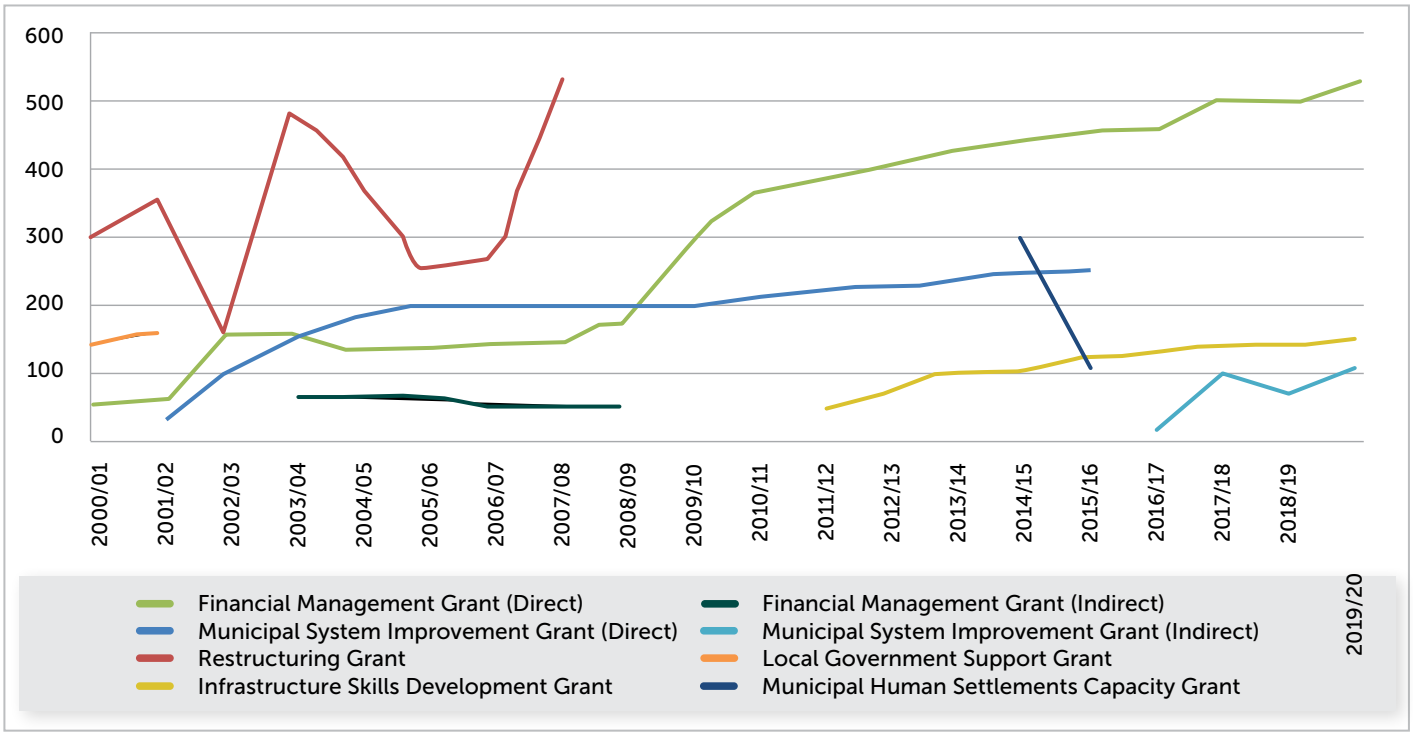
Note: The direct and indirect components of some grants are counted as separate grants in this analysis.
Source: Division of Revenue (2000–2020)

Building from the analysis above, Figure 9.5 shows the allocations per capacity-building grant from 2000/01 to 2019/20. In total, there were eight capacity-building grants (as defined in the Division of Revenue Bill) in the system during this period, ranging from a minimum of two to a maximum of four per year. Of these, the FMG and the Municipal Systems Improvement Grant (MSIG) were the only consistent grants allocated throughout the period. From 2000/01 to 2007/08, the Local Government Restructuring Grant, distributed by National Treasury, was the largest capacity-building grant. This grant was a demand-driven grant that funded the restructuring of financial, institutional and developmental initiatives. The grant was phased into local government's equitable share in 2008/09. The MSIG was larger than the FMG from 2003/04 to 2008/09, after which there was a relatively larger growth in the FMG, making it the largest capacity-building grant at the moment.

As mentioned above, capacity-building grants form a sub-component of the support component applied to local government. One of the objectives of monitoring local government performance is to identify challenges being faced by municipalities so that concomitant support can be provided. This support can be both financial and non-financial. In terms of the former, financial support takes the form of capacity-building grants that intend to fund solutions to areas within a municipality that hinder their performance. Currently, there are three conditional grants that directly assist in the building of capacity: the FMG, the MSIG and the Infrastructure Skills Development Grant. Given that this chapter focuses on financial management capacity, the subsequent analysis focuses on trends in the FMG.

[6] This analysis uses a narrow definition of capacity-building grants, i.e. grants that are specifically meant to directly fund capacity-building initiatives under the assumption that such capacity does not exist or is lacking in order to undertake a function(s). It is acknowledged that other financial support includes an indirect capacity-building effect, but these are not included in this definition.

Figure 9.5: Trends in capacity-building grants (R' million)

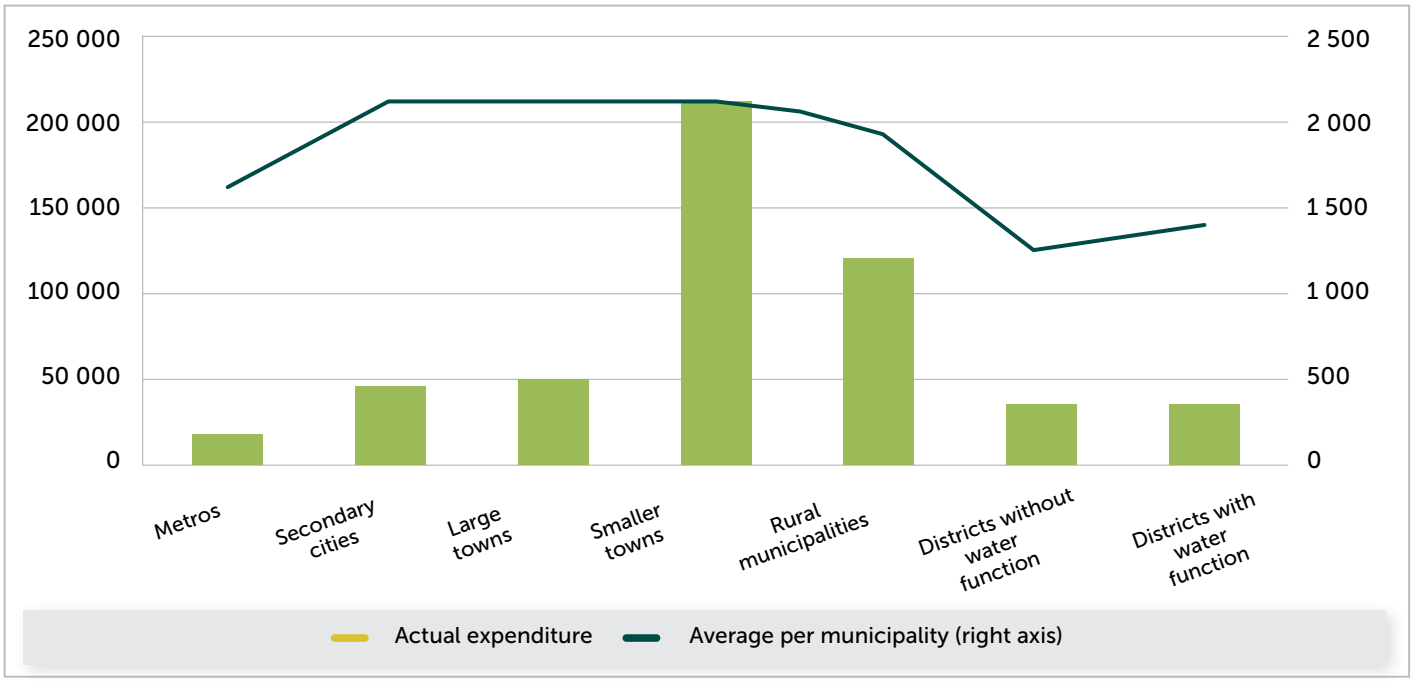


Note: The direct and indirect components of some grants are counted as separate grants in this analysis.
Source: Division of Revenue (2000–2020)

While the MSIG also supports issues of financial management, either directly or indirectly, the conversion of this grant to an indirect grant voids the detailed municipal analysis, as municipalities do not receive these funds directly. It should, however, be noted that, in its Annual Submission for the 2016/17 Division of Revenue, the Financial and Fiscal Commission focused specifically on the performance of indirect grants and found that, not only did these types of grants not perform well in terms of funds being spent, but there were also concerns around the issue of municipal accountability where municipalities did not feel 'part' of the initiative and spending on it. This then diluted municipal accountability when it came to outcomes related to spending. Moreover, it is unclear whether the change in the classification of the MSIG from direct to indirect was informed by an evaluation of the performance and challenges that arose when the grant was directly transferred to municipalities.

Figure 9.6 illustrates the total spending (allocations) on the FMG per type of municipality and the average spending per municipality within each municipal category. Firstly, local municipalities that are characterised by smaller towns receive the highest allocations in absolute terms, followed by rural local municipalities. This is due to these categories having the highest number of municipalities respectively. Given this, it is important to account for the number of municipalities in each category. When taking the number of municipalities into account, smaller local municipalities receive the most per municipal allocation, followed by local municipalities that are characterised by larger towns and secondary cities. One can notice this by the peak in the line over the smaller municipalities. District municipalities without a water and sanitation service function receive the lowest per municipal allocation, followed by their water-authorised counterparts and then metropolitan municipalities. As these differences are not substantial, this analysis suggests that the FMG does not recognise the need for capacity support in its allocations, but rather attempts to equally allocate funds across the different types of municipalities. Alternatively, the grant could now be more focused on intern uptake and the chances of such interns being absorbed into a municipality, which could explain why Metros have a higher average allocation than district municipalities.

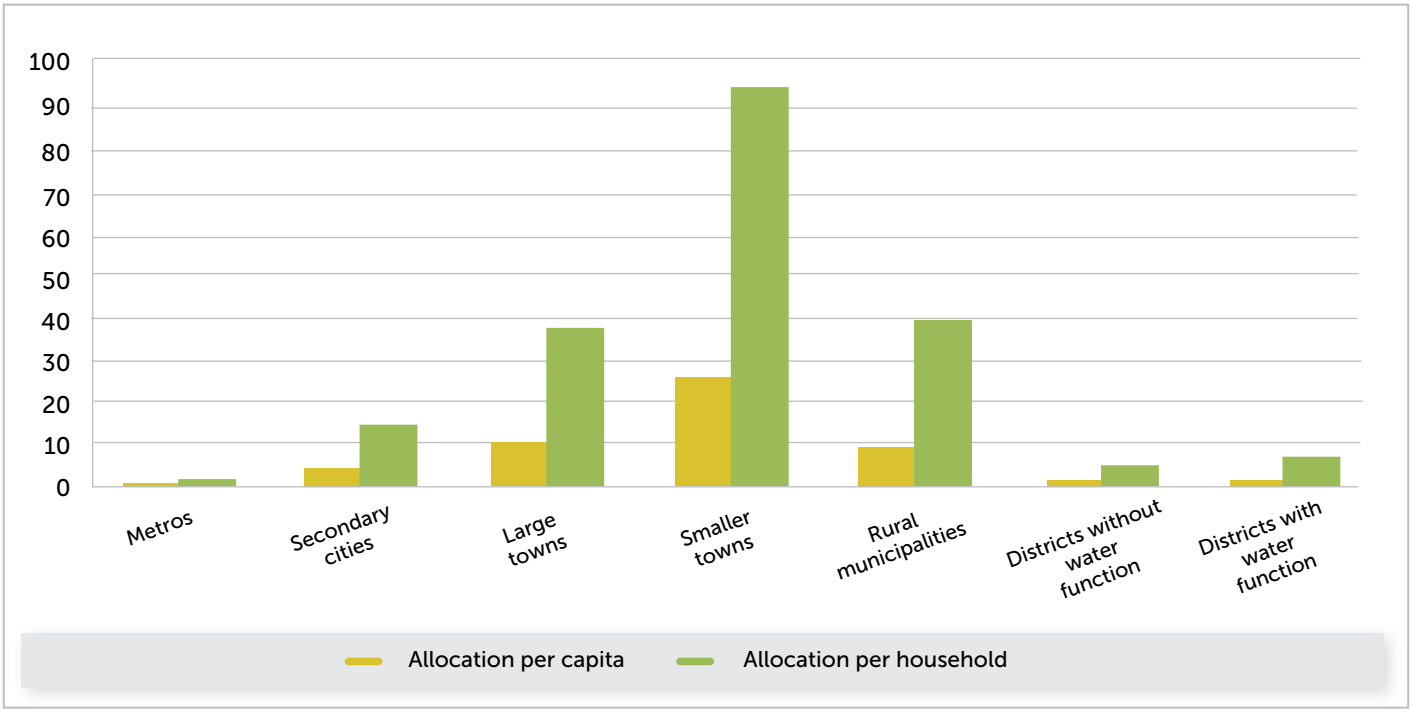
Figure 9.6: Total and average allocation per municipality – 2017/18 (R' thousand)



Source: Division of Revenue (2017)

Figure 9.7 extends the analysis above to look at FMG allocations per capita and per household. While it is important to point out that the FMG is not a population or municipal services-determined grant, the analysis in Figure 9.7 provides a sense of the relative sizes of the municipalities that benefit from the grant and the greater financial burden placed on such municipalities due to a larger population and households. Again, smaller municipalities benefit relatively more from the FMG relative to other municipalities. Such municipalities receive more than double that of a rural municipality per household allocation. Again, it is unknown whether these municipalities have been determined to have a greater need for such a grant.

Figure 9.7: Allocations per capita and per household – 2017/18 (rands)



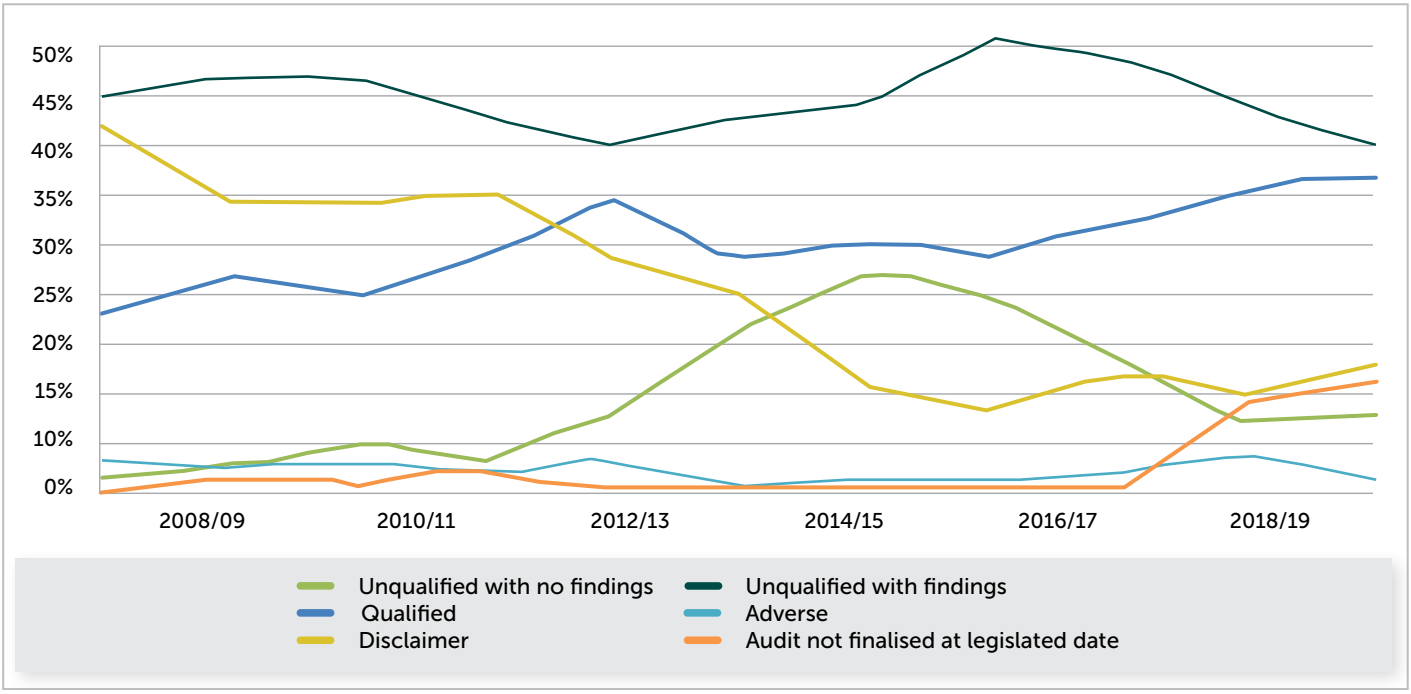
Source: Division of Revenue (2017); local government equitable share formula (2017)

Assessment of current municipal performance

The discussions thus far provided the comprehensive oversight and support framework that guides municipal financial management and supports the improved financial performance of municipalities. However, since the establishment of a consolidated local government in 2000, municipalities have displayed several examples of poor financial management and gross financial misconduct that has ultimately compromised their long-term financial sustainability.

This section illustrates trends in some of the financial performance measures of local government. In general, it illustrates that financial performance has not improved considerably in local government, despite the comprehensive oversight and support framework. There are various measures of financial performance. Figure 9.8 shows the different audit outcomes of the country's municipalities from 2008/09 to 2018/19. An unqualified audit opinion with no findings is essentially the benchmark of prudent financial management and municipal operating performance. While there was an increase in unqualified audit opinions with no findings across local government between 2012/13 and 2016/17, with a peak in 2014/15 (22%), most of the country's municipalities, in excess of 75%, received audit opinions with varying degrees of findings. This ranged from disclaimer audit opinions to unqualified with findings opinions. While there is a positive trend in terms of a reduction in disclaimer audit opinions, in general, prudent financial management remains a challenge in municipalities.

Figure 9.8: Audit outcomes – 2008/09 to 2018/19



Source: Auditor-General of South Africa (2020a)

According to State of Local Government Finances and Financial Management Reports (National Treasury, 2016–2019), over 40% of municipalities in the country implemented unfunded budgets (i.e. operated on negative cash balances after taking their expenditure obligations and revenue forecasts into account) from 2013/14 to 2015/16. This is a matter of concern. This number increased to over 50% in 2018/19 and 2018/19. These budgets are passed and implemented by municipalities, regardless of their unfunded status. Implementing an unfunded budget can result in perennial cash flow problems in the form of consistent budget deficits. This would result in the municipality being unable to fund its obligations in the long term. While national and provincial treasuries monitor the implementation of municipal budgets, the trends above suggest that there could be a lack of subsequent support or remedial measures to assist municipalities with

unfunded budgets. Alternatively, there could be fundamental problems within a municipality that negate the effectiveness of the support or recommendations provided by national and/or provincial government.

Qualitative analysis

This section summarises the findings of the qualitative analysis, which consisted of case study analysis of the oversight and support framework applied in five provinces. The qualitative analysis attempted to garner the current extent of the oversight and support mechanisms applied by national and provincial governments, and to ascertain the experiences of various role players. The latter would include the designers of the framework (national government), the implementers of the framework (provincial government) and the beneficiaries of the framework (local government).

As part of the qualitative methodology, the study used five provinces as case studies: the Eastern Cape, KwaZulu-Natal, Limpopo, North West and the Western Cape. As the study focused on the financial aspects of the oversight and support framework, interactions with the national and provincial treasury departments were prioritised. However, interaction also took place with CoGTA at a national level and their counterparts within the identified provinces. As such, information was also collected on other aspects of oversight and support beyond financial management, such as municipal institutional and governance performance.

What follows is a summary and analysis of the key themes and findings that emerged from the case study analysis and interviews with the selected national departments, provincial departments and municipalities.

a) Supervisory or oversight framework?

The narrative and key argument across this chapter is that the oversight and support provided to local government should be implemented within the spirit of cooperative governance, with obligatory support provided to local government being key in ensuring that municipalities are capacitated to deliver on their mandate and realise their autonomy. However, the oversight and support prescripts in the Constitution can create the notion of a supervision framework that promotes a paternalistic view from national and provincial government when engaging with local government. To reiterate, the Certification of the Constitution confirmed the vision of local government as "a structure for (local government) that, on the one hand, reveals a concern for the autonomy and integrity of (local government) and prescribes a hands-off relationship between (local government) and other levels of government and, on the other, acknowledges the requirement that higher levels of government monitor (local government) functioning and intervene where such functioning is deficient or defective in a manner that compromises this autonomy."

Therefore, a balance is required between implementing intergovernmental oversight and support, while respecting the autonomy of local government. As outlined above, the role of the oversight framework is to assist municipalities in realising their autonomy and constitutionally mandated service delivery responsibilities through a process where regulation, monitoring and support should be done in cooperation with local government. While this occurs to some degree, there are instances where regulations and monitoring is imposed on local government without proper consultation and input from the sphere that is impacted by such regulation.

The prescripts of the Constitution clearly and explicitly promote a system of cooperation as the basis for interaction between spheres. The notion of intervention is provided for in section 139, but this is a provision of last resort and is not there to penalise, but to protect municipalities from performance and service delivery failures. While national and provincial government have the constitutional mandate to prescribe legislation and regulation to provide the framework within which local government should operate, it was found that consultation and coordination can be improved between national, provincial and local government when implementing new regulations and reforms.

b) Current legislative prescripts exacerbate the duplication of intergovernmental oversight activities within municipalities

Government departments operate according to their respective legislative mandates. With respect to the specific roles and responsibilities regarding the financial management-related intergovernmental oversight and support of municipalities, key legislation has given rise to duplication of efforts. The primary pieces of legislation that outline roles and responsibilities related to financial management are the Constitution (RSA, 1996), the Municipal Systems Act, which was promulgated in 2000, and the Municipal Finance Management Act (MFMA), which was enacted in 2004. The custodian of the Municipal Systems Act is the minister responsible for local government (CoGTA), while the custodian of the MFMA is the Minister of Finance (National Treasury). To varying degrees, both pieces of legislation speak to municipal tariffs, revenue and expenditure management, yet reporting lines are different. This could inadvertently affect the reporting burden that municipalities experience and could create duplication in monitoring and support mechanisms. In addition, certain sector-specific legislation, such as the Water Services Act, also refers to certain financial issues, such as tariff setting and the development of norms and standards for tariff setting. This finding was one of the justifications for the review of regulatory, compliance and reporting burdens imposed on local government by legislation, undertaken by the South African Law Reform Commission in 2019, where it was acknowledged by the then Minister of Cooperative Governance that "the relevant provisions of the different pieces of legislation are sometimes duplicated and, at other times, contradictory" (South African Law Reform Commission, 2019: 1).

c) Asymmetry of capacity and extent of municipal oversight across provinces

The implementation of the oversight framework differs considerably across provinces. In some provinces, efforts are better coordinated and there is a better working relationship between the provincial government and the municipality, i.e. the ethos of cooperative governance is better applied in certain provinces vis-à-vis others. This results in a relatively stronger oversight framework implemented in some provinces compared to others. This presents itself in the form of succinct and efficient monitoring, and better support directly related to such monitoring. Therefore, these provinces are in a better position to assist their respective municipalities, improving overall outcomes and performance.

While the precise nature of the support offered by provinces differs, most of them offer variations of the following:

- Training
- Advice and recommendations
- Provincial workshops/intergovernmental fora for best practice and information sharing
- Technical advisors through the Municipal Financial Improvement Programme (MFIP)
- Councillor training

Furthermore, the effectiveness of the support mechanisms offered in provinces differs, possibly indicating varying levels of capacity across provinces to design and implement appropriate and effective support measures. This also applies to intergovernmental fora, as per the Intergovernmental Relations Framework Act, that exist at the provincial and district levels, where the functionality of such fora in terms of their extent, mandate and effectiveness differs across the provinces.

d) More regulation or less regulation?

During the interactions with municipalities, it was found that municipalities need to adhere to approxmiately 44 different statutory and non-statutory reporting requirements, which differ by municipality. The South African Law Reform Commission (2019) identified 22 original legislations and 17 subordinate legilsations that imposes regulatory obligations on municipalities. Local government in South Africa remains a sphere that

is in constant evolution towards a level of maturity that would result in an efficient and effective sphere of government, both in the political and service delivery sense. Given this current nature of local government, there are essentially two views around the role of regulations in the system. On the one hand, it is argued that a sphere that is prone to poor performance due to administrative capacity constraints and political immaturity should be highly regulated to control improper behaviour, impose performance standards and minimise inefficiencies towards the achievement of improved performance and service delivery. On the other hand, a local government sphere that is inundated with procedures and controls could create an environment that makes it impossible to adhere to the extent of such regulations. In other words, due to the inherent capacity constraints, municipalities will never be able to adhere to the excessive and complicated regulations and procedures placed on them. This is further exacerbated by the fact that adherence to such regulations becomes a measure of performance. It is the view of this research that basic regulations that establish and entrench a system of prudent financial management are a necessity and add value. However excessive regulations tend to either elicit compliance for the sake of compliance, which is not sustainable, or those municipalities that are just unable to comply (due to human capacity and financial resources) end up being continuously penalised. The extent and burden of regulation can also create capacity issues for the monitoring agents, such as provinces, as there is a financial and non-financial cost of monitoring regulations and providing support. It also creates the risk of monitoring becoming a 'tick box' exercise just to adhere to the regulatory requirements, without a holistic approach to see regulations and monitoring as a means to support and build capacity at the local government level and to ultimately improve performance. A useful approach would be to take a differentiated approach to regulation, whereby those that can, comply, and those that are unable to, are capacitated to a point where they are able to be compliant.

e) Asymmetric accountability across local government

While the Constitution respects the autonomy of each sphere of government, a series of checks and balances is placed on the performance of municipalities through various channels of accountability. The strength of an oversight framework depends on equilibrium across various channels of accountability in terms of its strength to ensure effective performance. Disequilibrium across the accountability framework results in certain forms of oversight being less effective than others, as decisions are skewed towards areas of greater accountability. This also impacts on the receptiveness of municipalities towards monitoring and support initiatives that are implemented by other spheres of government.

Related to the above, a challenge raised in all stakeholder consultations relates to a lack of substantive oversight and accountability by municipal councils. Municipal councils play a central role in a municipality and are the main decision-making structure. Together with the administration, municipal councils play a central role in determining a municipality's performance.

While not discounting the prevalence of weak national and provincial monitoring and support by national and provincial governments or the impact that an inefficient municipal administration plays in hampering the performance of a municipality, numerous stakeholders emphasised the role that councils play in, for example, endorsing unfunded budgets or not heeding the advice and recommendations provided by national and provincial stakeholders when they alert them to potential risks and what can be done to mitigate such risks.

f) Placing oversight and support within the process of regulation and intervention

Intergovernmental oversight and support of municipalities should ideally be linked to regulation, which informs oversight, and intervention. This results when oversight and support fail. All these components should be interlinked. For example, when new regulations are introduced and have elements that municipalities need to adhere to, monitoring activities should not only be extended to strengthen compliance, but the results of such monitoring should feed into the capacity-building initiatives that are

established. Likewise, to ensure improved synergy, coordination and a common vision, the entire pipeline of intergovernmental support needs to be considered; it should not be viewed in a silo-like fashion, as movement in one component should have a knock-on effect on the other components.

g) Coordination and pooling of resources aimed at monitoring and building capacity within municipalities

While each individual stakeholder across the continuum of oversight and support implements an array of initiatives and programmes to oversee and strengthen municipalities, very little substantive coordination exists. As a result, municipalities have to comply with the monitoring requirements of various departments, and they have to participate in an array of support/capacity-building initiatives that are spearheaded by different departments and bodies. Not only is this not an efficient way of utilising existing scarce financial and human resources, but it can lead to duplication and therefore dilute the value of the money that is being spent. As such, greater coordination and a potential pooling of resources should occur across departments at the national and provincial level.

The Western Cape is a potential best-practice example, where most requests for information and support initiatives are undertaken by provincial departments through (or with the knowledge of) the Western Cape Department of Local Government. Furthermore, common system challenges are remedied at a provincial level, with one solution developed and implemented across the province. An important area that must be resolved prior to the pooling of resources to ensure greater coordination and impact is for the key stakeholders responsible for the intergovernmental monitoring and support of municipalities to agree on a common framework and indicators that will be used to determine functional municipalities from those that are struggling.

h) The importance of evaluating monitoring, capacity-building and section 139 interventions in closing and improving the oversight, support and intervention framework

As much as reports of the Auditor-General contain critically relevant performance information regarding municipalities, there is also a need to ensure that monitoring, capacity building and section 139 interventions are evaluated with a view to determining what works or what does not. As noted by the Department of Planning, Monitoring and Evaluation (DPME), "evaluation is a time-bound and periodic exercise that seeks to provide credible and useful information to answer specific questions to guide decision making by staff, managers and policymakers. Evaluations may assess relevance, efficiency, effectiveness, impact and sustainability" (DPME, 2007:2). As highlighted in the definition, evaluations can provide invaluable information to practitioners and policymakers and should be automatically included in any public programme where public resources such as time and money are expended.

i) An assessment of the costs and benefits of the elements of the oversight and support framework

The White Paper on Local Government and supporting legislation are very clear on the role of national and provincial government towards local government with regard to regulation, monitoring and support. In accordance with the White Paper on Local Government, national government should do the following:

- Provide a legislative framework for local government
- Provide a framework for municipal capacity-building and support municipalities
- Develop an overall framework for monitoring and oversight to ensure the necessary levels of compatibility, uniformity and consistency across local government

The role of the provincial government is captured as follows:

- An intergovernmental role that ensures the establishment of forums and processes and promotes horizontal cooperation and coordination between municipalities in a province
- A regulatory role to oversee the effective performance of municipalities in carrying out their constitutional functions

- An institutional development and capacity-building role
- An intervention role

Section 105(1) of the Municipal Systems Act requires the Member of the Executive Council (MEC) responsible for Local Government to establish clear mechanisms, processes and procedures to monitor municipal performance and assess the support requirements to strengthen municipal capacity. Section 105(3) requires the MEC for Local Government to undertake the following when exercising section 105(1):

- Rely, as far as possible, on annual reports
- Make responsible requests to municipalities for additional information, taking the following into account:
  - The administrative burden on municipalities to furnish such information
  - The cost involved
  - Existing performance monitoring mechanisms, systems and processes

While it is well acknowledged that the development of new legislation and regulations require a resource (cost) assessment for the potential impacts on municipalities (and national/provincial departments), it is also important that a similar assessment be undertaken for oversight/monitoring activities, in accordance with the requirements of section 105(3) of the Municipal Systems Act. Furthermore, non-legislative monitoring and support initiatives are implemented with a cost in terms of time, effort and funds for both municipalities and the implementing department, but with no clear concomitant benefit from the use of these resources. It is important that a cost/benefit analysis be undertaken for current and new oversight/monitoring initiatives. This further emphasises the need for an evaluation framework across the oversight and support framework.

9.6 Conclusion and recommendations

In South Africa, the intergovernmental oversight and support provided to municipalities takes place within a flexible system of cooperative government that respects the distinctive, interdependent and interrelated nature of each of the three spheres of government. This system of cooperative government, in recognition of the potential for any sphere (in this case municipalities) to fall short of its constitutional mandate, makes provision for regulation, monitoring, support and – more intrusive – intervention. The constitutional provisions of these components aim to incentivise governments to achieve their ultimate mandate of the prudent stewardship of public resources to ensure the provision of quality services to citizens. This research identifies various aspects, which serve to hamper the effectiveness of the current framework, which, if working optimally, would be a central cog in strengthening local government performance, and helping to avoid more stringent, direct section 139 interventions. The analysis acknowledges the value being added by national and provincial governments in their monitoring and support of municipalities. This was strongly acknowledged by the majority of municipal stakeholders that were interacted with. There are, however, structural weaknesses in the intergovernmental oversight and support framework and its implementation that dilute even greater impact. It is these aspects that the recommendations that follow aim to address.

With respect to the role of intergovernmental oversight and support in avoiding a section 139 intervention, the Commission makes the following recommendations:

1. *As part of National Treasury's review of capacity-building grants, financial support to build capacity and institutional systems (such as the Finance Management Grant and the Municipal Systems Improvement Grant):*
   i. *should be disproportionately directed at lesser-resourced, poorer and more rural municipalities;*
   ii. *should make every effort to ensure that capacity-building efforts are comprehensively consulted with and agreed to with a municipality;*
   iii. *should either link capacity-building efforts to a municipality-specific diagnosis of capacity challenges or deficits, or be specifically aimed at addressing challenges picked up through intergovernmental monitoring; and*

iv. *should consider the consolidation of all capacity-building grants into one financial flow that is specifically linked to overall intergovernmental 'support' of municipalities. This will assist in the administrative and reporting burden placed on both grant administrating departments and receiving municipalities, and will further assist in streamlining the overall conditional grant framework.*

The Financial Management Grant and Municipal Systems Improvement Grant are critical for building financial management-related human capital capacity and systems. These are particularly important in the case of rural municipalities, which struggle to attract and retain skills. Furthermore, the Commission acknowledges and welcomes the review of capacity-building grants being spearheaded by National Treasury.

2. *The Minister of Cooperative Governance and Traditional Affairs, in enacting the provisions of section 105(3) of the Municipal Systems Act, should implement mechanisms to undertake a critical evaluation of the impact of the regulations, monitoring and support provided to local government, with an emphasis on the explicit cost-benefit analyses when new legislation, regulations, monitoring and/or support initiatives are introduced across the supervisory framework.*
   The cost-benefit analysis should do the following:
   i. *Assess not only the outcomes/performance related to the oversight and support framework (e.g. whether there are more funded budgets), but also whether monitoring and support is provided in the most efficient and effective manner (i.e. minimising the burden placed on municipalities).*
   ii. *Consider the DPME, which is based at The Presidency, for this role. Such evaluations should be undertaken periodically with larger reviews every five years.*

Conducting regular evaluations will assist government to pick up inefficiencies in resources and approach before too much time, effort and resources have been spent on a selected plan of action.

3. *Given that the current monitoring and support framework is applied uniformly across local government, government should reconsider its current approach to explore the principle of a differentiated method to municipalities when it comes to financial and non-financial reporting requirements, overall monitoring and support.*

A differentiated approach would ensure that the varying capacities of municipalities are taken into consideration and should lessen the reporting burden placed on smaller, poorly resourced municipalities. It will also ensure that challenges unique to specific types of municipalities are explicitly considered in the support framework. It is, however, recognised that deciding on the most appropriate basis for differentiating is not an easy and simple task. Hence, this is something that government should explore and consult over the short to medium term as its implementation will definitely serve to ease the reporting burden being faced by municipalities.

4. *The Minister of Finance should ensure that provincial treasuries are effectively capacitated to undertake their oversight and support role of local government in terms of financial management. In addition, government should consider developing a common framework to guide provinces in their oversight and support role towards the delivery of basic services.*

This can contribute to ensuring a more consistent application of this provincial government responsibility across the country.

5. *Government should review specific legislation that results in a duplication of the supervisory and regulatory roles of national and provincial government departments.*

Particular pieces of legislation that require review include areas within the MFMA, the Municipal Systems Act, the Municipal Structures Act and sector legislation. Such areas should be clarified so that the mandates of specific departments are clear. In areas where this cannot be effectively achieved, legislation should be amended to clarify and delineate the roles and responsibilities of different stakeholders so as to avoid duplication and ensure alignment with the strategic expertise and focus of respective departments.

CHAPTER 10:
Leadership, Management and Governance for Sustainable Public Service Delivery

10.1 Introduction

The success or failure of the response to the COVID-19 pandemic is determined, among other things, by the leadership style and approach used by leaders to deal with the crisis. The response to the pandemic warrants a specific type of leadership, decision making and action. It needs innovative and collaborative leadership, in particular, by public leaders to curtail its spread. Public leadership is an integral part of effective public governance and entails governmental and societal approaches that are vital to mobilise actions effectively, efficiently, economically and ethically at all levels of government, and with the participation of all stakeholders.

The response to the COVID-19 pandemic requires leaders, and specifically public leaders, to think creatively. Public leaders should take responsibility and be accountable in their response to the pandemic. However, dealing with a converged crisis, in which economic, social, practical and political crises have global implications is a complex undertaking. Bhalla (2020) identifies and analyses various leadership styles that are required to make decisions. However, in dealing with the COVID-19 crisis, just as in the case of the delivery of services in the public sector, the choice of an appropriate leadership style is not obvious. Adaptive leadership, which embraces the strengths of leadership approaches borrowed from transformational, transactional, autocratic, democratic and servant leadership models, appears to be the most suitable when dealing with a converged crisis like COVID-19, as is indeed the case with most of the service delivery challenges in the public sector.

The pandemic has affected different places at different time phases and waves, reminiscent of a forest fire, which can be stopped in some places, but not in others, where it may keep burning as long as there is wood to fuel it. In such a situation, leadership must provide advanced planning and preparation, as well as central design and strategy, to take the necessary action. Moreover, leadership has to assume a coordinating role for crisis management.

A pandemic such as COVID-19 requires leadership, particularly public leadership, throughout various disciplines to work collectively in implementing common objectives, strategies and plans of action to formulate and propagate public health guidelines, organise and employ medical and health personnel, and supply equipment where it is most required. This collective process is susceptible to conflict. Some of these stakeholders could pursue their own interests that are contrary to the common objective. Strong leadership is therefore required to resolve such conflicting objectives and encourage the different public agents to advance the common objective. Strong central leadership is critical for a sound national strategy to combat COVID-19.

In South Africa, the response of the country's leadership to the COVID-19 pandemic was acclaimed as outstanding in its implementation of non-pharmaceutical interventions to curtail the spread of the COVID-19 pandemic. President Cyril Ramaphosa was applauded extensively for demonstrating decisive leadership, bolstered by the Minister of Health, Dr Zweli Mkhize, to prevent the transmission of the virus by acting quickly and implementing a hard lockdown. However, the non-adherence to some of the lockdown measures translated into a continued increase in infections, resulting in the country being placed among

the ten countries in the world with the most COVID-19 cases in July 2020. This somehow tainted the good leadership that was associated with the initial response to the pandemic. The leadership requirements required to respond to the COVID-19 pandemic are similar to those needed to accelerate routine service delivery, such as the delivery of infrastructure, which is the subject of this chapter.

A critical objective of the public service is to deliver services to all South Africans in an efficient, equitable and sustainable manner that contributes to the progressive realisation of citizens' socioeconomic rights, as enshrined in the Constitution. Service delivery performance in the public service could either be inhibited or accelerated, depending on how well its leadership and governance framework is aligned to its policy objectives. The stronger and more suitable the leadership and governance framework, the more likely the public service will be to achieve its service delivery outcomes. The National Development Plan (NDP) identified tensions in the political-administrative interface, an instability of administrative leadership, skills deficits, the erosion of accountability and authority, poor organisational design and low staff morale as factors hindering service delivery. According to the NDP, weak managerial capacity and a lack of leadership prevent these issues from being addressed. Since South Africa, like other countries in the world, experienced the COVID-19 pandemic early in 2020, the need for good governance and strong leadership escalated to ensure the efficient implementation of government's response plan to the pandemic. The response plan not only provided for socioeconomic relief measures, but also for the delivery of key infrastructure, which included the delivery and preparation of quarantine centres, emergency shelters, and health facilities, as well as addressing matters relating to water infrastructure and services. The importance of good leadership, good governance and accountability during COVID-19 is exacerbated by the fact that key decisions and the approval of processes needed to be made very swiftly. This, however, also created an environment within which the abuse of processes and systems could occur.

Accountability is another vital aspect of good leadership and governance. The Auditor-General of South Africa (AGSA), in releasing the municipal audit results for the 2017/18 financial year, noted that the state of deteriorating audit outcomes shows that various local government role players have been slow in implementing their audit recommendations, and in many instances, have even disregarded them. This resulted in accountability for financial and performance management worsening in most municipalities. According to the AGSA, the current governance relapses that beset local government could only be rectified if its leadership were to lead the drive towards wholesale clean administration in the public sector. This challenge is not limited to the local government sector. The Public Finance Management Act (PFMA)'s 2018/19 consolidated general report on national and provincial audit outcomes (AGSA, 2019) also reflected on disappointing audit results.

Furthermore, the AGSA raised concern that municipalities lack accountability for finances and that accountability should trigger service delivery. Lack of discipline results in irregular expenditure and service delivery failures. In that report, the AGSA also indicated that irregular municipal expenditure had ballooned by more than 50%, and that this could be attributed to the lack of internal controls and accountability. If there are no punitive actions for wrongdoing (being held accountable for failure to comply with legislation or internal controls), one of the consequences is that irregular expenditure may continue unabated.

Given this background, the study analyses various interrelated factors, such as public leadership, good governance and accountability, in as far as they relate to big and complex infrastructure projects and how these factors hamper the effectiveness of the public service.

The objectives of the chapter are as follows:

- Critically analyse the impact of leadership, management, governance and inter-governmental relations in sustainable service delivery using two catalytic human settlement projects as case studies:

Duncan Village and Greater Cornubia. In addition to these two case studies, the Giyani Bulk Water Project is also used to provide some insights on leadership and governance issues. It is, however, important to note that, unlike the two catalytic housing projects, no interviews were conducted in respect of the Giyani Bulk Water Project. The analysis of the Giyani Bulk Water Project therefore relied on secondary information, but still provides very useful insights.

- Assess how the lack of accountability has resulted in repeated non-compliance with regulations and internal controls, using the audit outcomes of the Department of Human Settlements, Water and Sanitation (DHSWS).

10.2 Research methodology and data

The overriding aim of this chapter is to provide qualitative information on the relationships between leadership, management, governance, intergovernmental relations and service delivery. This broad aim of the chapter has two components:

- Address the service delivery challenges related to intergovernmental relations, as well as leadership and governance
- Address the issue of accountability

Intergovernmental relations, leadership and governance challenges – catalytic housing project case studies and the Giyani Bulk Water Project

The first component of the study seeks to undertake an analysis of the impact of leadership and governance on service delivery, as well as how the current intergovernmental relations system affects efficient and effective planning, and the implementation of infrastructure projects.

The study adopts the qualitative approach in the form of a case study. In this context, the human settlements sector has been selected. The sector is implementing a number of projects, including catalytic housing projects. The rationale behind choosing the DHSWS as a case study is because housing delivery is a concurrent national and provincial competency, but is delivered by municipalities. For the purposes of this chapter, two catalytic housing projects have been selected:

- **Greater Cornubia in KwaZulu-Natal:** The eThekwini Metropolitan Municipality aimed to deliver 25 000 housing opportunities, with 600 units already completed. Its implementation reflects a constructive partnership between government and the private sector (Tongaat Hulett Sugar).
- **Duncan Village in the Eastern Cape:** The Buffalo City Metropolitan Municipality expected to deliver 21 235 housing opportunities. It experienced a number of challenges, which resulted in court interventions, among other things.

The rationale for these two catalytic housing projects is premised on their divergent performance. The Greater Cornubia project is relatively well implemented and is expected to be regarded as a best practice case study, whereas Duncan Village is experiencing a number of implementation challenges and is expected to expose service delivery challenges related to intergovernmental relations, as well as leadership and governance. Information-gathering methods entailed interviews with the DHSWS, the Housing Development Agency (HDA), and with municipal officials of the eThekwini and Buffalo City metros. Furthermore, content document analysis was conducted with respect to these projects.

The Giyani Bulk Water Project was selected on the basis of it being one of the big (infrastructure) water projects that was intended to be completed in 2018/19 and was expected to supply portable water in 55

villages in Giyani, Limpopo. The project was not completed on time, which resulted in cost escalations. While the plan was to also have engagements in the form of interviews with relevant officials and project managers (just as in the case of the catalytic housing projects), challenges were encountered, and these planned engagements did not materialise. However, key lessons could be learnt from information gathered through secondary sources, which confirmed that leadership and managerial challenges were encountered during the implementation of the project.

Accountability

One of the consequences of the lack of or ineffective accountability is that irregular expenditure may continue unabated if there are no punitive actions for wrongdoing (being held accountable for failure to comply with legislation or internal controls). In this case, the study used the audit outcomes of the Department of Water and Sanitation (DWS) from 2014/15 to 2019/20 to determine whether there had been in increase or decrease in irregular expenditure. This is in line with the AGSA's report, which indicated that municipal irregular expenditure had ballooned by more than 50%. This could be attributed to a lack of internal controls and accountability.

10.3 Findings

Key findings on the implementation of catalytic housing projects

With respect to the catalytic housing case studies, findings revealed the following:

Unfunded business plans: All catalytic housing projects are developed and approved according to determined requirements through various processes, including the approval of developed business plans by the municipalities, as well as by provincial and national government. A key challenge, however, is that these approved business plans are often not properly costed. This finding is aligned with the literature on the leadership and management of big infrastructure projects, which distinguishes the metrics of catalytic housing projects such as budget as one of the key sources of big infrastructure project complexity to warrant specialised project management and leadership (Brookes & Locatelli, 2015).

Lack of dedicated and adequate funding to implement projects: Catalytic projects are funded by the provincial government through the Human Settlements Development Grant (HSDG) and by the metros through the Urban Settlements Development Grant (USDG). Within the HSGD, provinces have the discretion to make allocations to catalytic housing projects. Similarly, metros also enjoy discretion on making allocations to catalytic housing projects from the USDG. Although catalytic projects are determined and agreed at Ministerial and Member of the Executive Council (MINMEC) level, divergent provincial and municipal priorities in housing projects could exist, resulting in inadequate funding for catalytic projects, which hampers the attainment of targeted housing units within the targeted timeframes.

The allocation of the HSDG to provinces means that, in some cases, municipalities are in the dark regarding funding for catalytic projects. This is further exacerbated by the slow process of accrediting municipalities with housing functions at Level 2 and Level 3. This ensures that, in the main, the flow of HSDG funding is from national government to the provinces, rather than directly to the municipalities. One of the municipalities interviewed indicated that its Level 2 accreditation had been revoked, reflecting a regression in its status and its ability to receive and manage housing funding. Interaction with the municipalities and the HDA revealed that, given the difficulties in accessing funding for catalytic and other housing projects, municipalities resort to utilising their own budgets, on the understanding that they will be refunded by the provinces. However, this hardly ever materialises. This finding confirms the literature reflections on public sector leadership, which

postulate that leadership in the public sector is confronted by the challenge of improving service delivery to meet the diverse needs of a heterogeneous constituency (Nkwana, 2014). It is also aligned with the literature on the complexity of implementing big infrastructure projects (Haidar & Ellis, 2010).

Intergovernmental coordination in the implementation of projects: The wide range of role players in the implementation of catalytic projects includes, among others, role players in the human settlements, roads and transport, and water and sanitation sectors. These stakeholders have divergent priorities in terms of infrastructure plans and sources of funding. The HDA is mandated with the project management of catalytic projects. However, due to the lack of capacity in several municipalities, the DHSWS decided to expand the HDA's mandate to include implementation. This effectively results in both the HDA and the municipalities becoming implementers of catalytic housing projects. Tensions between municipalities and the HDA are therefore inevitable. Engagements with municipalities revealed that, in instances where they are not implementors of a catalytic housing project, they are not properly consulted on key decisions, including the appointment of service providers (contractors), even though the project is implemented within their jurisdiction. Poor intergovernmental coordination delays project implementation. A case in point is the Duncan Village catalytic housing project, where two service providers were appointed (by the HDA and by the municipality, respectively) for the same project. This resulted in massive delays in the implementation of the project and costly legal action. This finding is in line with the situational theories of leadership when task-centered leaders (provincial leadership in this case) perceive their obligation as overseeing their subordinates (municipalities in this case) and telling them what to do, how to do it, and when and where to do it. It is also aligned with the theory of authoritarian leadership, which, according to the literature, is an illegitimate form of political leadership (Blunt & Jones, 1996).

Political interference: The interviews with municipalities accentuated instances of political interference in the implementation of catalytic housing projects. One of the municipalities narrated an occurrence where a province appointed a contractor justified as being a political instruction from higher political principals. Municipal officials are unable to challenge political instructions, no matter how disruptive they may be, in the implementation of catalytic housing projects. Furthermore, political factions within political parties play themselves out in the implementation of catalytic housing projects, given party political dynamics. One of the municipalities in the case study indicated that tensions between the mayor (who belonged to a particular faction of the political party governing the municipality) and Members of the Executive Council (MECs) (aligned to another faction) contributed to a delay in the implementation of a catalytic housing project. This finding is in line with the literature on political leadership in the South African context, which asserts that political infighting and related clashes between the political and management components of government adversely affect service delivery (Masuku & Jili, 2019).

Absence of policies and regulations: The presence of policies and pieces of key legislation plays a key role in resolving several issues. The absence of policies and clear regulatory frameworks means that the adjudication of issues pertinent to the implementation of catalytic projects is left to the judicial system.[1] This implies that the Judiciary instructs the Executive on what is to be done on policy matters that could easily have been resolved through policy and legislation. This finding is in line with the literature on leadership in the public sector, which postulates that there is a growing demand for public sector leaders to carry out managerial and leadership tasks, and to deliver a fundamental process of change, restructuring, process improvement and transformation (Nkwana, 2014).

Lack of availability of land: In urban settings or in metropolitan areas, one of the major constraints hampering the implementation of catalytic housing projects is the unavailability of developable and suitably located land. This is primarily driven by urbanisation and the influx of individuals from within and outside

[1] See the case of Duncan Village.

South Africa, resulting in a mushrooming of informal settlements. While qualifying informal settlement dwellers could be accommodated through the provision of housing opportunities, the bigger challenge is with respect to those who do not qualify. Municipalities must also find alternate ways to accommodate non-qualifying informal settlement dwellers. In some instances, once a municipality has identified land for a catalytic housing project, individuals are quick to invade that land and construct squatter camps, expecting to be provided with alternative accommodation and housing units once a housing project is completed. Interviews with municipal officials revealed that law enforcement is failing to assist municipalities in dealing decisively with land invasions. While the South African Police Service (SAPS) can enforce court orders, these are only enforceable in its physical presence.

Key findings on the Giyani Water Services Project

Supply chain irregularities and project delays: The DHSWS used the regional bulk infrastructure grant to fund the project and appointed the Mopani District Municipality to implement it. In 2010, a service provider was appointed to build the Nandoni pipeline. However, the appointed service provider was only formalised as a business entity after it had secured the tender. In essence, this meant that this service provider did not exist before the tender was issued, and it had no employees, assets or income. Consequently, the award was legally contested by an unsuccessful bidder. In 2012, the court ordered the contract to be cancelled, citing fraud by the municipality in 2014[2] , resulting in a two-year delay in the implementation of the project. This shows a lack of technical leadership as it relates to supply chain management issues. This finding is in line with the reflections of the literature on corruption on big infrastructure projects, which state that corruption affects the performance of big infrastructure projects, resulting in the delivery of works with limited social benefit, delays in delivery times and increases in infrastructure costs (Wells, 2014).

Poor political leadership: Given that some work was done, the Supreme Court of Appeal ordered the DHSWS to determine the scope of the work required to perform remedial work to complete the construction of the pipeline and other works for the purposes of publishing a new tender for the Giyani Water Services Project. However, the then Minister of Human Settlements, Water and Sanitation directed Lepelle Northern Water (Lepelle) to act as the implementing agent in violation of the Supreme Court order, which required a tender for the remediation and completion of the works. The Minister further instructed Lepelle to appoint a service provider, which was done without issuing a tender as per the court order. Consequently, the service providers that were appointed by Lepelle to complete the project, instead, initiated other interventions that were outside the scope of the project. These interventions included rehabilitating boreholes and building emergency reservoirs, reticulation systems and new water treatment facilities. All these project scope creeps were done without proper technical planning, budgeting or procurement processes. This non-compliance with a court order not only demonstrates poor political leadership, but also had cost implications, given that it resulted in further legal contestations and project delays. This finding confirms the postulations by the literature on political leadership in the South African context, which assert that administrative components should be free from politicisation, and that the politicised bureaucratic model gives politicians the power to determine how bureaucracy in the public sector operates, thus making politicians dominant and leading the administration under the politicised bureaucratic model (Koma & Modumo, 2016). It also reflects a lack of accountability of the political and administrative leadership.

Escalation of project costs: The Giyani Water Services Project was initially costed at R247 million. During the audit of the 2016/17 financial year, R2.5 billion had already been spent, and this was projected to increase to R2.8 billion. The AGSA found that the contractors had been irregularly appointed, and that many of their claims were clearly false (AGSA 2017b). An incident of tender fraud, as detailed above, triggered a frenzy of mismanagement and major corruption, resulting in a massive escalation of project costs. There is potential

[2] Esorfranki Pipelines v Mopani District Municipality (40/13) [2014] ZASCA 21 http://www.saflii.org.za/za/cases/ZASCA/2014/21.pdf

for further cost escalations because the project is ongoing and has not yet been completed. This finding is aligned with the literature on the leadership and management of big infrastructure projects.

Key findings on leadership style and the effectiveness of infrastructure projects and accountability

a) Leadership style and the effectiveness of infrastructure projects

The style of leadership does not only determine the success or failure of an infrastructure project, but also the effectiveness and relevance of the infrastructure project being delivered. Dictatorship would entail implementing an infrastructure project in a community and for the intended beneficiaries without involving those communities and intended beneficiaries, but expecting the beneficiaries to accept and be satisfied with the infrastructure delivered and provided. This was common in infrastructure delivery in South Africa with respect to housing delivery during the apartheid regime, and even in the early years of democracy.

Even during the early years of democracy, the South African government continued to follow the apartheid housing delivery patterns as housing units were delivered on the periphery of the cities and without involving the intended housing beneficiaries. Therefore, while the government has delivered housing units, a number of those units are on the outskirts of the cities. This has resulted in unhappy beneficiaries who continue to spend a significant portion of their disposable income on transport as those houses are located far from areas of economic opportunity.

Delivery of infrastructure without involving the intended beneficiaries results in ineffective or inappropriate and irrelevant infrastructure. In some instances, the delivery of infrastructure without involving the communities and beneficiaries has huge cost implications for the government and fiscus, for example, delivering housing units on the outskirts of the cities requires public transport subsidies to assist commuters. The better solution could probably have been the delivery of cheaper rental housing units closer to areas of economic opportunities. This could have been highlighted as a key matter for consideration through public participation and engagement with communities and beneficiaries. As is characteristic of government policy, its implementation may have been inconsistent in so far as engaging with potential housing beneficiaries. It is, however, important to note that, over and above community involvement, other key issues in the delivery of housing infrastructure include the housing policy, integrated planning and funding.

A consultative leadership style includes thorough consultation at various levels, from the planning process through to implementation. No one who will be part of the project (neither its beneficiaries nor those directly or indirectly affected by the project) should be excluded in any of the stages of the project. Consultative leadership includes meeting with the community in which an infrastructure project will be located, and talking to the people of that community and the intended beneficiaries. For example, for a municipality or province to implement a housing project within a particular community, engagements would be required with the citizens of the locality in which that project will be situated, as well as with those who would directly benefit from the project itself: the beneficiaries who would be allocated houses upon completion of the project. In fact, consultative leadership would go as far as involving all other key stakeholders, such as the private sector and departments other than the key implementing department.

The two catalytic housing projects used as a case study – Duncan Village in the Eastern Cape (Buffalo City Metro) and Greater Cornubia in KwaZulu-Natal (eThekwini Metro) – confirmed that the style of leadership and decision making is key to the successful implementation of infrastructure projects. There are a number of role players in the implementation of a catalytic project. Apart from the community in which the project is located and the direct beneficiaries (who would be allocated housing units upon completion), other key stakeholders or sectors include stakeholders in the human settlements (national and provincial), roads and transport, water and sanitation, health and education sectors. The private sector is also a key stakeholder as, in some instances, land is not owned by the government or by municipalities.

The implementation of the Duncan Village catalytic housing project reflects the autocratic leadership that dominated the apartheid era in South Africa. The implementation of this project is characterised by a high degree of control, coerciveness and directiveness by political leaders, thus reflecting the common characteristics of an autocratic leadership style. In contrast, the implementation of the Greater Cornubia catalytic housing project reflects the democratic leadership style that dominated post-apartheid leadership. The implementation of this project is characterised by participation, discussion and group decisions by all stakeholders, thus reflecting the major features of the democratic leadership style.

b) Leaders' accountability to citizens

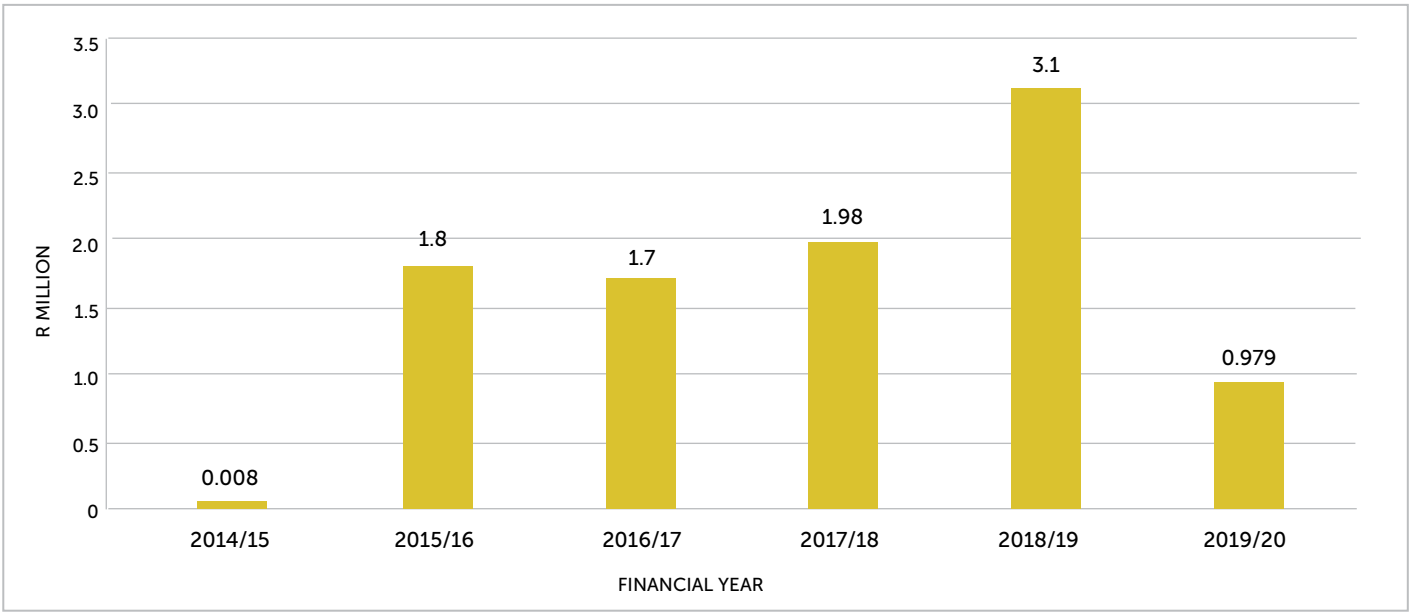
In terms of the Municipal Systems Act, Act No. 32 of 2000, all municipalities must develop an Integrated Development Plan (IDP) as a method to plan future development in their areas. IDPs are planning approaches for municipalities that intensively involve municipalities and their citizens to find the best developmental solutions, informed by the communities' existing conditions, challenges and resources to achieve long-term development.

The leadership of the Greater Cornubia catalytic project adhered to the principles of accountability, which resulted in the successful implementation of the project. However, the leadership of the Duncan Village catalytic project did not adhere to the accountability policy framework, and the project was consequently poorly implemented.

c) Irregular spending by the Department of Water and Sanitation

Irregular expenditure is expenditure that was not incurred in the manner prescribed by legislation. Such expenditure does not necessarily mean that money has been wasted or that fraud has been committed. It is an indicator of non-compliance with the process that needs to be investigated by management to determine whether it was an unintended error, due to negligence or done with the intention to work against the requirements of legislation. Irregular expenditure for the DWS increased from R88 million in 2014/15 to R3.1 billion in 2018/19, as reflected in Figure 10.1. There was an improvement in 2019/20 as irregular and fruitless expenditure was just under R1 billion (979 million). While irregular and fruitless expenditure decreased in 2019/20 compared to 2018/19, a matter of a concern is the fact that there is a recurrence of similar issues, including the extension of contracts not approved by delegated officials, and irregularities in tender processes.

Figure 10.1: Irregular expenditure by the Department of Human Settlements, Water and Sanitation, 2014/15–2019/20



Source: Auditor-General South Africa (2015, 2016, 2017a, 2018, 2019, 2020b)

Infrastructure delivery and the progressive realisation of socioeconomic rights

The delivery of key and basic infrastructure improves access to basic services and contributes to the progressive realisation of socioeconomic rights, e.g. the right to adequate housing, which is one of the key basic human rights enshrined in the Constitution of the Republic of South Africa. The right to adequate housing is interlinked with other rights, including the right to sanitation and water. Therefore, failure to deliver the necessary basic infrastructure, such as housing and water infrastructure, as a result of poor leadership and governance in key sectors, infringes on the progressive realisation of citizens' socioeconomic rights.

10.4 Conclusion

While the fiscus is constrained, financial resources made available to address service and infrastructure backlogs are not optimally utilised in some instances.
Moreover, some projects are not properly planned and implemented, and therefore remain incomplete or are not completed on time, resulting in cost overruns due to various reasons, including weak leadership with respect to project planning, implementation and accountability. Delays in the completion of infrastructure projects and cost overruns have implications for the progressive realisation of rights to basic services. This implies that ineffective leadership negatively impacts on the progressive realisation of citizens' rights to basic services and deprives citizens of these services. It is therefore key that leadership in different levels of government should always strive for the progressive realisation of rights to basic services. A comprehensive consideration of the progressive realisation of the right to basic services is beyond the scope of this chapter and is an area that should be considered for future research.

Findings from the study revealed, among other things, a lack of dedicated and adequate funding, a lack of intergovernmental coordination, political interference and poor political leadership, the absence of policies and regulations, supply chain irregularities and project delays, and an escalation of project costs. These findings largely confirm the literature review reflections that have been cited above on the different domains of leadership. Another key determinant of the failure or success of an infrastructure project is the leadership style. Findings from the study show that a consultative or democratic style of leadership resulted in the successful implementation of the Greater Cornubia catalytic housing project. However, the Duncan Village catalytic housing project was poorly implemented because it adopted an authoritarian leadership style. These conclusions are aligned with the theories of leadership as articulated and cited above.

With respect to the Giyani Bulk Water Project, leadership and governance challenges included poor political leadership and interference, as well as failure to comply with supply chain regulations, which resulted in delays in project completion and escalated costs. The increasing rand value of irregular expenditure in audit outcomes of the DHSWS (2014/15 to 2018/19) confirms that little or no efforts were made to implement the recommendations of the AGSA and is indicative of a lack of consequence management.

10.5 Recommendations

With respect to improving the delivery of infrastructure projects through effective leadership, the Commission makes the following recommendations:

1. *The Minister of Finance, in the Division of Revenue, should ensure that commitment to compliance with legislation and policy frameworks is formalised with all participants in an infrastructure project prior to the commencement of the project, with financial consequences for compliance failures clearly set out. This will ensure that policies and clear regulatory frameworks are in place to avoid judiciary involvement and pronouncing on what should be done on policy matters that could have been easily resolved through policy and legislation.*

2. *The Minister of Cooperative Governance and Traditional Affairs should review the intergovernmental coordination policy framework and consider strengthening intergovernmental coordination both vertically and horizontally. The intergovernmental relations arrangement clearly defines how the three spheres of government should work together in the implementation of a number of mandates, including infrastructure delivery, but is silent on how coordination between these spheres should be managed.*

3. *The Minister of Finance, in the Division of Revenue, should incentivise consequence management. This will ensure that all public office bearers are held legally and personally responsible when they transgress supply chain management policies in the implementation of infrastructure projects. The implementation of infrastructure projects, among other things, shows non-compliance with supply chain management policies, which results in a number of challenges that encompass project cost overruns, court interventions and project delays. Therefore, strict enforcement of various pieces of legislation, which seeks to provide for remedial action in ensuring and recovering losses suffered by the state, is necessary.*

LOOKING TO THE FUTURE

Strengthening budgetary institutions to improve fiscal and service delivery performance post-COVID-19

South Africa is beset by growing concerns of poor fiscal and delivery outcomes. COVID-19 has laid bare the country's vulnerable fiscal position and exposed deep-seated delivery incapabilities as many of the relief interventions introduced during the pandemic were marred by a combination of corruption, as well as delivery shortcomings. The success achieved through public spending depends largely on the attention public authorities devote to the design and running of fiscal institutions. Neglect of these institutions, which deals with the various formal and informal aspects of expenditure and delivery management, can have far-reaching implications for fiscal, delivery and economic performance. Suboptimal budgetary institutions tend to attenuate the effect of public spending on delivery outcomes and economic growth.

The Commission's 2023/24 Submission for the Division of Revenue takes a closer look at the role of budgetary institutions in fostering fiscal discipline, facilitating the strategic prioritisation of expenditure and improving the effective utilisation of resources. Budgetary institutions relate to the rules, procedures and systems needed to translate public expenditure into socially desirable outcomes. Without these important levers, growth becomes less responsive to fiscal interventions, policies and budget become misaligned, delivery fragmentation and corruption fester and broader development withers.

Among other things, the submission analyses the fiscal transfer trajectory over time with a view to determining alignment to the constitutional principles and long-term objectives in section 214a–j, and investigates the responsiveness of economic growth to a COVID-19 economic recovery plan, the impact of public spending on economic transformation, budget cuts and socioeconomic rights, as well as the impact of corruption on public spending outcomes.

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