



POST BUDGET ANALYSIS WITH A FOCUS ON RURAL HEALTH

**SUBMISSION BY THE RURAL HEALTH ADVOCACY PROJECT
TO THE SELECT AND STANDING COMMITTEES ON FINANCE**

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March 2020

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CONTENT

EXECUTIVE SUMMARY.....	2
INTRODUCTION.....	3
THE IMPACT OF FISCAL SPACE ON SOCIAL PROTECTION.....	5
SPENDING ON HEALTH CARE.....	10
REVENUE.....	16
RECOMMENDATIONS.....	21
CONCLUSION.....	21

EXECUTIVE SUMMARY

RHAP's submission problematizes that social spending such as spending on health, education and human settlements is vulnerable to issues of fiscal space arising out of fiscal risks emanating from State Owned Entities. It emphasizes the importance of protecting this spending in order to protect the most vulnerable groups (including those living in rural areas) who rely on it. It is important that social spending is protected not only after crises have been prioritised, but while dealing with crises. The National Health Insurance if correctly implemented can deliver significant benefits, but a poorly funded and implemented NHI could further erode already weak public capacity. In this respect we are cautiously optimistic with measures in this budget that support the strengthening of public sector capacity to deliver the NHI. An important discussion that is missing from the public discourse is assessment of fiscal space to implement to the NHI. Fiscal space analyses are a useful input into health financing reforms and strategies. In light of this context of issues of fiscal space, RHAP's submission highlights studies on fiscal space for health and selected studies on tax compliance to offer potential recommendations to improve revenue collection.

INTRODUCTION

This submission provides analysis relating to Budget 2020, as tabled on 26 February 2020 by the Minister of Finance.

The context in which this submission is made is one of weak growth, record high unemployment, a growing budget deficit, rising public debt and the fastest growing area of expenditure being debt service costs.

RHAP's submission problematizes that social spending such as spending on health, education and human settlements is vulnerable to issues of fiscal space arising out of fiscal risks emanating from State Owned Entities.

In November 2019, the International Monetary Fund, in its mission concluding statement on its 2019 Article IV Mission to South Africa noted that "South Africa's undeniable economic potential remains largely untapped and the recent economic performance points to rising risks". Three key challenges that the IMF highlighted were (1) persistently weak economic growth, (2) deteriorating fiscal and government debt, and (3) major difficulties in the operations of state-owned enterprises (SOEs). The IMF noted that the economy has been left with high and rising debt, low growth, and limited fiscal space to respond to shocks. The concluding remarks contained views on how to reinvigorate economic performance and restore fiscal discipline. The IMF's remarks entailed that fiscal consolidation of about 3 percent of GDP is needed, mainly expenditure-based but supported by tax administration improvements. The IMF's remarks also recommended that these expenditure-based rationalizations will need to focus on compensation costs and transfers to SOEs. The IMF continued that "efforts are also needed to improve spending efficiency, particularly on education and health, to deliver better quality public service".

In June 2019, the IMF completed a study on social spending—defined as social protection, health and education spending— which it regards as a key policy lever for promoting inclusive growth, addressing inequality, protecting vulnerable groups during structural change and adjustment, smoothing consumption over the life-cycle, and stabilizing demand during economic shocks.

RHAP highlights these remarks of the IMF and the IMF's study on social spending, because we are concerned that the IMF's advice that expenditure-based rationalizations will need to focus on compensation costs have been heeded, while the advice that transfers to SOEs be reduced is

not feasible in the MTEF as there is a need to address the issues at Eskom and other SOEs. Therefore, instead, spending reductions came from conditional grants for provinces and municipalities and particularly from human settlements (R14.6 billion), health (R3.9 billion), education (R5.2 billion), transport (R13.2 billion) and municipal infrastructure (R2.8 billion). It is less clear how Treasury and the Departments of Education and Health intend to 'improve spending efficiency, particularly on education and health, to deliver better quality public service'.

South Africa is a signatory to the the International Covenant on Economic, Social and Cultural Rights. In an open letter on 16 May 2012, addressed by the Chairperson of the Committee on Economic, Social and Cultural Rights to States parties to the International Covenant on Economic, Social and Cultural Rights, the Committee, the Chairperson wrote to highlight that the Covenant provides important guideposts which can help States parties to adopt appropriate policies that deal with the economic downturn while respecting economic, social and cultural rights. RHAP wishes to remind the Finance Committees and National Treasury to reference the covenant, which South Africa ratified. The letter deals specifically with the protection of the Covenant rights in the context of the economic and financial crisis.

We reiterate that it is important that the Finance Committees and National Treasury recognize the need to protect this spending in order to protect the most vulnerable groups (including those living in rural areas) who rely on it. It is important that social spending is protected not only after crises have been prioritised, but while dealing with crises. We emphasize this, because some of the measures Treasury proposes may not be achieved and we are concerned that the tough decisions that people will have borne the brunt of to fund a fix that may not work, will serve to further deject citizens.

Whereas Equal Education's analysis revealed that education spending will not be growing in real terms this year, RHAP is relieved that the overall health spending is at least growing. However, we join Section27 in raising a concern that the proposed 5.1 percent average annual increase in nominal terms over the medium term is not linked to the rising cost of health care, and will therefore put access to quality public healthcare at risk.

The proposed reductions to the overall wage bill is creating uncertainty among public servants who need to deliver services. It remains to be seen as to whether National Treasury and unions, who have responded with anger to Treasury's announcement of a need to review the pay of public servants, will be able to reach agreement. Therefore, there is a significant unknown on the

horizon. As to how the state will deal with the budget deficit remains to be worked out, which means that fiscal space is an important issue to continue to monitor.

In light of this context of issues of fiscal space, RHAP's submission highlights selected studies on tax compliance to offer potential recommendations to improve revenue collection.

After the 2019 Medium-Term Budget Policy Statement, Rural Health Advocacy Project chose to do a gendered analysis to emphasize our commitment to an inclusive society that prioritizes gender equality. In this submission we continue to emphasize that rural women particularly are faced with inequities when trying to access healthcare while living in remote rural areas and should be protected.

We make this submission with the conviction that as economist, Thomas Piketty says "In all human societies, health and education have an intrinsic value: the ability to enjoy years of good health, like the ability to acquire knowledge and culture, is one of the fundamental purposes of civilization."

THE IMPACT OF FISCAL SPACE ON SOCIAL PROTECTION

The World Health Organisation (WHO, 2020a) notes that "fiscal space is commonly defined as the budgetary room that allows a government to provide resources for public purposes without undermining fiscal sustainability."

The crises in State Owned Entities whose audit outcomes are worsening, are taking away from social spending. It is critical that State Owned Entities stop hemorrhaging money to corruption and then coming to Treasury for bail outs to repay their debts that were guaranteed, while they were ignoring the conditions that National Treasury set for the loan guarantees. This is taking away from areas of spending such as health, education, transport and housing. This is how issues of fiscal space arising largely out of needing to bail out State Owned Entities are putting these areas of spending under pressure. RHAP therefore welcomes what the Minister of Finance had to say in his speech about getting corruption and wasteful expenditure under control.

Energy supply issues are part of what is constraining the economy, causing disruptions in businesses and in turn dampening revenue collection levels. RHAP is therefore pragmatic about

the need for these issues to be addressed. The rampant corruption and state capture at Eskom cannot continue.

RHAP notes that some activities related to National Health Insurance will be phased in over a longer timeframe. This is an example of issues of fiscal space interacting with health policy decisions.

The introduction of the National Health Insurance is an important social protection measure that will contribute to addressing the issue of a lack of access to essential health care for all. The International Labour Organisation (ILO, 2019) says that “a social protection floor is essential in order to secure basic human rights, such as access to health care and education, decent old age living conditions, protection against work injuries or illnesses and provisions in case of unemployment and other precarious situations”.

In 2014, the United Nations Development Programme (UNDP) undertook a study on Social Protection in Africa, which was a Review of Potential Contribution and Impact on Poverty Reduction. The authors, UNDP Economic Advisor South Africa, Babatunde Omilola and Senior Researcher, Sheshangai Kaniki, outline that social protection interventions typically encompass measures to provide adequate housing and nutrition, ensure access to education and health and promote social inclusion and political stability. The UNDP review included looking at the “contribution of social protection in addressing various dimensions of social and gender-based exclusion, inequalities and vulnerabilities over the long term” (Omilola & Kaniki, 2014:2). The authors found that:

- Social transfers have contributed to lower inequality in South Africa. The Gini coefficient is 7 percentage points lower as a result of the social transfer programme.
- Cash transfers have reduced the poverty gap by 48% in South Africa.
- The old age pension in South Africa reduces the country's overall poverty gap by 21% and by 54% for households with older people.
- There is a growing body of evidence demonstrating that social protection programmes are successful in reducing poverty, improving nutrition, school attendance and access to health services.

The UNDP points out that gender and HIV/AIDS are highly correlated with poverty, vulnerability and exclusion in Africa (Omilola & Kaniki, 2014:24). South African household surveys show that households headed by women are more likely to be poor. The authors (Omilola & Kaniki, 2014:

24) note four reasons for women-headed households having 48% probability of being poor compared to a 28% probability for a household headed by a male being likely to be poor, namely: “(1) female-headed households are more likely to be in rural areas where poverty is concentrated, (2) female-headed households tend to have fewer adults of working age, (3) female unemployment rates are higher and (4) there is a gap between male and female wages.”

Given the evidence that social protection measures lower inequality and reduce poverty, it is important that social protection measures are not eroded, especially in light of the extreme extent of poverty, unemployment and inequality in South Africa and even more so when economic performance is weak. Rural women are particularly vulnerable to the impacts of poverty as noted by the UNDP. RHAP therefore reiterates previous recommendations to the Finance Committees that budgets need to be rural proofed. To do so, a rural adjuster can be included in budgeting guidelines that National Treasury issues to Provinces.

A rural adjuster accounts for factors such as diseconomies of scale and the higher unit costs of goods and services in rural settings. A rural adjuster could be included in budgeting guidelines that National Treasury issues to provinces to use when they undertake their budgeting or it could be built in to a resource allocation formula used to determine the proportion of available resources a province or department should receive.

The argument for rural-proofing is compelling, taking into account historical discrimination, high levels of poverty, the added rural costs of healthcare delivery and the Constitutional requirement of progressive realisation of access to healthcare for everyone within available resources. In addition, based on the Promotion of Administrative Justice Act, decisions on resource-allocations must be evidence-based, proportional, equitable and give special consideration to marginalised groups.

RHAP notes that in the Medium Term Expenditure Framework guidelines for 2020 (National Treasury, 2020:7) departments are directed to report on these budget lenses: "For analyses purposes, a department must indicate the percentage of its budget currently spent on women, persons with disabilities, youth, pro-rural, pro-poor activities." It is encouraging that this is in the Medium Term Expenditure Framework, however, in the Estimates of National Expenditure, there does not appear to be any inclusion of this information. For these lenses to be reported on, National Treasury will need to go further and include indicators to report on in the templates that departments use and/or work with the Department of Monitoring and Evaluation to request that

Departments include performance indicators related to these lenses in their Annual Performance Plans.

The National Health Insurance if correctly implemented can deliver significant benefits, but a poorly funded and implemented NHI could further erode already weak public capacity. In this respect we are cautiously optimistic with measures in this budget that support the strengthening the public sector capacity to deliver the NHI.

An important discussion that is missing from the public discourse is assessment of current fiscal space to implement to the NHI as proposed. Fiscal space analyses are a useful input into health financing reforms and strategies.

The concept of fiscal space has been extended to ‘fiscal space for health’ and referenced and studied particularly since the introduction of the Millenium Development Goals. In 2016, the World Health Organisation undertook a study assessing fiscal space for health expansion in low-and-middle income countries. South Africa was among 35 countries included in the study. The WHO study looked at earmarked funds as a source of revenue to create fiscal space for health.

Earmarked funds are revenue generated from a tax or group of taxes and set aside as designated for a specific purpose (Barroy, Sparkes & Dale, 2016:10). For example, to fund National Health Insurance, countries may consider revenues from public health taxes, social health insurance contributions/payroll taxes (e.g. NHI payroll tax), and other indirect taxes sources, such as natural resources or mobile phones. The WHO found that while there are few studies on earmarking, most of the studies that do exist find that there is limited potential for creating additional fiscal space for health in this manner. They also highlight that it is important to separate health objectives such as reducing behaviours that are harmful to health from the generation of revenue for health, as these measures have more value in deterring unhealthy behaviour than generating revenue (Barroy, Sparkes & Dale, 2016:10). However, the WHO did explore public health taxes (such as tobacco, alcohol and sugar tax) as a source of revenue for health. The WHO concluded that for South Africa, there is scope to explore increased taxation on alcohol, as well as sugary and fatty products (Barroy, Sparkes & Dale, 2016:11).

An important determinant of the eventual cost of the NHI is the benefits framework. The second key determinant is the service delivery platform through which it will be delivered. A strong public sector service delivery platform augmented by contracting private sector capacity can have significant cost differences to a model where services are contracted out.

The bill emphasizes the importance of strong primary health care services. The World Health Organisation explains that “primary health care is a whole-of-society approach to health and well-being centred on the needs and preferences of individuals, families and communities. It addresses the broader determinants of health and focuses on the comprehensive and interrelated aspects of physical, mental and social health and wellbeing” (WHO, 2020).

To strengthen Primary Health Care services, Human Resources for Health shortages of 80 000 primary health care workers needed to be filled by 2025. Consistent availability of medicines and well-functioning infrastructure will also strengthen health care service delivery. Primary Healthcare is weak and referrals are an area where improvement can be made. The referral pathway can be shortened. Achieving all of these improvements requires significant investment.

RHAP agrees with the Minister of Finance that “for a fast-growing economy we need to make sure our children are well educated, our people are healthy and our money is invested properly.” Health care should not be considered a drain on public finances, but rather, it is an investment in the wellbeing of citizens. Access to health care is also more than an input into the country’s economic potential, it is a right enshrined in the Constitution.

RHAP welcomes that R55.6 million has been reprioritised to the Department of Health to strengthen its capacity to implement the NHI. A team convened by the Presidency developed a National Quality Health Improvement Plan to ensure that the quality of healthcare facilities is improved in order that they be accredited for NHI. R25 million has been reprioritized for this. This is further welcome news.

RHAP is however, concerned that government should communicate about NHI in a manner that is responsible. Government is creating expectations that are 15 years away, speaking about a desired future state rather than addressing the current state, thereby creating an expectation gap that may frustrate citizens.

Important questions to be asking are:

- Is the state thinking enough about how to create the fiscal space to implement the NHI?
- Will there be any unintended negative consequences due to the roll out being slower than initially anticipated? And how will these be mitigated?
- Is the health care system ready for the NHI?
- Is the governance framework for the proposed NHI fund sufficiently robust?

- Will the concerns highlighted in submissions from the public participation on the draft NHI Bill be sufficiently addressed through modifications to the bill?
- Are questions of how the NHI will be financed answered sufficiently?

SPENDING ON HEALTH CARE

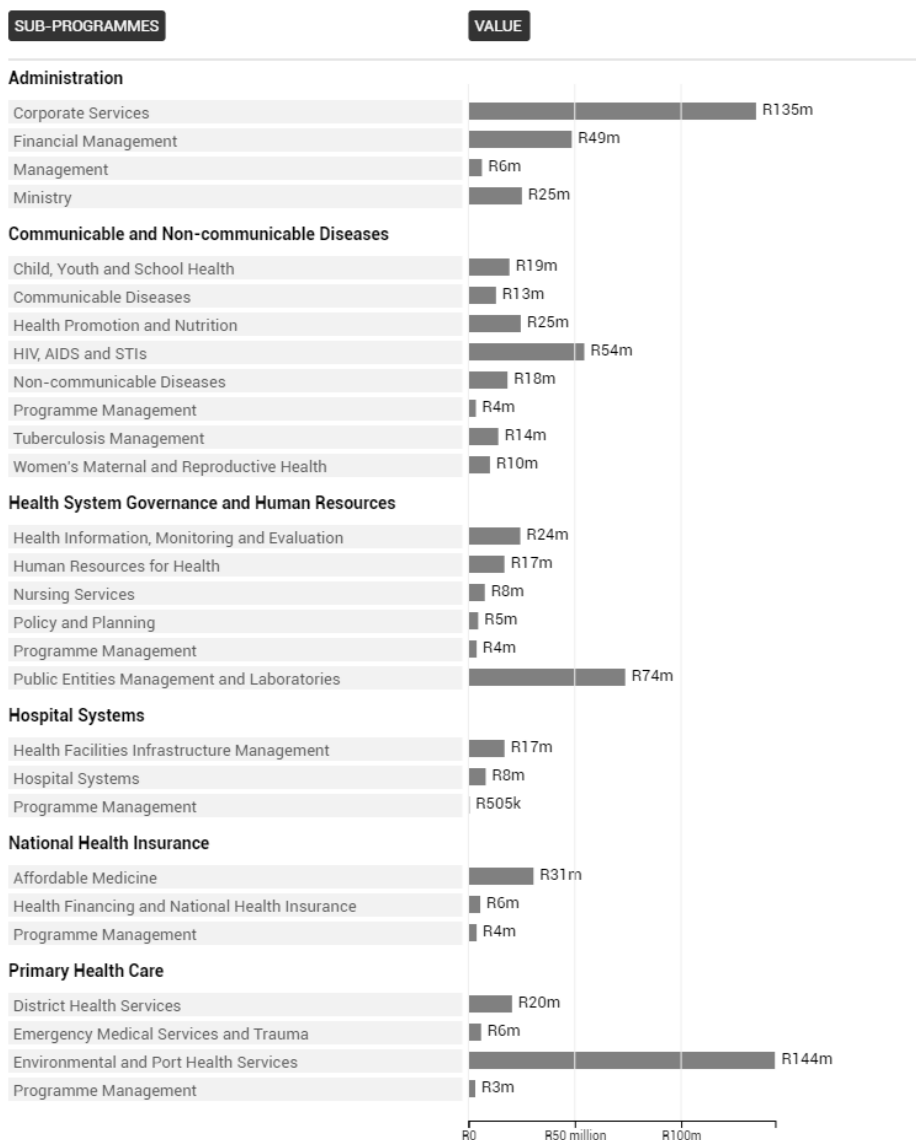
Average nominal growth in health spending for 2020/21 to 2022/23 is 5.1%. Treasury has noted that the slower growth in spending on health, learning and culture, and peace and security reflects the effect of lower compensation growth.

In August 2019, in response to a Parliamentary question about the shortage of doctors and nurses in hospitals, Health Minister, Dr Zweli Mkhize, said that the primary reason for the shortage was due to a lack of additional funding in the health sector budget to meet the increasing demand for health services (News24. 2019).

RHAP was therefore glad to hear Minister Mboweni saying that once fiscal consolidation measures have been implemented, the state will focus on hiring in important areas such as education, police, and health care. And that this will mean that hiring can be done in a strategic manner ensuring a better match of skills with opportunities. We are cognizant that these fiscal consolidation measures may not be achievable, but will continue to do research in the area of human resources for health, as the filling of shortages in the health care system will support improved services.

National Treasury and civil society's budget portal called Vulekamali offers useful data views.

Salaries and wages per sub programme for National Department of Health



Source: Vulekamali.gov.za

As compensation budgets will be under consideration, RHAP has drawn the information above on salaries and wages from Vulekamali to raise that during the engagements between National Treasury and unions, having nuanced data available to make decisions is important. Treasury cannot take a blunt knife to compensation budgets. Rather a scalpel would serve better to cut the rot from the public sector. Certain unions have previously identified that dealing with the issues of

ghost workers can help to reduce the wage bill. Treasury also has access to a list of officials who have been doing business with the state. Those officials doing business with the state, who have been engaging in corruption should not be welcome in departments.

However if there are officials who have not been engaging in conflict of interest and who want to be entrepreneurs running genuine businesses in the private sector, government may wish to consider supporting them in the opportunity to do so, and with conditions that prevent the abuse of the former government position to obtain contracts. To grow the economy will require entrepreneurs. Professionals who have developed experience to draw on may not be the typical picture that springs to mind when government usually designs entrepreneurship support, however mid career and senior professionals may well be better placed to succeed as entrepreneurs.

To deliver quality services, the state needs to value excellence in its employees. This will be a time of trepidation for many public officials. National Treasury should therefore take care that its actions do not further alienate dedicated officials. The state's capacity has already been impacted by departures of public servants who could no longer work in departments where state capture and corruption made their work untenable.

RHAP notes that the non-personal services component has been allocated R2.2 billion over the next three years. This allocation will support the strengthening of the health system in preparation for national health insurance. Achieving integrated IT systems are an important enabler that would support the success of the NHI. The R2.2 billion allocation over the next three years is intended to "ensure that, by 2022/23, 54 million patients are registered on the national health insurance beneficiary registry, 4.5 million patients are registered to collect chronic medicines at their pick-up point of choice, and 3 830 facilities electronically report on medicines stock through the national stock surveillance system" (National Treasury, 2020:269). We note that by 2018/19 the Department of Health was reporting that 39.8 million individuals were already registered on the NHI patient beneficiary registry. This is reflected in the performance indicators below. If this is correct, it is a huge achievement, particularly because the NHI Bill outlines that biometrics are required. RHAP would like clarification as to whether this is correct, because when patients are not registered on a system, it can exclude them from receiving care, which is more than a simple administrative issue. It is also a rights issue.

Selected performance indicators

Table 18.1 Performance indicators by programme and related priority

Indicator	Programme	MTSF priority	Past			Current	Projections		
			2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total number of individuals registered on the national health insurance patient beneficiary registry	National Health Insurance	Priority 2: Education, skills and health	— ¹	20.7 million	39.8 million	40 million	46 million	49 million	54 million
Total number of health facilities reporting stock availability at the national surveillance centre	National Health Insurance		3 349	3 492	3 598	3 725	3 765	3 790	3 830
Total number of patients registered to receive medicines through the centralised chronic medicine dispensing and distribution system	National Health Insurance		1.3 million	2.2 million	2.5 million	3.2 million	3.5 million	4 million	4.5 million
Total clients remaining on antiretroviral treatment in the public sector at the end of the year	Communicable and Non-communicable Diseases		3.8 million	4.1 million	4.6 million	5.8 million	6.1 million	6.3 million	6.5 million

Source: National Treasury, Estimates of National Expenditure

RHAP welcomes that the Department of Health and National Treasury are working on strategies to accelerate delivery of health infrastructure projects. This represents an opportunity to address the infrastructure inequality trap. Historically urban areas have been favoured when it comes to health expenditure. Research has shown that provinces that are the most deprived and with the least developed health systems have historically received the smallest share of healthcare funds. This has been explained as the ‘infrastructure inequality trap’, where provinces with comparatively well-developed health infrastructure and human resourcing compliments tend to receive a larger share of available resources (Stuckler, Basu & McKee, 2011). There is a tendency for urban areas which have greater absorptive capacity to receive more of the budget to maintain current provision. This means that historical inequities in provision of health care are remaining entrenched.

Section 27 (1) of the Constitution provides that everyone has the right to have access to— (a) health care services, including reproductive health care; (b) sufficient food and water; and (c) social security, including, if they are unable to support themselves and their dependants, appropriate social assistance. Section 27 (2) of the Constitution says that the state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of each of these rights. And Section 27 (3) says that no one may be refused emergency medical treatment.

RHAP submits that the infrastructure inequality gap needs to be addressed as part of the state's Constitutional obligations and its commitment to health equity. RHAP therefore recommends that the Finance Committees engage National Treasury to request that all health infrastructure projects being considered are published and the Budget Facility for Infrastructure develop a mechanism to prioritise rural infrastructure in order to address infrastructure inequality gap.

Medical malpractice claims and litigation has increased to the extent that National Treasury reported that medico-legal claims payments totalled R2 billion. The Auditor General started implementing the new audit category of Material Irregularity in 2018/19. Sixteen national and provincial government auditees were identified for implementation of the process. Material financial losses were identified for several departments including the Gauteng Provincial Department of Health. In the graphic below, RHAP uses social maths to highlight what could have been bought using R8 million, which was wasted on interest on medico-legal claims after claims were not paid within the time period specified in court judgements. If this is what could have been bought with R8 million, imagine what R2 billion could have bought instead.

Social maths is an approach to translating seemingly complex statistics, financial information and other data into information that is interesting and accessible to activists, journalists and the public. Social maths is more than simplifying language and turning in to graphs though. Social maths is about placing this information in context and communicating it in ways that people can relate to. RHAP recommends that civil society, the Auditor General and National Treasury can partner on a social maths campaign that promotes a more effective spend of public finances and good governance.

SOCIAL MATHS FOR HEALTH

MATERIAL IRREGULARITY

The Auditor General, in his 2018/19 report, identified that the Gauteng Department of Health incurred a financial loss of R8 million, because medical claims were not paid within the period specified in court judgements, resulting in interest being charged.

R8 MILLION



COULD HAVE PAID FOR ALL OF



30 nursing assistants' annual salaries



100 wheel chairs



2800 pairs surgical gloves



20 ambulance stretchers



15 vital signs monitors

Rural Health
Advocacy Project

An initiative of



REVENUE

RHAP welcomes the changes to the tax regarding assessed losses in the determination of tax liability. These changes address that companies that incur losses in their overseas business reduce their tax liability by fully incorporating those losses here, thus reducing the tax burden. This is accompanied by measures restricting the ability of companies to fully offset assessed losses from previous years against taxable income.

We welcome the increase in taxes on alcohol and tobacco products, particularly the inclusion of heated tobacco products, but are disappointed that the taxes on vaping products which are popular amongst young people were not included from this year, despite their negative health consequences. Due to their negative health consequences and in light of the increasing health burden on the state, we are pleased that they will be taxed from 2021.

We are disappointed that despite the growing burden of type 2 diabetes, particularly in rural areas, that the opportunity was not taken to increase the health promotion levy tax. Since implementation, the tax has generated over R3 billion, resources that are badly needed to improve current health promotion activities that support healthier lifestyles.

Table 1.8: Health Promotion levy for 2018/19

R million	Printed estimate Feb 2018	Revised estimate Feb 2019	Actual result	Increase / decrease on Printed estimate	Increase / decrease on Revised estimate
Health promotion levy ¹	1,685	2,396	3,195	1,510	799
Health promotion levy on imports	245	78	53	-192	-25
Total Health promotion levy	1,930	2,474	3,248	1,318	774

1. Levy on locally manufactured products

Source: SARS tax statistics

RHAP has reviewed literature to locate relevant studies that offer measures for increasing tax revenue collections.

Dare, du Plessis and Jansen conducted a study on South Africa's personal income tax gap. The authors highlight that tax evasion is one of the factors hampering tax revenue mobilization and that in order to address tax evasion, it is critical to understand the tax gap. The tax gap is the difference between potential tax revenue and tax revenue actually collected. Dare et al (2019:1)

distinguish between two tax gap categories, namely (1) the compliance gap and (2) the policy gap. The compliance gap refers to the amount of tax revenue lost as a result of compliance issues including tax evasion, taxpayers underpaying due to poor understanding of tax legislation, poor record-keeping by tax authorities and other mistakes (Ahmed & Rider 2013:335). The policy gap entails the amount of tax revenue forfeited due to tax policy.

Their findings reveal that South Africa lost tax revenue of R60.1 billion in 2005/2006, and R26.2 bn in 2010/2011 (in 2017 prices). Of the total compliance gap in 2005, 28.5% emanated from taxpayers with salaried income, and 71.5% from non-salaried income taxpayers. In 2010, salaried income taxpayers contributed 1.1% to the total compliance gap. Dare, du Plessis and Jansen therefore conclude that despite an overall improvement in the individual compliance rate, non-salaried income taxpayers (self-assessment reporting) are the main contributors to South Africa's personal income tax gap. They also conclude that there are "definitely very large policy gaps, implying that the government has been losing significant amounts of revenue in its effort to reduce taxpayers' burdens. Although tax expenditures play an important role in reducing tax burdens, there is a need to examine the possibility of reducing the policy gap as its reduction may raise a significant amount of revenue".

Researchers Merima Ali, Odd-Helge Fjeldstad and Ingrid Sjursen did a study on factors affecting tax compliant attitudes in Kenya, Tanzania, Uganda and South Africa. They used Afrobarometer data for their study.

Their paper has some useful findings that the Finance Committees, Treasury and SARS may find of interest. The study can be accessed here: <https://files.ethz.ch/isn/174538/Afropaperno143.pdf>

Ali et al identified that models of taxpayer behaviour, including the decision whether or not to pay taxes, tend to reflect one of five theories that can be referred to as: (1) economic deterrence; (2) fiscal exchange; (3) social influences; (4) comparative treatment; & (5) political legitimacy. They then applied analysed country data collected in the Afrobarometer survey, using these models as a lens.

Their findings are summarized in the table below for ease of reference.

Taxpayer behaviour theory	What the theory says	Finding
Economic deterrence	If people or company executives think they will get caught, they are less likely to evade taxes.	Respondents in South Africa and Kenya are more likely to express a tax compliant attitude if they perceive that enforcement makes evasion more difficult.
Fiscal exchange theory	The presence of government expenditures may motivate compliance and that governments can increase compliance by providing goods that citizens demand in a more efficient and accessible manner (Cowell and Gordon, 1988; Levi, 1988)	There is evidence that those who are more satisfied with public service provision are more likely to have a tax compliant attitude in Kenya, Uganda, Tanzania and South Africa. In South Africa, the government's provision of services such as police services and issuing identity cards are likely to increase tax compliant attitude.
Social influence theory	Compliance behaviour and attitudes towards the tax system is thought to be affected by the behavior and social norms of an individual's reference group. For example,	The perception of other people's compliance, as a proxy for social influences, is likely to increase own tax compliance in Tanzania. In South Africa, the study did not find that it was significant.

	relatives, neighbours and friends.	
Comparative treatment theory	Individuals who perceive that they, and their group (could be defined by wealth, education, age, religion, ethnicity, etc.), are fairly treated by the government relative to other groups, are more likely to be tax compliant.	Citizens' perception of how their ethnic group is treated affects tax compliance in South Africa.
Political legitimacy	Trust in government policy and institutions affects taxpayers' compliance attitude	Corruption of tax officials is found to reduce the likelihood of tax compliant attitude by 6% in South Africa.
Knowledge about taxes	Tax knowledge has an impact on tax compliance attitude.	In South Africa and Tanzania, respondents who perceive it as difficult to find out what taxes they are required to pay are less likely to have a tax compliant attitude.
Non-state service provision:	Payment to non-state actors, such as criminal gangs in return for protection, reduces the likelihood of having a tax compliant attitude.	Having to pay protection money significantly reduces tax compliance in all the four countries (Kenya, Tanzania, Uganda and South Africa).

What these findings imply in terms of practical measures is that:

- Economic deterrence: SARS is doing the right thing rebuilding its ability to curb tax evasion and should continue to prioritise this. Enforcement is important.
- Fiscal exchange: If the South African Police Services (SAPS) and Home Affairs are well managed, citizens will be happier paying their taxes.
- Comparative treatment: The comparative treatment model is based on equity theory and posits that addressing inequities in the exchange relationship between government and taxpayers would result in improved compliance (McKerchar and Evans, 2009).
- Political legitimacy: SARS must continue to address issues of corrupt tax officials to improve its perception with citizens.
- Tax knowledge: If SARS makes it easier for citizens to do their taxes and provides understandable educational material about the process, tax compliance will be better. The move not to require tax forms to be filled in for PAYE payments may be a good move.
- Tax knowledge: SARS should consider how it can address making it easier for provisional personal income taxpayers to comply. Provisional taxpayers may be battling with the timing that their provisional tax needs to be paid. February is a very lean time of the year for most people who have emerged from December/January holidays.
- Tax knowledge: SARS's system is not easy to navigate when compared to making use of online banking or ecommerce services. It is too complicated for instance to figure out what reference number to make use of when paying tax. And eFiling does not work well on all internet browsers. SARS can consider making use of a User Experience specialist to advise on how to improve its online interface with users so that it is quicker and easier to pay tax.
- Non-state actors: Having to pay protection money significantly reduces tax compliance, therefore it is important that SAPS (and the army) manage gang violence and protection rackets.

RECOMMENDATIONS

RHAP offers the following recommendations:

1. That the Finance Committees engage the Parliamentary Budget Office and Fiscal and Financial Commission about research on the fiscal space to implement to the NHI.
2. That the Finance Committees engage the National Treasury about making the actuarial models and costing studies on the NHI available.
3. That a rural adjuster is included in budgeting guidelines that National Treasury issues to Provinces.
4. That the Finance Committees engage National Treasury to request that all health infrastructure projects being considered are published and the Budget Facility for Infrastructure develop a mechanism to prioritise rural infrastructure in order to address infrastructure inequality gap.
5. That the Finance Committees consider the measures for improved tax compliance that RHAP highlights from applying evidence from literature, which include SARS continuing to improve enforcement of tax compliance, a focus on better fiscal exchange for taxpayers through improved policing and services from Home Affairs, continuing to address issues of corrupt tax officials, taxpayer education to improve tax knowledge, simplifying tax return processes, improve the ease of the online interface through use of User Experience expertise, consider the timing of provisional tax payments for better compliance and address issues of criminal gangs that require protection money. And that, if of support, the committees refer these recommendations to Treasury and SARS.

CONCLUSION

RHAP's submission has problematized that social spending such as spending on health, education and human settlements is vulnerable to issues of fiscal space arising out of fiscal risks emanating from State Owned Entities. It specifically highlights the issue of fiscal space for health for further deliberation. In light of this context of issues of fiscal space, RHAP's submission highlights studies on fiscal space for health and selected studies on tax compliance to offer

potential recommendations to improve revenue collection. Rural Health Advocacy Project thanks the Finance Committees for the opportunity to make a written submission.

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