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| **COSATU Submission:****Medium Term Budget Policy Statement(MTBPS):** **2nd Division of Revenue Amendment Bill****13November2020** |
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**Submitted to:****Standingand Select Committees:** **Appropriations****Parliament****Republic of South Africa** |

1. **Introduction**

COSATU notes the Medium-Term Budget Policy Statement tabled by the Minister of Finance, cde. Tito Mboweni, at Parliament on 28 October 2020 on behalf of government.

The economy is in its worst economic crisis in 100 years. The economy is in a deep recession. Unemployment has pushed past 52% with 2.2 million job losses in the last quarter. Workers had hoped to hear clear answers and interventions from government on what it will do to address these existential crises.

There were aspects of the MTBPS that COSATU welcomes. However, on the broad thrust of issues that government and indeed the private sector need to tackle, the Federation feels that government failed to rise to the occasion.

COSATU disagrees with government’s understanding as to what are the most critical challenges facing the economy and what is the correct route to address them.

Judging by the focus of the MTBPS Government believes that the most critical challenge facing the nation is the debt growth trajectory and the sole tool to address it freezing public servants’ salaries for 4 years.

COSATU and workers believe that the debt trajectory must be managed but the most urgent task facing all of us now is to save every single job and company, to stabilise and grow the economy, to tackle the many leakages in the state and unlock investment. This we believe is a far more realistic, sustainable and humane approach to rebuilding our battered economy.

1. **Austerity vs. Stimulus, Debt vs. Growth**

COSATU agrees with government that the rapid growth in our debt to GDP levels is not only unsustainable but poses a threat to South Africa’s sovereignty. If the growth in debt increases at this rate, we will be forced to go to the IMF for a bail out.

This is a scenario that must be avoided at all costs. Not only will we lose the ability to make our decisions as a nation, but the first to pay the costs of a full out IMF imposed austerity programme will be public servants who will face mass retrenchments and wage cuts and workers who depend on public services that will be scrapped or privatised.

However, COSATU and millions of workers believe that the route to manage the debt trajectory is to stimulate the economy. The economy is on its knees. Only companies that are profitable, workers that are employed and consumers who have cash can contribute to economic growth and pay the taxes that the state depends upon to reduce debt levels.

By narrowly focusing on a rushed cut to expenditure and an all-out abandonment of the President’s R1 trillion/ R500 billion stimulus package, government is threatening to starve the economy of stimuli when it is most needed. A patient requires medication to recover, not best wishes or pulling the plug.

COSATU does not believe that there are no financial resources available to stimulate the economy. Resources exist but require political will and proper management from the state. These range from tackling corruption and wasteful expenditure, fixing the SOEs so that they can stop being dependent upon constant bail outs, capacitating SARS to recover the billions lost in tax and customs evasion and unlocking impact investments from the private sector and investment funds. But this requires leadership from government which to date it has not shown in sufficient quantities.

1. **Economic Recovery and Reconstruction Plan**

COSATU participated extensively in the drafting of the Economic Recovery and Reconstruction Plan engagements at Nedlac.

There are key areas needing further work e.g. clear timeframes, responsible parties and precise financial resources allocated. We had hoped to hear some of these details provided for in the MTBPS. Largely they do not appear to be in the MTBPS. This undermines the credibility of the ERR Plan in the eyes of the public. It is critical for government to speak with one voice and to be in sync at all times.

* 1. **Infrastructure Programme**

COSATU has welcomed the infrastructure programme. It is critical to rebuilding the economy. We welcome the focus on infrastructure in the MTBPS on housing, healthcare and ports.

However, it is problematic that other key infrastructure investments targeting energy, freight and passenger rail, roads and water received little if any attention.

The repeated commitment by the Minister for the amendment of Regulation 28 to allow for investment funds to invest in infrastructure is welcome. But this was a repeat of the same commitment by the Minister in the February budget speech. No clear time frames have been provided. We simply cannot afford these perpetual dillydallying by government on something that all social partners are in support of and that the economy badly needs.

It is worrying that clear mechanisms to prevent corruption in the infrastructure programme have not been provided for by government. Given the state’s track record, this is not something we can afford to take lightly.

**COSATU Proposals:**

* A clear timeframe and road map for amending Regulation 28 to open up infrastructure investment opportunities to come into effect by February 2021.
* Clear anti-corruption safeguards for the infrastructure programme.
* A more detailed infrastructure programme with clear timeframes and targets that Parliament and the nation can monitor effectively.
	1. **Structural Reforms**

Social partners have long agreed that structural reforms are needed to unlock the economy and in particular to mobilise investment. The various structural reforms highlighted in the MTBPS are noted. Positive measures such as providing for additional energy generation are welcomed.

However, it is concerning that the MTBPS is thin on timeframes. The auctioning of additional digital spectrum is a case in point. It has been repeatedly delayed by government over many years. At the Economic Reconstruction and Recovery Plan engagements at Nedlac, it was agreed that it must be done by December. This was in line with the public pronouncement by the President. Yet the Department of Communications and Digital Technologies has not moved with any speed and is now talking about 2021.

**COSATU Proposals:**

* A clear timeframe and road map for the various structural reforms committed to by government in the Economic Reconstruction and Recovery Plan so that Parliament and the nation can effectively monitor its implementation.
* A specific intervention by Parliament to ensure government adheres to the December 2020 deadline for the releasing of additional digital spectrum.
	1. **Other Economic Interventions**

The continued underfunding of the Department of Trade, Industry and Competition’s industrial financing programme is worrying. The cuts in the June Supplementary Budget of R1.9 billion to it need to be reversed. This programme is critical to rebuilding our fragile manufacturing sector.

It is equally worrying that the MTBPS is thin on what measures government is undertaking to support ramping up local procurement. Many of these government were captured in detail in the ERRP yet find little mention in the MTBPS.

Particularly concerning is Treasury’s intention to take a further 2 years for the enactment of the Public Procurement Bill. This undermines efforts to tackle the pandemic corruption in public procurement and to help drive local procurement.

Treasury must prioritise this critical Bill and ensure its passage by the end of 2021.

**COSATU Proposals:**

* A clear timeframe and road map to ramp up local procurement in the public and private sector and amongst consumers.
* A clear commitment for the Public Procurement Bill to be enacted by the end of 2021.
	1. **Eskom Social Compact**

COSATU is pleased that the Eskom Social Compact and Implementation Plan it drafted and tabled at Nedlac has been finalised and agreed to by government and business.

We must however express our frustrations at the speed with which government has moved. The Eskom Social Compact engagements were in essence concluded in April. Again, in September all social partners agreed it must be signed. However, we are still waiting for a signing date.

Reliable and affordable electricity is key to rebuilding the economy. We need to sign off on the Eskom Social Compact and ensure that Eskom, government, the private sector, communities etc move with speed to implement its commitments and targets.

The Eskom Social Compact is COSATU’s contribution to rebuilding the state, assisting Eskom with its unmanageable debt crisis, holding government and business accountable for a just transition with workers and communities at its heart, and unlocking the massive jobs, income and export opportunities in the energy sector. It will also play a key role in ensuring that not only do we meet our climate change targets but in fact exceed them.

**COSATU Proposals:**

* Eskom Social Compact to be signed off by the President and social partners at Nedlac by no later than the end of November.
* Fast track the implementation of the Eskom Social Compact and its Implementation Plan.
	1. **Distressed SOEs**

Whilst massive progress has been made with the Eskom Social Compact and many of its components are now being acted upon e.g. tackling corruption, this cannot be said for many of our distressed SOEs.

No clear road maps have been provided in the MTBPS. It is critical that government, the SOEs, labour and business sit together and develop such road maps to reposition, rebuild to ensure that all SOEs are sustainable and can stand on their own balance sheets.

Endless bail outs for the SOEs is not sustainable. Neither is allowing the SOEs to collapse, throw thousands of workers into the unemployment queue acceptable.

Alternatives to retrenchments must be sought for at all costs. This includes where necessary redeployment of staff and skills training and seed funding for SOE workers wishing to set up their own businesses. This would have been a far better approach than to allow 10 000 SAA, 1 500 SA Express, almost 2000 SABC workers to be retrenched due to the systemic mismanagement of our SOEs over the past decade.

**COSATU Proposals:**

* A clear timeframe and road map for each key distressed SOE to be drafted by government, labour and business by February 2021.
* Alternatives to retrenchments for workers whose jobs are at risk.
	1. **Social Relief Measures**

**3.6.1 R350**

COSATU welcomes the extension of the R350 long term unemployment grant for an additional three months. It is welcome relief for recipients, albeit at a low level.

It needs to be extended beyond December as the recipients are unlikely to find jobs in a battered economy within 2 months.

Society at large, including the President and the ANC have agreed on the need for some sort of a universal income grant. The R350 however low it is, is the genesis for a future basic income grant. It needs to be retained and later can be further strengthened, expanded etc. To stop it in January means that we can then forget about any sort of BIG for the foreseeable future given the fiscal constraints facing government.

Extending it is affordable at R2 billion per month and a useful poverty relief mechanism. It is not lost to the economy as it is all spent in the local economy.

**3.6.2 UIF Covid-19 TERS**

Government needs to stop claiming the R51 billion dispersed by the UIF to workers and businesses during this period as a government intervention. Government despite the obligations of the Unemployment Insurance Amendment Act of 2018, has refused to contribute a single cent towards it.

In fact, throughout this lockdown period, COSATU and other labour federations and organised business at Nedlac have had to time and again force government to extend its relief for distressed workers. Government had wanted to cut funding in June.

The President had committed on September 15 to extend the TERS in conjunction with the disaster management restrictions on those workers and workplaces not allowed to resume work e.g. those over 60 years or with co-morbidities, workplaces that cannot open e.g. clubs or workplaces that can only open under reduced conditions e.g. restaurants.

However, despite this public commitment by the President and that the extension of the TERS is legally binding under the existing disaster management regulations, the UIF has dragged its feet in doing so. Despite there being engagements between government and social partners on this matter at Nedlac, the NCCC took a unilateral decision to cancel the TERS. It later revisited this position and agreed to extend it until 15 October.

This is another example of government having no compassion for workers and the poor and reneging on a legally binding agreement and doing so without engaging social partners.

Workers who are told to stay at home and are then denied access to their funds at the UIF will simply ignore those restrictions and return to work. This will put their lives at risk and that of the rest of the country. It will contribute towards a second wave and may cost the economy far more than continuing to disperse TERS.

The UIF has more than enough assets available with its current assets being worth R114 billion. Coverage for these additional two months would be less than R8 billion. It is a far more prudent intervention to save jobs and companies with a few months’ payments than to allow them to be lost and to then have to pay 12 months’ worth of retrenchments benefits and to then lose those workers’ contributions to the UIF, taxes and the broader economy.

The intransigence of government is making workers and employers to question if the UIF should remain under government control or if it should not be taken away from the state and placed under the direct control of business and labour?

**COSATU Proposals:**

* Government must extend the UIF Covid-19 TERS for the periods October 16 to November 15 as well as 16 November and 16 December in tandem with the disaster management restrictions.
* Engagements at Nedlac need to take place on a new more sustainable model beyond January to see what the UIF, SARS, Treasury and the banks could all contribute to saving jobs and businesses.
* Government must extend the R350 unemployment grant beyond January.
	1. **Economic Relief Measures**

The President has long called for a R1 trillion stimulus fund. He correctly stated that anything less will not make a difference. Yet the economic relief package announced was R500 billion.

To make matters worse at the heart of the R500 billion package, is the R200 billion loan guarantee scheme (LGS). To date only R16 billion of the LGS has been dispersed. The projections by the banks are that only 12% to 24% of the LGS will have been dispersed by January.

However, despite the President, Parliament and COSATU having raised the alarm bells, Treasury and the banks have failed to fix the scheme or to provide alternatives.

Alternatives that should be looked at include lowering the approval criteria, faster turnaround times for approvals, more attractive interest rates, using the DFIs to disperse credit and adopting a hybrid package that includes both loans, grants and equity to avoid overburdening fragile companies and sectors with unsustainable debt levels and incentives linked to job retention and creation.

Government’s continued inaction on addressing the challenges facing the LGS cannot be allowed to continue.

Further measures should be looked at what can be done to help struggling companies with potential to recover. These should include a package of support from the UIF, Treasury, SARS, SARB and the banks.

**COSATU Proposals:**

* A package of interventions by Treasury and the banks to address the problems encountered by the LGS by end November.
* Additional sustainable financial relief that could be provided for to companies by the UIF, government and the banks by end November.
	1. **Pension Fund Proposals**

COSATU welcomes the announcement by the Minister that government has now agreed to COSATU’s proposal to allow workers who have lost wages or are under distress to access a limited portion of their pension funds.

This is critical to avoid workers resigning from their badly needed jobs and depleting their entire pension funds but at the same time to allow workers in need to access their own funds to take care of their families in a sustainable way.

The Federation appreciates that Treasury has now agreed to this and committed to tabling a bill at Parliament by the beginning of 2021 so that this amendment could come into effect by 1 October 2021.

COSATU acknowledges the various measures that government has provided for to address workers’ concerns on the annuitisation of provident funds from 2021.

**COSATU Proposals:**

* Tabling of the pension funds withdrawal bill at Parliament by February 2021 or utilising Dr. D. George (MP)’s Private Member’s Bill.
* Parliamentary passage, Presidential assent and government enactment of this Bill by October 2021.
1. **Expenditure**

The focus of the MTBPS is on reducing expenditure and doing so by implementing an unprecedented wage freeze amongst public servants.

COSATU appreciates the fiscal crises government is facing. Workers need government to survive and agree that it must be saved.

However, government is approaching the fiscal crisis by outsourcing the responsibility to workers and not addressing the root causes.

Government is in a fiscal crisis for four fundamental reasons. These are that:

* According to the Auditor-General we lose about 10% or more than R150 billion per annum to wasteful expenditure and corruption.
* SARS was hollowed out during the era of state capture and billions have and are being lost to tax and customs evasion.
	+ Despite COSATU repeatedly raising concern with Treasury at Parliament and Nedlac, only 5% of imports coming through our ports of entry are inspected for customs duties. This is costing the state billions in lost customs duties, threatens local jobs and companies and undermines support given to industry by government.
* Distressed SOEs are constantly requiring massive bail outs from the state.
* A stagnant economy with businesses closing and workers being retrenched and thus no longer contributing to the fiscus and the economy.

None of these fundamental root causes are addressed in the MBTPS.

Government provides no indication as to what steps it has and is undertaking to address the damning AG reports. No new measures were announced in the MBTPS to further capacitate SARS and to deal with tax and customs evasion. No new stimuli are provided for in the MTBPS, let alone measures to fix the LGS and extend the UIF Covid-19 TERS.

In fact, government ran away from the bold anti-corruption proposals tabled by COSATU at Nedlac. The President has come out in support of these proposals. Politicians must remember that they were elected to represent the public and not their families or their personal bank accounts.

Government can bully and pickpocket nurses and teachers and pay them less but that will not fix the fiscal crisis. In fact, it will demotivate hard working public servants who have carried this nation on their backs whilst politicians and DGs were sitting safely at home.

Treasury argues that the wage bill is out of control. Yet it has remained stable since 2009 at 35% of the budget. The head count has been decreasing and the public servant to population ratio has plummeted from 1 million public servants to 34 million South Africans in 1994 to 1.2 million public servants to 59 million South Africans.

The freezing of front-line public service delivery posts means longer queues at Home Affairs, it means patients’ lives are at risk due to overstretched doctors, it means teacher learner ratios are increasing and not decreasing.

A four-year freeze on public servants’ wages means the flight of doctors, nurses and teachers overseas will escalate.

It is unacceptable that government is shifting the blame for a broken state upon the backs of nurses and police officers. It is politicians and senior managers, their friends and relatives that have stripped the state dry. They now want to outsource the bill to workers.

Government has failed dismally to respect collective bargaining. Tabling a fait accompli at Parliament on not only 1 year but 4 years is not negotiating, let alone in good faith.

Parliament and Nedlac are not collective bargaining institutions. The statutory collective bargaining institution is the PSCBC. Can government stop this constant barrage of attacks on public servants’ right to be protected from inflation and go and engage with workers and unions at the PSCBC where such matters belong.

We should not have to explain the need to respect labour laws to the government which drafted them. Workers are tired of being abused and taken for granted by the ANC that they ensure was reelected to office. This patience is rapidly wearing thin and is not unlimited.

**COSATU Proposals:**

**Corruption:**

* The immediate implementation of COSATU’s anti-corruption proposals:
	+ The banning of Politically Exposed Persons as per the FIC Act and their spouses and children from doing business with the state.
	+ Rapid response anti-corruption courts.
	+ Utilising the Auditing Amendment Act to hold offending political office bearers and management personally financially liable for corruption and wasteful expenditure.
	+ Removal of all compromised political office bearers and managers from the state.
	+ An open online procurement system for the entire state, including entities and SOEs and municipalities, that can always be viewed by the public.
	+ The central procurement of large-scale items to reduce the scope for corruption and achieve lower costs.

**SARS:**

* Further capacitation of SARS to deal with tax evasion and to ensure 100% of imports are inspected for customs duties.

**Wage Bill:**

* Government must go to the PSCBC to engage with workers in good faith.
* Honour the 2020 wage agreement and fast track the next three wage agreement.
* Measures that can address the fiscal sustainability of the state in the next three wage agreement include:
	+ A single collective agreement for the entire state not only the public service.
	+ Slashing the exorbitant packages paid to political office bearers by 30%.
	+ Scrapping the Ministerial Handbook.
	+ Slashing future overseas trips and cancelling all travel allowances and business class tickets.
	+ Reducing management packages in the public service.
	+ Placing the salary caps that exist in the public service on managers at all entities and SOEs.
	+ Ensuring that public servants, especially lower- and middle-income earners are protected from inflation.
	+ Identifying additional financial relief for lower- and middle-income public servants that the GEPF could provide e.g. affordable home loans and bursaries.

**Expenditure Reprioritisation**:

* An orderly reprioritisation of the budget from less critical expenditure items towards ones that will recapicitate the state to provide quality public services and in economic and infrastructure that will boost economic growth.
1. **2nd Division of Revenue Amendment Bill Allocations**

COSATU appreciates the need for budget shifts given need to allocate massive amounts of resources to fight the Covid-19 pandemic, provide economic and social relief as well as to support the economy’s reconstruction and recovery.

The Auditor-General year after year issues damning reports on the state of Provincial and Local Government. Yet very little is done to hold the offending political office bearers, management, officials and colluding citizens to account for the ballooning levels of corruption and wasteful expenditure captured in the AG’s reports.

The MTBPS and the 2nd DORA Bill themselves provide zero new interventions. In fact, the 2ndDORA Bill does not say a single word on what government is doing or planning to do to deal with the fact that 10% of the budget is lost to corruption and wasteful expenditure.

**Expenditure Cuts:**

The Federation is concerned about the impact of some of the proposed cuts over the 2020/21 financial year and the Medium-Term Expenditure Framework.

Whilst the 2nd DORA Bill provides a breakdown on the various cuts, shifts and increases in allocations, it is silent on what are the possible negative impacts. In particular it does not provide an assessment of the impact of these cuts.

COSATU is concerned about the impact of the cut R17.75 billion from Municipal Grants on their ability to invest in infrastructure. Similar concerns remain with regards to Provincial Grants and their ability to invest in infrastructure.

Key worrying cuts include:

* Agriculture infrastructure (R300 million) and land reform (R140 million);
* HIV/AIDS skills education (R60 million);
* Informal settlement upgrades (R1.5 billion);
* Education: maths and science training (R70 million);
* NHI Grant (R40 million);
* Title deeds allocations (R412 million);
* Integrated National Electrification Grant (R1.6 billion);
* Public transport Network Grant (R2 billion);
* Municipal Grants: Eastern Cape (R2 billion); and
* Municipal Grants: KwaZulu-Natal (R3 billion).

It is extremely worrying that there are no projected increases in the allocations to key service delivery departments over the MTEF, in particular Agriculture and Land Reform, Home Affairs, Basic Education and the Police Service.

COSATU’s major concern is that at the heart of the DORA Bill is the slashing of the public service wage bill. Two thirds of the budgetary cuts are done at the expense of the right of public servants to be protected from inflation.

Parliament’s adoption of the MTBPS and the MTEF in effect locks public servants into a 4 year wage freeze. In reality it is not only a freeze but once inflation is takes effect, it is a wage slash upon heavily indebted and struggling public servants.

This locking in of public service wage bill, undermines and collapses the constitutionally enshrined right to collective bargaining. This is a slippery slope and tantamount to a government elected by workers to protect their rights, turning its back upon them.

**Expenditure Increases:**

COSATU welcomes the following increased allocations and additional jobs proposed for:

* Early Childhood Education (R500 million);
* School Sanitation (R700 million);
* Additional 3250 community health workers;
* Additional 2200 nurses;
* 50 000 road maintenance employment opportunities;
* R7 billion for teachers’ assistants; and
* Presidential Employment Programme allocations.

More details are needed on the nature of the quality of these jobs. Are they permanent? Are their salaries within the prescripts of the public service prescripts? We would not want to say government creating pools of cheap and precarious labour in the guise of job creation.

1. **Conclusion**

We are all in these crises together as government, business and labour. It requires the spirit of compromise, sacrifice and contribution to fix these crises before it is too late. It is only through such social compacts that we can rebuild the state, the economy and protect workers from unemployment and poverty.

The problems and the solutions are clear to everyone. But it requires government to engage in good faith with workers and partners to resolve them.

Ministerial diktats, unilateral reneging of agreements, throwing workers under the bus and allowing politicians and their friends to continue to loot will not address these massive challenges.

COSATU has continued to offer concrete solutions to government and business.

We need government to learn to engage in good faith. Government needs to change its turnaround time on implementation from one that is lethargic to one that is agile and rapid.

Business, especially the banks and investment funds must come to the party. Government funds will never be enough. The investment strike by the private sector must stop and business contribute towards stimulating the economy and providing real solidarity to companies and workers so that they can remain open and employed.

Workers are not on an investment strike. Our money is what has built and continues to keep this economy afloat.

COSATU remains ready to engage government and business on measures that can save this economy and rebuild the state.

Thank you.

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