



Submission to the Standing and Select Committees on Appropriations on the 2023 Division of Revenue Amendment Bill

[B33–2023]

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Address Douglas Murray House, 1 Wodin Road, Claremont, Cape Town, 7700

Tel +27 (21) 670 9840 **Web** <http://ilifalabantwana.co.za/>

 [ilifa.sa](https://www.facebook.com/ilifa.sa)  [@IlifaLabantwana](https://twitter.com/IlifaLabantwana)

¹ For more information contact Daniel McLaren: daniel@ilifalabantwana.co.za

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1. BACKGROUND

Early childhood development (ECD) refers to the period from conception to five years of age when children experience considerable physical, emotional and cognitive development. In order to “Thrive by Five”, five components of ECD must be in place:

1. maternal and child health;
2. nutrition;
3. social protection;
4. early learning stimulation, and;
5. support for caregivers.

Ilifa Labantwana was established in 2009, and aims to secure an equal start for all children living in South Africa through improved access to quality early childhood development (ECD) services. We do this through research, advocacy and partnerships with government, civil society and the private sector to strengthen the ECD ecosystem.

We believe that ensuring universal access to the full package of quality early childhood development (ECD) services for children and caregivers – as envisioned in the National Development Plan – is the single greatest opportunity to reduce structural inequality, improve working conditions and tackle unemployment in South Africa.

This submission on the 2023 Division of Revenue Amendment Bill was prepared by Ilifa Labantwana’s ECD Economics and Financing Team. We appreciate the opportunity to make this submission, and look forward to engaging the Committees on its contents.

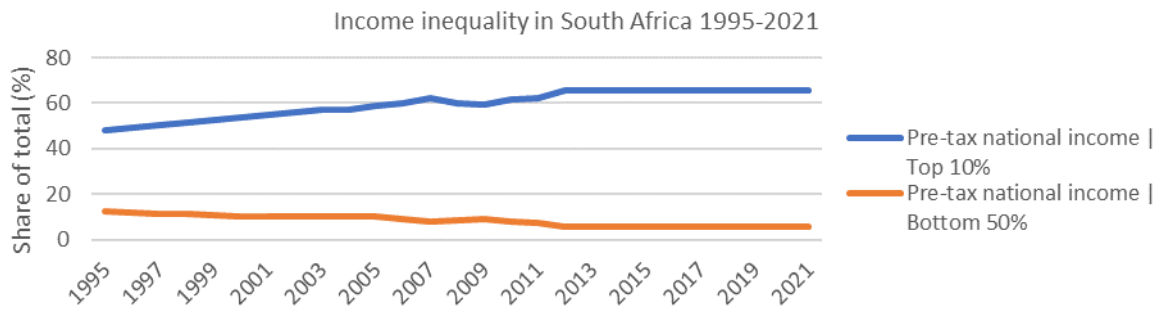
2. THE IMPORTANCE OF INVESTING IN ECD

Inequality has not shifted in South Africa since 1994, and this continues to drive poor economic and social outcomes. Redistribution strategies have reduced extreme poverty, but wealth and income inequality remain stubbornly high. In 2021, the richest 10% of South Africans earned 65% of national income; while the poorest 50% earned less than 6%.² Over the last two decades, we have also seen persistent and unparalleled wealth inequality, with 86% of net personal wealth in South Africa accruing to the top 10% in 2021, while the combined wealth of the bottom 50% was negative (i.e. the value of their assets was lower than their liabilities).³

² World Inequality Data (2022); Chatterjee, A., Czajka, L. and Gethin, A. (2021). Wealth Inequality in South Africa, 1993-2017. World Inequality Lab – Working Paper N° 2021/16.

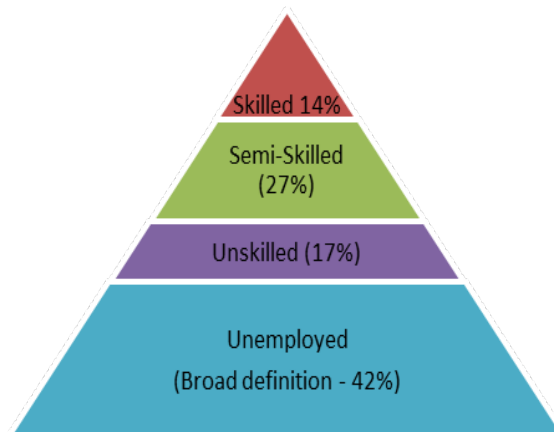
³ Ibid.

Figure 1: Income inequality in South Africa, 1995 - 2021⁴



These outcomes are driven by a labour market skills pyramid with far too wide a base, while the middle and peaks of the pyramid remain too narrow. This challenge has not been solved, and almost 30 years into democracy, unemployment is at record levels. Opportunity for reshaping the labour market in the next ten years rests in the middle of the skills pyramid – shifting unemployed and unskilled workers to semi-skilled employment. Now we need to focus on human capital development strategies.

Figure 2: Labour market skills pyramid in South Africa



Data source: Statistics South Africa (2023)

Sections 28 and 29 of the [South African Constitution](#) recognise the fundamental rights of all children to, among others: basic nutrition; health care; social services; and education. The unqualified nature of these rights sets them apart from other socio-economic rights in the constitution. Put simply: “a child’s best interests are of paramount importance”.

⁴ World Inequality Data (2022).

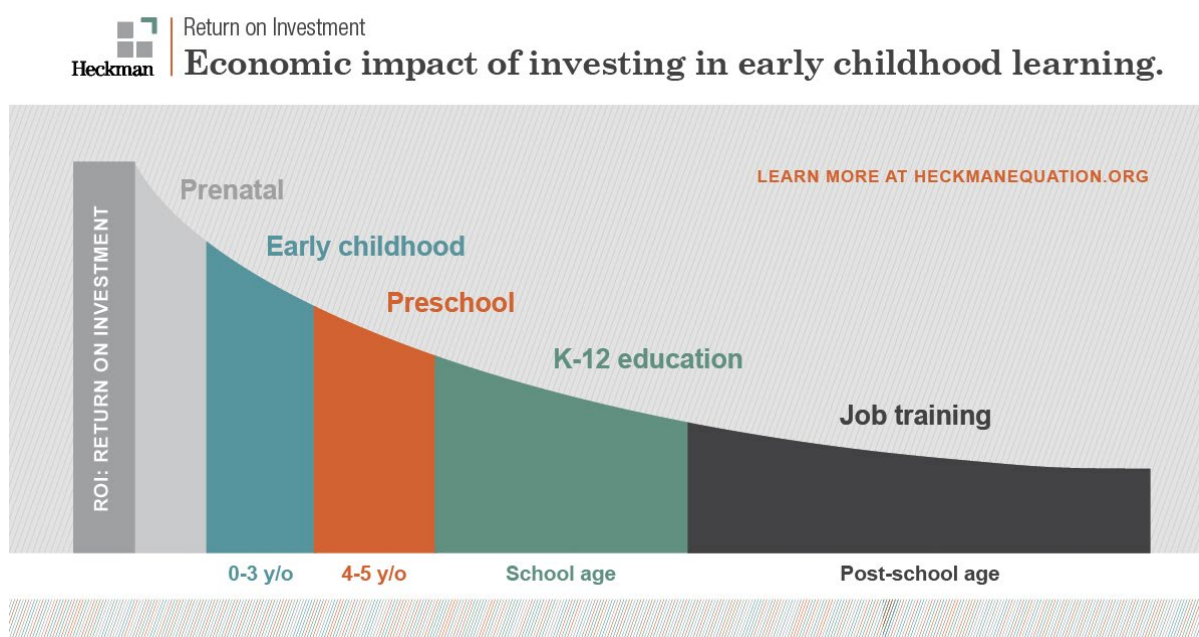
Economically, early childhood experiences set the angle of the trajectory of all human capital development that follows. With 70% of children currently living in poverty,⁵ a quarter of under 5's stunted,⁶ and only a third of 3-5 year olds accessing early learning programmes,⁷ it is clear that we are failing to respect children's rights and placing tremendous, often insurmountable obstacles on their path to human capital development.

Yet, there is enormous potential for South Africa to unlock the latent economic power of women and young children.

The link between investments in ECD and economic outcomes is well documented.⁸ Poor early childhood outcomes are directly associated with a wide range of negative socio-economic consequences, from reduced economic growth, lower returns to investment in basic and higher education, poorer health outcomes, drug abuse, higher unemployment and crime.⁹

Conversely, given the low base of current funding for ECD, as described below, in an era of constrained public finances, investing in ECD could be among the most cost-effective routes to job-rich economic growth.

Figure 3: Heckman Equation



⁵ Unpublished analysis of StatsSA 2022 General Household Survey, calculated as 4.9 million out of a total of 7.0 million children under 6 years of age in South Africa living in families where average income per person is below the [upper bound poverty line](#) of R1 558 per month.

⁶ Children's Institute, University of Cape Town [Children Count: Undernutrition in children](#) 2019.

⁷ Department of Basic Education [ECD Census 2021: Report](#) 2022.

⁸ Richter, Biersteker, Burns, Desmond, Feza, Harrison, Martin, Saloojee and Slemming [Diagnostic Review of Early Childhood Development](#) Prepared for the National Planning Commission 2012.

⁹ Dulvy, E.N., Devercelli, A.E., Van Der Berg, S., Gustafsson, M., Pettersson Gelande, G., Kika-Mistry, J., Beaton-Day, F.M. (2023). [South Africa Public Expenditure and Institutional Review for Early Childhood Development](#). Washington, D.C.: World Bank Group at 2.

The widely accepted “[Heckman equation](#)” demonstrates that “the highest rate of economic returns comes from the earliest investments in children society invests too much money in later development, when it's often too late to provide great value.” Thus, the earliest investments in quality services for children provide the largest benefits, for the smallest cost.

Case studies on the cost–benefits of investing in ECD

1. A recent study in South Africa which analyses the cost and impact of scaling 10 nutrition interventions for a cohort of children born in 2021 estimates that every R1 invested in nutrition interventions would yield R18 in productivity returns.
2. A home-visiting programme in Jamaica that comprised weekly visits from community-health workers supporting mothers to provide psycho-social stimulation to growth-stunted toddlers led to 25% higher earnings for participants after 20 years.
3. Other recent estimates for South Africa suggest that every R1 invested in accessible childcare services would generate R7 in increased economic activity for previously unemployed primary caregivers on average.

Source: World Bank South Africa Public Expenditure and Institutional Review for Early Childhood Development 2022 at 2-3.

According to our own modelling,¹⁰ through incremental, well targeted investments in the ECD sector, starting with additional annual funding of only R700 million, we can:

- ✓ improve the skills and working conditions of around 200 000 women already working in the sector;
- ✓ create 300,000 new livelihood opportunities for women in township and rural economies;
- ✓ relieve childcare burdens for up to 2 million caregivers.

In addition, investing in ECD services will **stimulate local economic activity**, particularly in low-income communities, through auxiliary services, infrastructure and goods, and more cash transactions. In this way, ECD can be a significant driver of economic development and reductions in gender inequality in the short-medium term.

By ensuring all children are adequately nourished, have access to basic health services such as vaccines and routine check-ups, protected from harm, and provided with early learning opportunities, we can dramatically close the **school-readiness gap** and improve the returns to investment from basic education spending.

Finally, in the longer run, healthier, safer, better nourished and educated children have a much higher chance of succeeding in post-school education and training and in the labour market – **saving the state and society the significant costs** associated with crime, unemployment and poor physical and mental health.

¹⁰ Ilifa Labantwana [Towards universal access: A three-year acceleration plan for ECD funding](#) 2022 at 4.

3. CURRENT FUNDING FOR ECD SERVICES IN SOUTH AFRICA

Significant gains have been made in **maternal and child health** and **income support** for children since the advent of democracy. Today, 90% of women receive antenatal care¹¹ and child mortality has almost halved since 1994.¹² The child support grant of R505 per month, while far below the food poverty line of R760 per month,¹³ reaches 13.5 million children and is widely considered one of the most effective interventions for reducing extreme child poverty.¹⁴ These gains were enabled by large public funding increases to health care and social protection over the past two decades. Government now spends R113 billion on primary health care and R82 billion on the child support grant each year, together amounting to 10% of government expenditure.¹⁵

Meanwhile, policies addressing **basic nutrition, childcare and early learning**, and **support for caregivers**, have been grossly underfunded. Current funding for early learning programmes attended by 2.2 million children amounts to only R4 billion,¹⁶ 0.2% of government expenditure. This pales in comparison to expenditure of R310 billion on basic education or R136 billion on post-school education and training.

While thriving basic and higher education sectors are essential, the returns to these investments are constrained by the wholly inadequate and starkly unequal access to the “full package” of ECD services in South Africa. Three quarters of children aged 0-5 do not attend any form of early learning programme.¹⁷ Of the 42 500 early learning programmes identified in the 2021 ECD Census, only 40% are fully or conditionally registered, and only 33% benefit from the ECD subsidy.¹⁸ We estimate that only 650 000 of the 4.5 million children aged 0-5 who receive the child support grant and are eligible for the ECD subsidy, actually receive it. One in four children are nutritionally stunted,¹⁹ with lifelong physical, cognitive and emotional consequences.

Poorer children are less likely to access almost every one of these critical services compared to their wealthier peers. Meanwhile, government has no robust plan for resourcing and capacitating existing home-based support programmes for vulnerable pregnant women and primary caregivers. This is despite households being critical to children’s early stimulation, care and nutrition; the resource challenges caregivers face in providing this care; and the overwhelming evidence linking household vulnerability to poor child outcomes.

¹¹ Massyn, Peer, English, Padarath, Barron & Day *District Health Barometer 2015/16*. Durban: Health Systems Trust.

¹² <https://data.unicef.org/country/zaf>.

¹³ StatsSA *National Poverty Lines* 2023.

¹⁴ Children’s Institute *Reducing Child Poverty: A review of child poverty and the value of the Child Support Grant. Executive Summary* 2023.

¹⁵ National Treasury *2023 Budget Review*.

¹⁶ Dulvy, E.N., Devercelli, A.E., Van Der Berg, S., Gustafsson, M., Pettersson Gelande, G., Kika-Mistry, J., Beaton-Day, F.M. (2023). *South Africa Public Expenditure and Institutional Review for Early Childhood Development*. Washington, D.C.: World Bank Group.

¹⁷ Ranging from full time ECD centres to childminders and playgroups. ¹⁷ Brooks, L., Mohamed, Z., Almeleh C. & Maharaj, S. 2022. *Towards universal access: A three-year acceleration plan for ECD funding*. Ilifa Labantwana.

¹⁸ <https://datadrive2030.co.za/wp-content/uploads/2022/09/ecdc-2021-report.pdf>.

¹⁹ Children’s Institute, University of Cape Town *Children Count: Undernutrition in children* 2019.

The failure to adequately support childcare and early learning is symptomatic of a broader failure to recognise and invest in women's work in the care economy. Limited access to ECD programmes also holds countless female caregivers back from seeking out education, training, or employment opportunities.

Our modelling²⁰ suggests that **the cost of supporting children to thrive is tiny compared to the social and economic consequences of not doing so**. In these austere times, well planned increases to ECD funding could be one of the most cost-effective strategies for reducing child poverty, creating jobs, addressing skills shortages, and tackling gender inequality. Initially, an average annual boost to funding for the ECD subsidy of R700 million per annum would provide for an increase in the value of the ECD subsidy from R17 to R20 per child per day and increase its reach to a further 300,000 children over three years. By 2026/27, average annual increases of R2.9 billion to ECD funding would secure universal access to quality early learning opportunities by 2042/43.

Ultimately, greater levels of investment in ECD are necessary to raise South Africa's long-term growth rate, by improving the returns from basic education and enhancing the health, skills, and productivity of our working age population.

4. 2023 DIVISION OF REVENUE AMENDMENT BILL

In his speech to Parliament, Minister Enoch Godongwana stated that the 2023 Medium Term Budget Policy Statement was centred around three priorities:

1. Stabilising public finances while maintaining support for the most vulnerable and protecting front line services;
2. Fast tracking growth-enhancing reforms, and;
3. Reconfiguring the structure and size of the state, while strengthening its capacity to deliver quality public services.

Ilifa Labantwana welcomes Minister Godongwana's recognition that any proposals to reconfigure the state must have improving the capacity of the state to deliver equitable access to quality public services as their central aim.

However, we are very disappointed that the Minister did not speak once to the lives of children in South Africa. Even more concerning is that the full MTBPS also completely fails to recognise or acknowledge the impact of the budget proposals put forward on the lives of children. In a country where 70% of young children live in poverty, this is unacceptable.²¹

Child poverty is directly associated with poor health, nutrition, stunting, learning difficulties, crime and unemployment. Thus, if government is serious about tackling inequality, it has to be serious about improving the lives of the 7 million children under 6 years of age in the country.

Recognising the rights and needs of children is not only a constitutional or moral imperative. As described above, the positive correlations between ECD investments and economic growth are

²⁰ Brooks, L., Mohamed, Z., Almeleh C. and Maharaj, S. (2022). [Towards universal access: A three-year acceleration plan for ECD funding](#). Ilifa Labantwana.

²¹ Unpublished analysis of StatsSA 2022 General Household Survey, calculated as 4.9 million out of a total of 7.0 million children under 6 years of age in South Africa living in families where average income per person is below the [upper bound poverty line](#) of R1 558 per month.

well documented. These include higher wages for the 200 000 strong largely female ECD workforce, job creation focused on townships and rural areas, improvements to school readiness and learning outcomes, and skills development.

We therefore urge government to **include the ECD sector in its economic growth agenda**, beyond the Red Tape Reduction Task Team. For example, the ECD sector could be included in government’s plans to establish an Infrastructure Finance and Implementation Support Agency. This could help to unlock private finance to support the improvement and development of ECD infrastructure. This would increase eligibility for the ECD subsidy and enable increased access to early learning programmes.

Overall, **our analysis of the 2023 MTBPS finds that vulnerable children and their caregivers were not given adequate protection from the deep and widespread budget cuts proposed to “stabilise the public finances”**. These include real reductions to the provincial equitable share, affecting provincial education, health and social development departments responsible for various aspects of ECD, as well as a reduction in the infrastructure component of the ECD Conditional Grant, and no commitments by the state to address the crisis of child hunger and malnutrition.

4.1. PROVINCIAL EQUITABLE SHARE

The Provincial Equitable Share (PES), which funds health care, education and social services, and co-funds access to early learning programmes, is to be reduced by **R54 billion** between 2022/23 and 2024/25, in real terms.

Table 1: Provincial equitable share, constant 2023/24 Rands²²

R billions	2022/23	2023/24	2024/25
Provincial equitable share	R 612.0	R 585.1	R558.3
Growth		-4.4%	-4.6%

With provincial accruals (unpaid invoices) amounting to R18.2 billion in 2022/23, these cuts to the equitable share will put provincial services under enormous strain, placing children, the elderly, the sick and victims of gender and other forms of violence at risk of reduced access to essential services.

Provincial education departments have struggled with highly constrained human resource capacity since they took the ECD function over from social development departments in 2022/23. Additional human resources are required at provincial level to effectively execute the functions pertaining to the registration, funding and monitoring of early learning programmes.

²² Own calculations based on CPI and budget data provided in the 2023 Budget Review and MTBPS.

Cuts to the equitable share and the hiring-freeze recommended by National Treasury mean that provincial education departments are unable to make the appointments which are necessary to capacitate themselves to manage the expansion and quality improvement of early learning programmes, as was envisaged when DBE took over the ECD function from DSD in 2022/23. Without this capacity, improvements to the total stock and quality of early learning programmes, which is a central goal of the planned increase to the ECD Conditional Grant: subsidy component in 2024/25, will be extremely difficult to manage. This places the planned and much needed increase in the number of children benefiting from the ECD subsidy over the MTEF at risk.

We estimate that provinces spend about R1.7 billion of their equitable share allocations on subsidies for poor children attending ELPs. Cuts to the equitable share will put pressure on this funding pool. Since there is a planned increase in the subsidy component of the ECD Conditional Grant in 2024/25, provinces may decide to scale back equitable share allocations to ECD subsidies, in order to make the reduction in their overall equitable share allocation. This will undermine the intention of the Conditional Grant increase, which is to increase the number of poor children provided with subsidised access to early learning programmes. If the increased conditional grant budget merely replaces existing equitable share funding, the goal of increased access will not be realised.

RECOMMENDATIONS

- ❖ We call on National Treasury, the National Department of Health and provincial health departments to ensure that children's rights to health care, nutrition and social services in particular are not violated as a result of cuts to the provincial equitable shares, and impacts on public services are minimized.
- ❖ Parliament may require evidence from National Treasury that due regard was given to the impact of these cuts on the rights of people, particularly the most vulnerable, prior to the proposals being tabled in Parliament.
- ❖ Provincial education departments to be capacitated with the appointments needed to manage the expansion of early learning programmes through planned increases to the ECD Conditional Grant in 2024/25.
- ❖ We urge Members of Provincial Legislatures to apply proper scrutiny to the provincial adjustments budgets that will be tabled in the coming days.
- ❖ In future, Parliament may consider requiring that human rights impact assessments be carried out by National Treasury and relevant line departments and included in the budget documentation alongside proposals to reduce funding for services that vulnerable people rely upon.

4.2. ECD CONDITIONAL GRANT

The purpose of the ECD Conditional Grant is "To increase the number of poor children accessing subsidised early childhood development services through centre and non-centre-based programmes; to support early childhood development providers delivering an early childhood

development programme to meet basic health and safety requirements for registration; to pilot the construction of new low-cost early childhood development centres.”²³

Infrastructure component reduced

While no adjustments were made to the subsidy component of the ECD Conditional Grant, the infrastructure component was **cut by R58 million**, reducing the budget for 2023/24 to a paltry R44 million.

Table 2: ECD Conditional Grant original, adjusted and planned MTEF budget

	2023/24 Original	Adjustments made	2023/24 Adjusted	2024/25	2025/26
ECD conditional grant: subsidy component	R1.1 billion	R0	R1.1 billion	R1.7 billion	R2.2 billion
ECD conditional grant: infrastructure component	R102 million	- R58 million	R44 million	R157 million	R161 million

According to the 2023 DoRB, the purpose of the infrastructure component is to “To support ECD providers delivering an ECD programme to meet basic health and safety requirements for registration, and to pilot the construction of new low cost ECD centres.” The cut to the grant was attributed to “slow spending” by provincial education departments, but no information was provided on the rate of spending, overall or per province, whether provinces had plans in place to spend the funds, or if they were indeed underprepared to spend the funds by the end of the financial year. Moreover, no plans were announced to improve the spending performance, and no analysis provided of how the cut will impact the country’s goals for the expansion and improvement of early learning programmes in the country.

These are the only public funds dedicated to supporting early learning programmes to register and qualify for government subsidies, by ensuring ECD infrastructure meets basic health and safety standards. Rather than reverting to cutbacks, the Department of Basic Education, National Treasury and provincial education departments should work with the ECD sector to develop plans to get these funds spent as efficiently as possible. Failure to do so places the anticipated increase to this component of the grant pencilled into the 2024/25 and 2025/26 budget at risk.

The approach taken in this MTBPS will delay government’s goal of improving standards at more than 25 000 unregistered early learning programmes, ensuring thousands of children remain at risk in poorly maintained ECD centres, and keeping the per child ECD subsidy out of reach of many more.

²³ 2023 Division of Revenue Bill, Schedule 5, Part A.

Subsidy value remains unchanged

The ECD subsidy of R17 per child per day remains unchanged since 2019, and no adjustment was provided for in the MTBPS. This amount is far too low to enable ECD programmes to pay decent wages and provide quality care, nutrition and learning stimulation, leaving them to rely on parent fees to cover their costs. We estimate that the cost of providing a basic quality service is R32 per child per day. The result is that children from the poorest households are excluded from accessing ECD programmes, which is precisely what the subsidy is intended to address. For example, under the current low value subsidy system, 90% of the mainly female ECD workforce earns [less than the minimum wage](#).

RECOMMENDATIONS

- ❖ DBE and provincial education departments to urgently consult with the ECD sector on the optimum modalities for organising and spending the infrastructure component of the ECD Conditional Grant.
- ❖ When funds are returned unspent to the fiscus due to “slow spending”, the rate of spending should be provided in the AENE and Explanatory Memorandum to the Division of Revenue Bill, alongside reasons for the slow spending and the plans in place to improve the spending performance.
- ❖ Any unallocated funds in the ECD Conditional Grant for which no considered spending plans have been developed should be allocated to provinces to be spent on ECD subsidies, as this is the quickest and simplest way to improve equitable access to early learning programmes.
- ❖ Increasing the subsidy to R20 per child per day at a cost of R700 million per annum would partially make up for the effect of inflation which has eroded the purchasing power of the subsidy since 2019, and expand its reach to a further 300 000 children over three years. Since the subsidy is well targeted at children from low-income families and a portion of the subsidy must be spent on food, increasing the subsidy value is a highly effective way to tackle child hunger and malnutrition.
- ❖ In the medium-term, a gradual increase in the subsidy to R45 per child per day by 2030 would enable universal access to quality ECD programmes, a key goal of the National Development Plan.

4.3. NUTRITION

Improving access to early learning programmes can also contribute to improved nutritional outcomes in a country where [one in four young children are stunted](#). The 2023 MTBPS made no mention of the crisis of hunger and malnutrition stalking the 70% of children living in poverty in SA. Section 28 of the [Constitution](#) provides that these children have an unqualified right to basic nutrition. The SA Human Rights Commission has recently called on government to declare [hunger and malnutrition in the Eastern Cape province a national disaster](#). Parliament should support this call and put pressure on the Executive to announce concrete measures in the 2024 budget to fulfil children’s fundamental right to basic nutrition.

RECOMMENDATIONS

- ❖ Urgently roll out a national nutrition programme providing nutritious meals to young children attending ECD programmes, whether registered or unregistered.
- ❖ Consider the [Double Discounting – 10 Best Buys](#) scheme which could reduce the cost of foods consumed by low income households.
- ❖ Increase the Child Support Grant from its current value of R505 per month to the Food Poverty Line of R760 per month over the MTEF. If implemented by 2027, this would reduce child poverty by 8%. Evidence shows that maintaining the Child Support Grant in line with CPI inflation, as MTBPS proposes, [will be insufficient to reduce child poverty](#).
- ❖ Increase the ECD subsidy to enable early learning programmes to provide nutritious meals to children attending.

5. CONCLUSION

Achieving universal access to quality early childhood development (ECD) services for all children presents the single greatest opportunity to reduce structural inequality in South Africa. To invest in ECD is to disrupt entrenched arrangements of care, power and privilege that continue to drive gender inequality and intergenerational poverty, keeping black women on the margins of social and economic life, and thwarting the future chances of their children. The next five years provide a once-in-a generation chance to centre ECD in South Africa's development trajectory and position ECD as core to South Africa's human capital development strategy. By situating ECD as a lever for deep systems change, we can unlock children's potential, secure and expand jobs for marginalised women, stimulate local economies, and promote a more just and thriving society.

While increases to the ECD Conditional Grant are pencilled in to the 2024 Medium Term Expenditure Framework, cuts to the infrastructure component of the ECD Conditional Grant, as well as real reductions to the provincial equitable share, effectively place the expansion of access to ECD services repeatedly promised by the President and the Minister of Basic Education, on hold.

Moreover, the 2023 MTBPS and DoRAB fails to acknowledge the crisis of hunger and malnutrition affecting at least one quarter of children in the country. Addressing this crisis and improving access to the full package of ECD services must be central to government's agenda. We appreciate the opportunity to make this submission, and look forward to engaging the Committees on its contents.