OPPORTUNITY COST OF COVID-19 BUDGET REALLOCATIONS

BRIEF: SOUTH AFRICA

CENTRE FOR DISASTER PROTECTION

Oxford Policy Management

BRIEF

Authors: Lydia Poole

Date: March 2023

UKaid
from the British people

About the Centre for Disaster Protection

The Centre for Disaster Protection works to prevent disasters devastating lives, by helping people, countries, and organisations change how they plan and pay for disasters. The Centre is funded with UK aid through the UK government.

About Oxford Policy Management Limited

Oxford Policy Management is committed to helping low- and middle-income countries achieve growth and reduce poverty and disadvantage through public policy reform. We seek to bring about lasting positive change using analytical and practical policy expertise. Through our global network of offices, we work in partnership with national decision makers to research, design, implement, and evaluate impactful public policy.

Citation

Poole, L. (2023) 'Opportunity Cost of Covid-19 Budget Reallocations. Brief: South Africa. Centre for Disaster Protection Report', London.

Disclaimer

DAI provides the operational and administrative platform for the Centre's delivery and is a key implementing partner. DAI Global UK is registered in England: 01858644. 3rd Floor Block C, Westside, London Road, Apsley, Hemel Hempstead, HP3 9TD United Kingdom.

CONTENTS

Cape Town, South Africa. 27 April 2020. Cape Town's busiest street is empty during one of the world's strictest national COVID-19 (coronavirus) lockdowns. Image: Micha Serraf, Shutterstock

KEY FINDINGS

- The covid-19 fiscal package unveiled by the South African Government in April 2020 planned to provide South African Rand (ZAR) 500 billion (US$ 27.9 billion) in economic relief - approximately 10% of South Africa's gross domestic product (GDP).
- The objectives of the covid-19 response package were to direct resources to the health response and to increase government spending to offset the impact that lockdowns were expected to have on the economy.
- The special adjustments budget of June 2020 provided most of the reallocations, and some additional funding, to respond to the pandemic.
- In addition, the Minister of Finance used Section 16 expenditures in 2021 for funding to purchase vaccines and to continue the social grants that were initially only planned to last six months.
- At the aggregate level there was little change in government spending due to the covid-19 pandemic.
- Most of the funding that went through the budget was reallocated from other spending: the net increase in spending was only ZAR 36 billion (US$ 2 billion).
- The government felt that it was constrained by high debt levels, and thus could not borrow substantially more. This was a pragmatic approach, which balanced concerns about maximising the response to covid-19 with a desire to minimise the risk to fiscal sustainability.
- In total, an additional ZAR 40.1 billion (US$ 2.1 billion) of the fiscal package was spent in the 2020/21 fiscal year. When applying a fiscal multiplier of 1.2, the actual impact on the South African economy was increased GDP of ZAR 49 billion (US$ 2. billion), or a 1% increase.
- In practice, this means that the 6.3% decline in GDP would have been 1% larger without the fiscal package. This is a good outcome. However, it would have been possible to have even better results, had the response been larger.
- The relief package has not been as effective as it could have, or should have, been, with only roughly 40.5% having been used or accessed. Had more of it been used or accessed the decline in GDP would have been even less.
- However, the introduction of social assistance grants have had significant positive effects on reducing poverty and inequality.

INTRODUCTION

The reallocation of public funds has consequences, whereby sectors with reduced funding suffer forgone or delayed social and economic returns. This country study summarises findings from original research conducted by Owen Willcox and Adrienne Shall using a methodology designed by Stephanie Allan and Dayna Connolly at Oxford Policy Management. It forms part of a wider multi-country research project that seeks to identify and quantify the opportunity costs associated with diverting funding from planned budgeted activities, using covid-19 as a case study to analyse public expenditure decisions, with a focus on what was not spent as a result of the pandemic.

A four-pillar methodology was developed, as set out in Figure 1, to analyse the decision-making context and process, and to quantify opportunity costs. This core methodology was adapted to each country case study context, with the details described in the synthesis report.[1]

The South Africa study considered the budget reallocation process and expenditures, both at federal level and at the level of Gauteng and Mpumalanga provinces.

Figure 1: Methodological pillars

1. Procedural analysis	2. Counterfactual	3. Expenditure Analysis	4. Impact analysis
• Review of the legal and institutional framework, alongside any guidelines on budgeting and expenditure procedures. • Key informant interviews with the government on the processes by which budget allocation decisions are made, across the emergency cycle.	• Best-guess estimation of public expenditure outturns for a scenario in which the epidemic does not occur. • The outturns counterfactual can be established through utilising the original budget (pre-pandemic) and assessing deviations expected in 'normal' years.	• Comparison of actual expenditure against the counterfactual. • Focusing on the incidence of spending cuts, identifying the 'winners' and 'losers', capturing changes on a sectoral basis, and in administrative, economic and functional/ programmatic classifications.	• Economic analysis of the estimated impact of cut or delayed expenditure in terms of social and economic returns forgone. • Analysis at the aggregate/sectoral level, and for a few key budget projects, for illustrative purposes.

Source: Authors.

1 Allan, S. & Bayley, E. (2023) 'Opportunity Cost of Covid-19 Budget Reallocations. Cross-Country Synthesis'. Centre for Disaster Protection Report, London.

HOW WAS SOUTH AFRICA POSITIONED GOING INTO THE CRISIS?

Since the global financial crisis, economic growth in South Africa had been slow, and GDP per capita declined in the period 2009–2019. This slow growth has been the result of high interest rates, electricity shortages, suspected corruption in government departments and state-owned enterprises, policy uncertainty deterring private investment, and low commodity prices, which have hurt South Africa's exports. Prior to the onset of the coronavirus pandemic, GDP had contracted in four of the last five quarters. The South African economy was already in recession before the crisis began. In the second quarter of 2020, as a lockdown was implemented, annualised GDP fell by 51%.[2]

As a result of slow economic growth, low commodity prices, bailouts for state-owned entities, and rapidly increasing civil servant salaries, government debt increased from 22% of GDP in 2008 to 63.5% of GDP in 2019/20. The government has been unable to prevent debt levels increasing.

South Africa also has the most unequal income distribution in the world. The Gini coefficient of income inequality stands at 0.67 (2014).[4] Wealth inequality in South Africa is even more severe, measured at 0.94 in 2014/15. There is a strong racial dimension to inequality, with the average black household owning just 4% of the wealth of the average white household.[5] Unemployment in the first quarter of 2020 was very high, at 39.7%, with youth unemployment reaching 59%.[6] These rates increased once the full impact of the covid-19 crisis on the labour market was felt.

The precarious situation the government found itself in severely limited the economic and fiscal response that the Treasury could offer to stimulate the economy and to take care of vulnerable groups in society.

South Africa does have some provision for mobilising funds for crisis response; however, these funds were not sufficient in scale, and their mobilisation was not sufficiently timely, to support the covid-19 response.

HOW DID THE GOVERNMENT OF SOUTH AFRICA RESPOND?

The first confirmed case of covid-19 in South Africa occurred on 5 March 2020. The President of South Africa, Cyril Ramaphosa, declared a national state of disaster on 15 March 2020. On 17 March, the National Coronavirus Command Council was established. The Presidency announced that a national lockdown would begin on 27 March 2020, which would run from March to November 2020.

In December 2020, the country experienced a second wave of covid-19 infections. From 29 December 2020, the lockdown was tightened from an adjusted level 1 to an adjusted level 3. Then, as cases declined, the lockdown was lowered from an adjusted level 3 to an adjusted level 1 from 1 March 2021. On 17 February 2021, the national covid-19 vaccination programme was officially rolled out. In May 2021, the Delta variant was detected locally and, due to the increasing number of cases, the country was moved to alert level 2 from 31 May. As hospitals beds started filling up, the country was moved to alert level 3 on 15 June and then to alert level 4 on 28 June.

A wide-ranging ZAR 500 billion fiscal response package was announced in April 2020, which involved scaling up capacity in the public health system and mitigating the effects of restricted economic activity for households and businesses. The Treasury also introduced a supplementary budget in June 2020 that dealt specifically with covid-19.

2 Statistics South Africa.

3 World Bank MPO.

4 World Development Indicators.

5 Woolard, 'Why South Africa should consider a wealth tax'.

6 Statistics South Africa, 'Expanded definition of unemployment'.

In addition, the Reserve Bank reduced interest rates by 300 basis points and provided additional support to the bond market, financial sector regulations were eased to support the flow of credit to households and businesses, and commercial banks introduced temporary payment holidays.

The largest component of the fiscal package was a ZAR 200 billion (US$ 11.1 billion) fund, called the Credit Guarantee Scheme, run jointly by the largest commercial banks, the government, and the central bank, which aimed to provide loans to small and medium-sized businesses. The Credit Guarantee Scheme ultimately suffered low uptake, at less than 10%, partly due to very stringent application criteria.

ZAR 100 billion (US$ 5.5 billion) was provided for job creation activities. ZAR 40 billion (US$ 2.2 billion) was provided by the Unemployment Insurance Fund (UIF) to those who had been retrenched, which also included the covid-19 Temporary Employee/Employer Relief Scheme (TERS), which made provision for the payment of benefits to workers who, due to the covid-19 pandemic, had lost income or had been required to take annual leave.

In addition, another ZAR 260 billion (US$ 14.5 billion) in social assistance and increased allocations to provinces and municipalities went through the fiscus. ZAR 50 billion (US$ 2.8 billion) was allocated to social assistance. This included an increase in existing social grants, as well as a new special covid-19 Social Relief of Distress grant, for the six months from May to October 2020. The covid-19 grant was targeted at individuals above the age of 18, the unemployed, and those receiving neither any income nor any other social grant or support from the UIF. The President's October announcement included a further extension of the availability of the covid-19 grant to April 2021, given its impressive reach (4.2 million previously unreached individuals) in just four months (equivalent to the growth of the grants system in the last 10 years) and subsequent poverty-reducing effects.[8] The elements of the package reached different target beneficiaries. Small and medium-sized businesses were covered by the Credit Guarantee Scheme, workers by the TERS, and those in informal employment or unemployed by social protection. TERF and social protection were especially effective.[9] The tax deferrals were used most effectively by large businesses, which had the capability to use them, even though companies were still obliged to pay their full tax liability at the end of the tax year in February 2021.

The detailed components of the fiscal package are set out in Table 1 below.

Table 1: Covid-19 crisis economic response package

Component	ZAR million
Credit Guarantee Scheme	200,000
Job creation and support for small and medium-sized enterprises and informal businesses	100,000
Tax deferrals	70,000
Support to vulnerable households for six months	50,000
Wage protection (UIF)	40,000
Health and other frontline services	20,000
Support to municipalities	20,000
Total	**500,000**

Source: National Treasury.

8 www.brookings.edu/blog/africa-in-focus/2020/11/20/lockdown-economics-in-south-africa-social-assistance-and-the-ramaphosa-stimulus-package/

9 See Barnes et al. (2021).

The government also created a Solidarity Fund, in collaboration with business and civil society, which allowed the private sector and individuals to donate funds to be used in the covid-19 response. This had the virtue of being able to respond more quickly than the purely government mechanisms, and also played a role in increasing social cohesion.

HOW WAS THE RESPONSE FINANCED?

Funding sources for the fiscal package are outlined in Table 2 below. New funding mainly came from the central bank, borrowing from multilateral institutions, and running down surpluses in social security funds. For example, South Africa also obtained a US$ 288 million loan from the African Development Bank, a US$ 1 billion loan from the New Development Bank, and a US$ 4.3 billion loan from the International Monetary Fund.

Table 2: Sources of funding for the covid-19 crisis fiscal response package

Source	ZAR billion
Central bank	200
Baseline reprioritisation	130
Borrowings from multilateral financial institutions and development banks[1] for business support, job creation, and protection	95
Additional transfers and subsidies from the social security funds	60
Available funds in the Department of Social Development 2020/21 appropriation	15
Total	**500**

1. International Monetary Fund, World Bank, and the New Development Bank.

Source: National Treasury.

The Government of South Africa felt that it was constrained by high debt levels, and thus could not borrow substantially more. This was a pragmatic approach, which balanced concerns about maximising the response to covid-19 with a desire to minimise the risk to fiscal sustainability. The government's reluctance to increase borrowing in response to covid-19 should be understood in the context of the fact that the National Treasury spent more than expected on increased debt service costs because the government borrowed substantially more than projected in the 2020 budget, resulting in higher interest payments. An amount of ZAR 690 billion (US$ 38.5 billion) needed to be borrowed in 2020/21 as tax revenue fell.

At the aggregate level there was little change in government spending due to the covid-19 pandemic. The original 2020 national budget allocated a total of ZAR 1.537 trillion (US$ 85 billion) of expenditure, financed through a combination of domestic borrowing (19%) and tax revenue (81%). In the supplementary budget, total expenditure rose by ZAR 36 billion (US$ 2 billion) to ZAR 1.573 trillion (US$ 87 billion).

HOW DID THE BUDGET REALLOCATION PROCESS PERFORM?

The national budget was tabled in February 2020, before the government realised how substantial the full impact of the pandemic would be. Thus, the government had to rapidly prepare a response, and find methods to finance it. The Government of South Africa's fiscal response to the covid-19 crisis was guided by Section 56 of the Disaster Management Act (Act 57 of 2002), together with various sections of the Public Financial Management Act (PFMA) (Act 1 of 1999 as amended). Within these guidelines, the government used a variety of budgetary instruments to deal with the crisis, which mainly included a special adjustments budget tabled in June 2020 and the ZAR 500 billion (US$ 27.9 billion) covid-19 fiscal package.

Disaster response is usually financed through the budget, or the adjustments budget, depending on the time of year in which the disaster occurs. Departments are hesitant to apply for funding through the disaster response mechanism because the process is rigorous and time-consuming, taking at least four months before funding is presented either in the adjustment budget or budget. After presentation, it can take months for the appropriation bill to be signed into law. For example, in the case of droughts or floods, funds are often approved up to six months after the disaster occurs.

The Division of Revenue Act provides a number of grants to support disaster risk management and specifies funds that may be released to fund an immediate response to a declared disaster. In the 2020/21 budget these grants amounted to ZAR 433 million (US$ 22.8 million) for provinces and ZAR 512 million (US$ 27.0 million) for municipalities. Applications for funding from the Division of Revenue Act disaster risk management grants need to be submitted to the National Disaster Management Centre (NDMC). The NDMC conducts preliminary cost verification of the disaster response funding required and submits a request to the National Treasury within 14 days of receiving a written funding request or a submission from the Provincial Disaster Management Centre. Once the NDMC has conducted the verification it seeks approval from the National Treasury for the disbursement of funds to provincial sector departments within 35 days of receipt of application. The NDMC then notifies the relevant Provincial Disaster Management Centre and Provincial Treasury of the outcome at least two days before the transfer of funds, and these funds must be transferred no later than five days after notification.

Given how long these processes take, and the limited funding available, the response to covid-19 could not take place through the conventional disaster response mechanisms.

Virements were not a particularly effective instrument, due to the reallocation limit of 8% of programme allocations. Accounting officers can reallocate funds using virements, subject to certain conditions being met. Budget allocations are stipulated by Vote (effectively a government department), broken down into programmes and by economic classification level 2 (i.e. compensation of employees, payments for capital, and transfers and subsidies). An accounting officer of a Vote[10] can reallocate funds, subject to certain conditions being met. Section 43 of the PFMA stipulates that virements from a programme should not exceed 8% of the total amount appropriated to that division in the main appropriation. If an accounting officer needs to vire more than 8% of the transferring programme allocation, this needs to be approved by Parliament in an adjusted budget. Because of the scale of the covid-19 pandemic, the virement mechanism was mostly not used as it limits reallocations to 8% of the value of the transferring programme.

Most of the changes in expenditure were introduced through supplementary budgets, which permit more substantive alterations. The Minister of Finance can propose reallocations through an adjustments budget. Section 30(2) of the PFMA permits adjustments due to significant and unforeseeable economic and financial events. The Minister of Finance tabled the special adjustments budget of June 2020, which provided most of the reallocations to respond to the pandemic. A similar process of using adjustment budgets was also followed in the provinces.

10 In South Africa, this would usually be a Director-General, equivalent to a Permanent Secretary in the United Kingdom Civil Service.

In addition, the Minister of Finance was also able to use Section 16 of the PFMA – which allows for the use of funds in emergency situations – in 2021 for funding to purchase vaccines and to continue the social grants that were initially only planned to last six months. However, Section 16 expenditure would have been insufficient to meet the scale of the crisis, being capped at 2% of allocations. There are also political sensitivities which influence the willingness of the government to use this provision.[11]

The government aimed to reallocate funding in such a way as to have as little impact as possible on the economy and service delivery. With its high budget execution rate, South Africa was able to reprioritise expenditure effectively towards areas of need, to mitigate the pandemic crisis, and away from departments which were not considered essential or which were underperforming. Reallocations took place in the following ways: removing funds underspent due to delays caused by the lockdown; suspending allocations for capital that could be delayed or rescheduled to 2021/22 or later; suspending allocations to programmes with a history of poor performance and/or slow spending; and redirecting funds towards the covid-19 response within functions, or towards the government's fiscal relief package.

Box 1: 'Winners and losers' in budget reallocations

At the federal level, the Votes that received the largest increases in the supplementary budget were Social Development (12.9%), Cooperative Governance (11.4%), Defence (5.5%), Health (5.2%), and Government Communication and Information Systems (4.2%). The Votes that had the largest reductions to their budgets were Tourism (-40.3%), Mineral Resources and Energy (-16.9%), Sports, Arts and Culture (-16.9%), Science and Innovation (-16.3%), and Trade, Industry and Competition (-16%).

Mpumalanga province committed to reprioritising at least ZAR 1.637 billion (US$ 91.4 million) of the equitable share[12] (3.7%) to increase capacity in the public health system and to augment the education catch-up plan, provide social welfare support for communities, and fund responses in other sectors. The two Votes that received an increased share in the supplementary budget were Health (7.8%) and Human Settlements (0.4%). The Votes that received the highest reductions in their appropriations were Economic Development and Tourism (-18.1%), Culture, Sports and Recreation (-15.5%), and the Office of the Premier (-12.3%).

In Gauteng province, provincial departments collectively reprioritised ZAR 7.9 billion (US$ 414 million) within the existing baselines to accommodate coronavirus-related expenditure. In addition, and to ensure that the province could cover covid-19-related spending, an amount of ZAR4.8 billion (US$ 268 million) was transferred from the national government, increasing the total provincial budget by 2.6% to ZAR 146.4 billion (US$ 8 billion). The Votes that gained from reprioritisation and additional funding were Economic Development (8.7%), Health (8.2%), Cooperative Governance and Traditional Affairs (3.3%), Education (1.6%), and Social Development (0.8%). The Votes that had the most significant reductions in budgets were Sport, Arts, Culture and Recreation (-14.7%), Human Settlements (-10.4%), Provincial Treasury (-8.5%), and Roads and Transport (-7.8%).

11 Section 16 expenditure was used in 2017 to provide a capital injection to South African Airways. It was felt that this undermined the authority of Parliament, to which the Constitution allocated responsibility for making allocations and allowing withdrawals from the National Revenue Fund, and thus Section 16 is used as little as possible.

12 The funding that provinces get from the national government that they are free to spend as they see fit.

The relief package has not been as effective as it could have been, with only 40.5% having been used or accessed. Furthermore, a significant amount of funds has been misspent, through means of non-compliance with procurement legislation, or ineffective expenditure – more specifically, in the health and education sectors.[13] Currently, of the ZAR 126.7 billion actual covid-19 expenditure on personal protective equipment for the 2021 financial year, the Special Investigations Unit is investigating ZAR 14.3 billion (US$ 798 million) (11.3%) due to suspected corruption.[14] This does not include the investigation into the ZAR 431 million (US$ 22 million) the Gauteng Department of Education spent on decontaminating schools, which is suspected to be irregular, and the allegedly unlawful ZAR 150 million (US$ 8.3 million) communications contract entered into by the National Department of Health.

WHAT WERE THE OPPORTUNITY COSTS OF BUDGET REALLOCATIONS?

Overall, at the aggregate level, there was little change in government spending due to the covid-19 pandemic. In fact, the analysis reveals that once bailouts for state-owned entities are removed from the analysis, there was a small decline in government expenditure.

In total, an additional ZAR 40.1 billion (US$ 2.1 billion) was spent in the 2020/21 fiscal year. When applying a fiscal multiplier of 1.2, **the actual impact on the South African economy was increased GDP of ZAR 49 billion (US$ 2.6 billion), or a 1 % increase**. In practice, this means that the 6.3% decline in GDP would have been 1% larger if there had been no covid-19 fiscal package from the government. This is a good outcome. However, it would have been possible to have had even better results, had the response been larger.

In relation to gains and losses, the largest gains were for Social Development (14.9%), due to increases in social grants, and Cooperative Governance, which had an increase of 7.2% in funding, due to transfers to municipal governments to offset the decline in rates income expected because of lockdowns. Health also saw an increase of 7.2% above the expected level of spending. Tourism had the largest cut in percentage terms (-77%). Other sectors and organisations which took large cuts included Statistics South Africa (-35.6%), Women, Youth and Persons with Disabilities (-27.8%), Traditional Affairs (-26.8%), and Public Enterprises (-26.6%).

Despite the government response, South Africa experienced a severe recession. This was inevitable given the scale of the crisis and the severity of the lockdowns. In the second quarter of 2020, GDP fell dramatically, by 52.8% on a quarter-on-quarter annualised basis – the largest contraction since national accounts began to be recorded. Employment fell by 2.2 million, a 13.6% decline. As at the second quarter of 2022, the shortfall in GDP had mostly been made up, but employment was still 5% below the level at the beginning of 2020, a decline of 821,000 jobs.

The results in terms of poverty and inequality have been much more positive, with South Africa's covid-19 response being shown to have reduced inequality and poverty. Barnes et al. (2021) show that the covid-19 response package resulted in higher incomes for the poorest of the poor, while the economic impacts of lockdowns resulted in lower incomes for deciles 7–10. Because incomes in households in the lower deciles were so low, the monthly payment of ZAR 350 (US$ 18) resulted in their incomes increasing. In addition, these households were less exposed to labour markets, so the reduction in employment due to lockdowns had little impact on them, as their members were already unemployed.

13 www.dailymaverick.co.za/article/2021-10-11-net-closing-in-on-ppe-looters-after-sars-and-hawks-execute-surprise-pincer-movement/?__cf_chl_captcha_tk__=pmd_9Nb_9yhuxaFHmP.phCu4lKZ3iMXGe6mfCK8D6aSw7z0-1633991932-0-gqNtZGzNA2WjcnBszRD9

14 https://pmg.org.za/committee-meeting/33534/

Table 3: Poverty headcount ratio for March to June 2020

Poverty line	Scenario	March	April	May	June
Food poverty line	Covid-19 policies	0.206	0.263	0.209	0.188
	Status quo ante policies	0.206	0.321	0.321	0.321
Lower-bound poverty line	Covid-19 policies	0.326	0.379	0.343	0.307
	Status quo ante policies	0.326	0.452	0.452	0.452
Upper-bound poverty line	Covid-19 policies	0.482	0.525	0.527	0.475
	Status quo ante policies	0.482	0.593	0.593	0.593

Source: Barnes *et al.* (2021).

Even though South Africa's unemployment problem is substantial, being particularly acute for young workers, the government had avoided introducing a social grant for those of working age, citing concerns about labour supply and fiscal sustainability. The depth of the covid-19 crisis meant that this approach had to be abandoned, with the Special Relief of Distress grant introduced in April 2020.[15] Barnes et al. (2021) show that the anti-poverty impact of the covid-19 grants was especially significant for the most vulnerable: female-headed households, households with children, and households with elderly people. Because the incomes of the poor were being increased, while those of the wealthy were reduced, income inequality declined up to June 2020. If there had been no policy response, inequality would have increased.

Table 4: Impact of covid-19 on income inequality in 2020

Scenario	Gini coefficient			
	March	April	May	June
Covid-19 policies	0.644	0.648	0.631	0.613
Status quo ante policies	0.644	0.676	0.676	0.676

Source: Barnes *et al.* (2021).

WHAT HAVE WE LEARNED?

The Government of South Africa's fiscal response to the covid-19 crisis was guided by Section 56 of the Disaster Management Act (Act 57 of 2002), together with various sections of the PFMA (Act 1 of 1999 as amended). Within these guidelines, the government used a variety of budgetary instruments to deal with the crisis, which included mainly a special adjustments budget, tabled in June 2020, and a ZAR 500 billion (US$ 27.9 billion) covid-19 fiscal package. **Virements were not a particularly effective instrument, due to the reallocation limit of 8% of programme allocations.** Most of the changes in expenditure were introduced through supplementary budgets, which permit more substantive alterations.

15 This grant was supposed to be available only for a limited time but, as at November 2022, the grant was still being paid, amid pressure from civil society to continue the grant. The government currently aims to stop payments in March 2024 but two deadlines for stopping payment of the grant, in April 2021 and March 2022, have already passed, so it is uncertain whether the government will follow through on this occasion.

The government adapted well, within the fiscal constraints it faced, in regard to reprioritising and reallocating funds and securing new funding to enable the fiscal support package. In total, the national supplementary budget allocated ZAR 145 billion (US$ 8.1 billion) to respond to the covid-19 crisis, identified through increasing the expenditure ceiling by ZAR 36 billion (US$ 2 billion) and reallocating ZAR 108.1 billion (US$ 6.3 billion) of expenditure.

The impact on the economy was calculated by the fiscal multiplier analysis to have been positive. In total, an additional ZAR 40.1 billion (US$ 2.6 billion) was spent in the 2020/21 fiscal year. When applying a fiscal multiplier of 1.2, the actual impact on the South African economy was increased GDP of ZAR 49 billion (US$ 2.6 billion), or a 1 % increase. This is a good outcome.

The covid-19 response package also had significant positive effects on reducing poverty and inequality. Notably, the introduction of covid-19 grants was especially significant for the most vulnerable: female-headed households, households with children, and households with elderly people. Because the incomes of the poor were being increased, while those of the wealthy were reduced, income inequality declined up to June 2020. Had there been no policy response, inequality would have increased.

The major issues raised are not with respect to the reallocations but rather with respect to the government's overall fiscal position, and the ability to spend the package effectively.
Whether the government actually had more fiscal space than it realised is a matter of huge debate. Ultimately, the government was concerned that the substantial instability in global financial markets would mean that expanded borrowing could be punished by markets, and thus it decided to only have a slight increase in net spending. By the end of 2020, it was clear that these fears were probably overstated and that more decisive action could have been taken.

It would have been possible to have had even better results had the response been larger. This is worrying for South Africa because the negative shock to economic growth and employment could create the conditions for weaker growth in the years ahead, through persistent slow growth. For example, weak growth could mean that investment plans are delayed, leading to weaker growth in future years. South Africa is only forecast to reach pre-pandemic GDP levels in 2023. This is the weakest recovery amongst the G20 economies.

Although budgets have been spent, there has not been enough interrogation of the effectiveness of spending. Notably, **the relief package has not been as effective as it could have, or should have, been, with only roughly 40.5% having been used or accessed**.

In addition, a significant amount of funds are suspected of being misspent, through means of non-compliance with procurement legislation. The government should ensure tighter controls on procurement processes under a state of disaster. Many companies that were awarded contracts were not registered on the Central Supplier Database. Furthermore, purchase orders, invoices, and payments were made without ensuring compliance with normal supply chain management prescripts and other control measures.

REFERENCES

Barnes, H., Espi-Sanchis, G., Leibbrandt, M., McLennan, D., Noble, M., Pititila, J., Steyn, W. *et al.* (2021). *Analysis of the distributional effects of covid-19 and state-led remedial measures in South Africa*. SA TIED Working Paper #170. http://sa-tied.wider.unu.edu/article/analysis-distributional-effects-covid-19-and-state-led-remedial-measures-south-africa

Contact information

Centre for Disaster Protection
WeWork
1 Poultry
London EC2R 8EJ
United Kingdom

info@disasterprotection.org
CentreForDP
disasterprotection.org

Cover image: Cape Town, South Africa - May 2020: Road construction work, Corona Virus Pandemic in Africa.
Image: Chadolfski, Shutterstock

CENTRE FOR DISASTER PROTECTION

Oxford Policy Management

UKaid
from the British people