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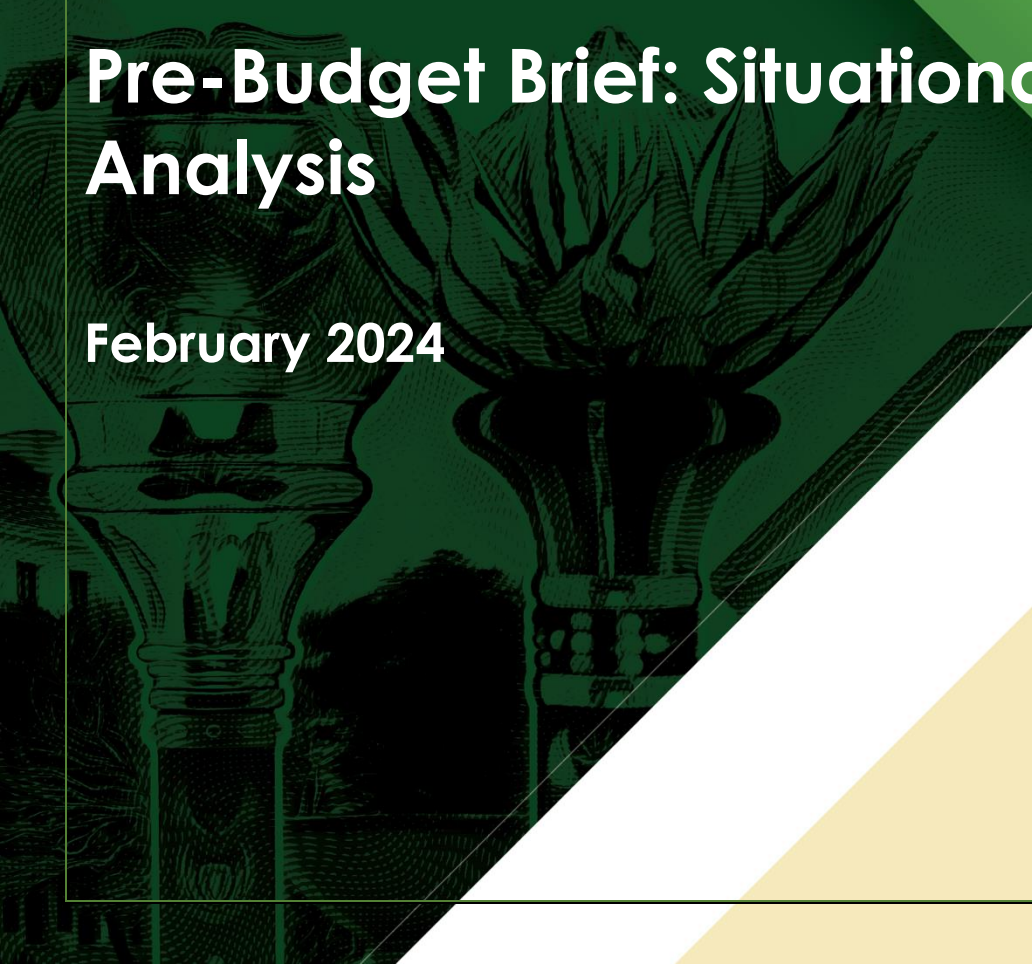
**PARLIAMENTARY
BUDGET OFFICE**



PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

Pre-Budget Brief: Situational Analysis

February 2024



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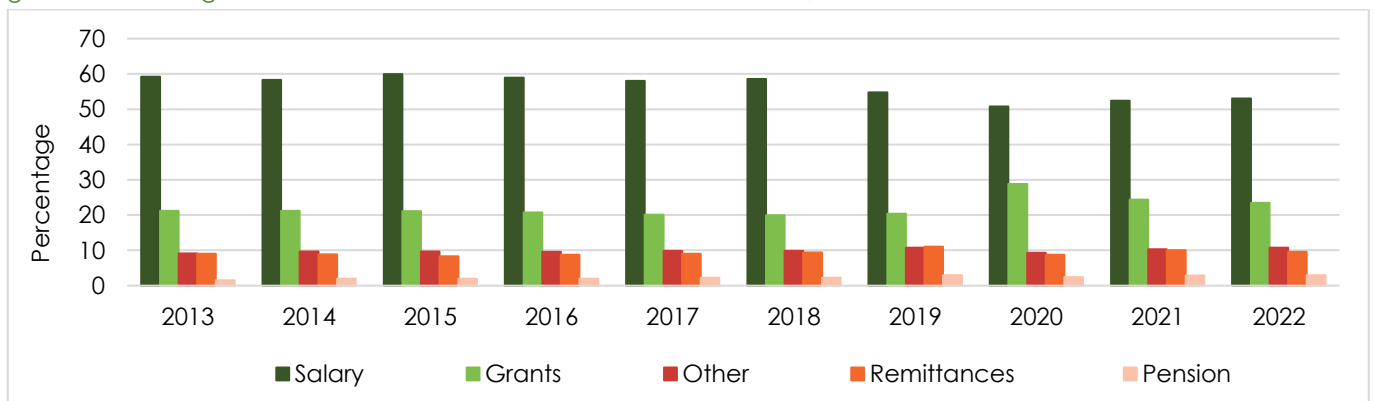
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The 2020s has so far been a period overwhelmed by crises, from the COVID-19 outbreak to climate shocks to geopolitical tensions resulting in lost lives, impacting economies through supply chain disruptions as well as food and energy price shocks. These factors have contributed to a surge in inflation to levels last seen in the 1970s in many countries. In South Africa, to contain these supply-side induced shocks, the central bank opted to increase interest rates. The current interest rate is at its highest level in 14 years, straining households, stirring up financial insecurity with living costs rising against almost fixed salaries (i.e. research indicates that in the last seven year, the average take-home income increased by 1 per cent while inflation at 2016 levels has risen by 41 per cent)¹. The PBO has cautioned that interest rates are an inherently blunt tool to employ, carrying deliberate trade-offs.

To manage this impact, consumers with access to debt have resorted to accumulating debt to pay for necessities such as food and transport. The average household debt as a ratio of disposable income remains as high as 62 per cent. Further, studies have shown that workers spend over 70 per cent of their income to settle their debt². Additionally, the South African economy continues to grapple with a crisis characterised by high unemployment, a high concentration of low-income earners alongside a few high-income earners and pervasive poverty.

Research indicates that households in the lowest income category (R0–R2 000) spend more than 45 per cent of their household income on debt repayment³. Therefore, low-income households rely on government support through social assistance to improve their livelihoods. The government social assistance system remains an effective and a vital intervention to at the very least, fight the effects of poverty and inequality.

Figure 1: Percentage distribution of main sources of household income, 2022



Source: Stats SA⁴, General Household Survey, 2023 (released in August 2023)

According to Stats SA, 23.5 per cent of households had grants as their primary source of income (refer to Figure 1). Amid high structural levels of poverty, inequality, and unemployment, grants have supported the

¹ Business Tech, Big trouble for South Africans earning over R35,000 a month (2023).

² Ciaran Ryan, South Africans among world's most indebted, but get little joy in court, (2023).

³ Lungile Ntsalaze, The effects of household indebtedness on multidimensional poverty

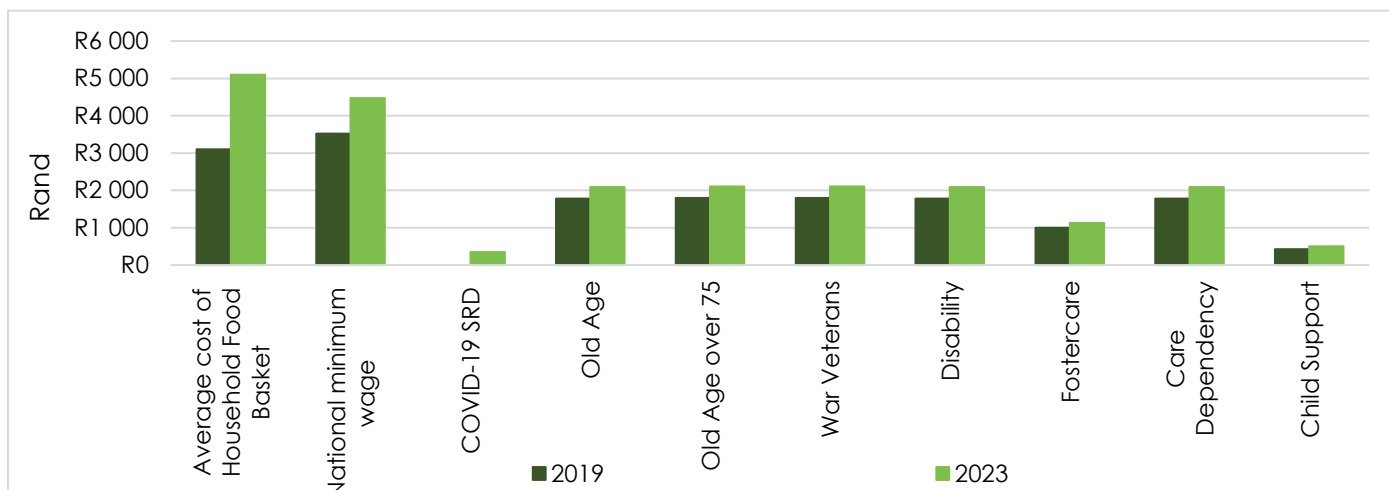
⁴ Note: 1. A specific household can have more than one source of income. Percentages, therefore, do not add up to 100% | 2. Other sources of income refer to income from rental income, interest, income from a business or sales of farming products or services.

livelihoods of the most vulnerable. The survey further highlights that after salaries (53 per cent), grants are an essential safety net and the second most important source of income for households.

In many economies, final consumption expenditure by households to meet every day needs, is a key driver of gross domestic product (GDP) growth and accounts for 60 per cent of GDP. Therefore, the government's support to poor households through social spending positively increases economic activity.

Despite a decrease in food prices in South Africa from their peak levels in early 2023, they remain elevated, negatively impacting households. The average cost of household food basket increased by 64 per cent between 2019 and 2023 from R3 103 to R5 098 ⁵. This increase is above the average national minimum wage of general workers (R4 408.5)⁶ as well as individuals and households that receive social grants (see Figure 2).

Figure 2: Average food basket against the National Minimum wage and social grants

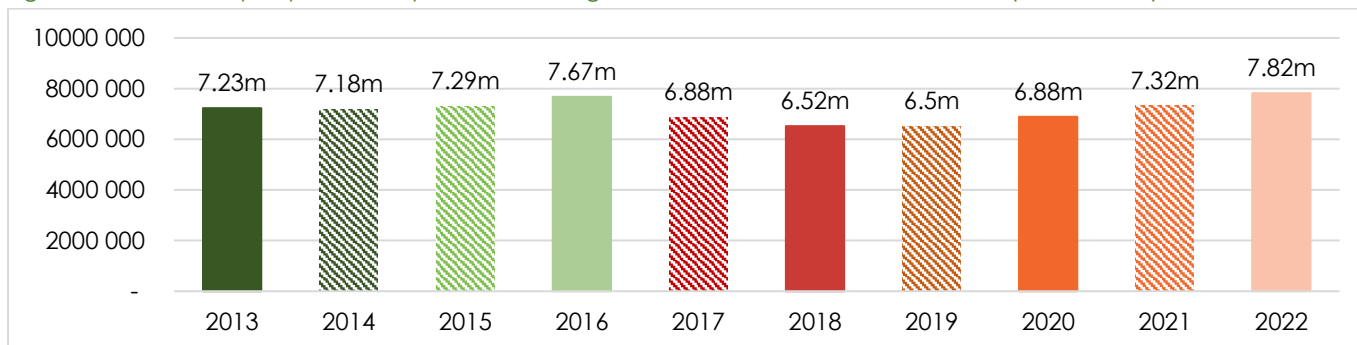


Source: 1. National Treasury, Budget Review 2023 | 2. PBO Calculations using data from PMBEJD, Household Affordability Index, 2019-2023

Reducing poverty is a core strategy for reducing food insecurity levels in South Africa. However, unemployment remains stubbornly high due to the structural attributes of the economy. Social grants have improved food security for many poor individuals and households. Furthermore, studies have shown that child support grants, together with school food programmes have lowered the incidence of stunting and being underweight in children. ⁷

According to Stats SA, the percentage of persons who experienced hunger and had inadequate access to food decreased from 13.5 per cent in 2013 to 12.9 per cent in 2022 highlighting the importance of income and social support in achieving food security. However, due to population growth, the absolute number of people that experienced hunger with limited access to food increased from 7.2 million in 2013 to 7.8 million in 2022.

Figure 3: Number of people that experienced hunger and with limited access to food, (2013 – 2022)



Source: Stats SA, General Household Survey, 2022 (released in August 2023), Mid-year population estimates, 2022

⁵ The six-metropolitan included in these calculations are the City of Cape Town, Johannesburg, eThekweni (Durban), Springbok, Maritzburg and Mtubatuba.

⁶In 2023 the minimum wage was revised to R25.42 per hour from R23.19 per hour, effective 1 March 2023.

⁷ G. Chakona and C. Shackleton Food insecurity in South Africa: To what extent can social grants and consumption of wild foods eradicate hunger (2019).

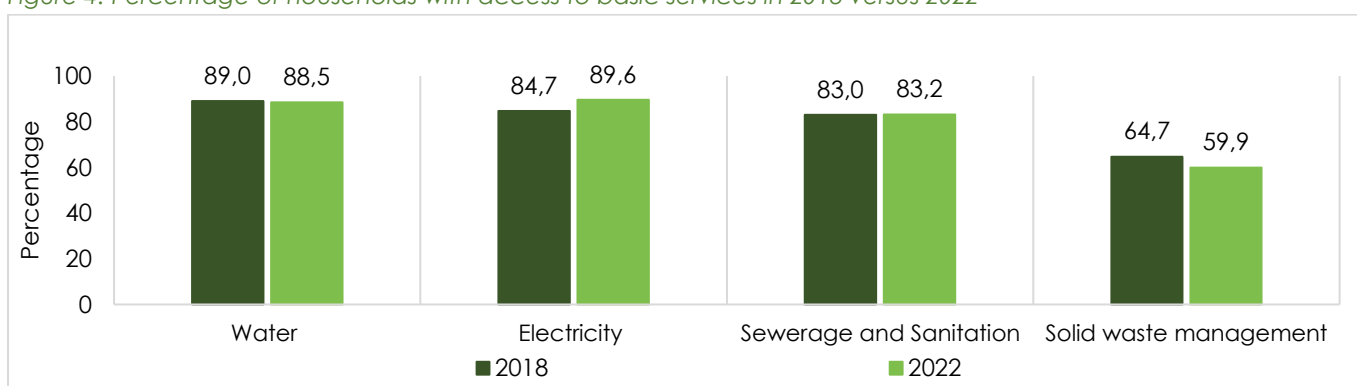
Basic public services

The provision of municipal services is not only the building block for human development, but it can also be seen as an effective form of public intervention to promote economic growth, which is a pre-requisite for reducing poverty, combating inequality, creating employment opportunities and improving the quality of life.⁸

Government has made significant progress in providing households with access to basic services such as safe and readily available water, solid waste management, electricity and sanitation facilities previously provided along racial lines. Nationally, the proportion of households with access to sanitation facilities and electricity has increased between 2018 and 2022, however, access to piped or tap potable water and the disposal of household waste and refuse decreased in the same period (see Figure 4).

Despite progress made, the provision of quality services has been slow and, in some instances, deteriorating as a result of a number of factors, including under-investment in infrastructure maintenance, delays in renewals of old infrastructure, poor management and lack of capacity or technical skills related operation and maintenance.

Figure 4: Percentage of households with access to basic services in 2018 versus 2022



Source: Stats SA, General Household Survey, 2022 (released in August 2023)

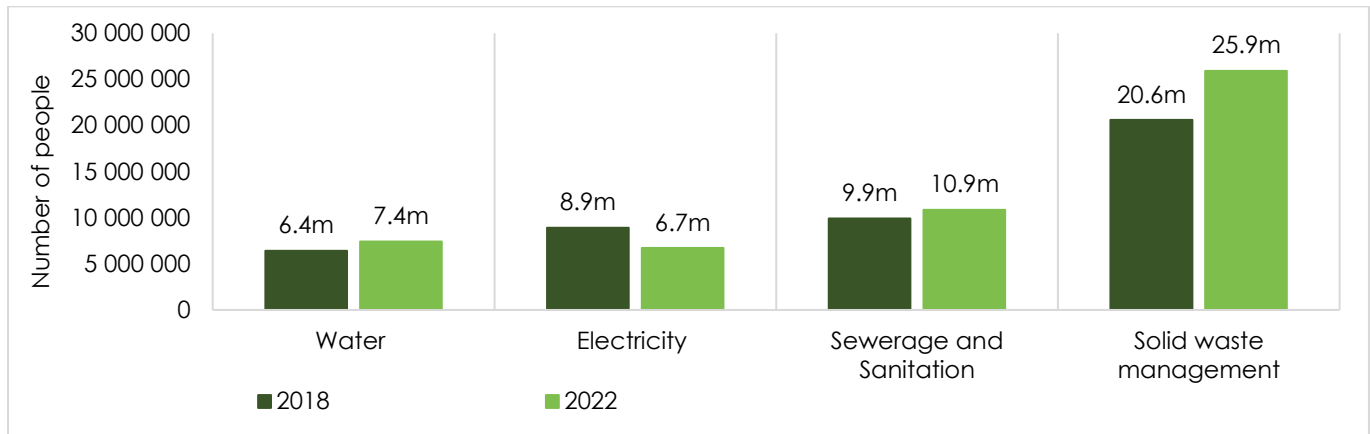
Water not only connects the environment to society, but its access is at the heart of the health and well-being for people. Figure 5 shows that access to drinking water and sanitation facilities is worsening. Specifically, the total number of households without access to drinking water increased from an estimated 6.42 million people (1.83 million households) in 2018 to an estimated 7.44 million people (2.12 million households) in 2022⁹. The Department of Water and Sanitation (DWS) released the Blue Drop report in 2023¹⁰ which assesses the state of the country's water supply systems (985) as well as the water service authorities (144). According to the report more than two-thirds (67.6 per cent) of all wastewater treatment works are close to failure. In addition, 47 per cent of all clean and treated water was lost through leaks or could not be accounted for. Furthermore, the report notes that 46 per cent of water systems do not comply with microbiological standards. In these water supply systems, drinking water is contaminated by sewage and bacteria. Access will likely decrease further with the new water shuffling (similar to that of Eskom's load shedding) announcement.

⁸ Global Energy Assessment, Energy, Poverty, and Development, S. Karekezi et al

⁹ Average household size in 2022 was 3.5.

¹⁰ The Department of Water and Sanitation, Blue Drop Watch Report, 2023

Figure 5: Number of persons without access to basic services in 2018 versus 2022



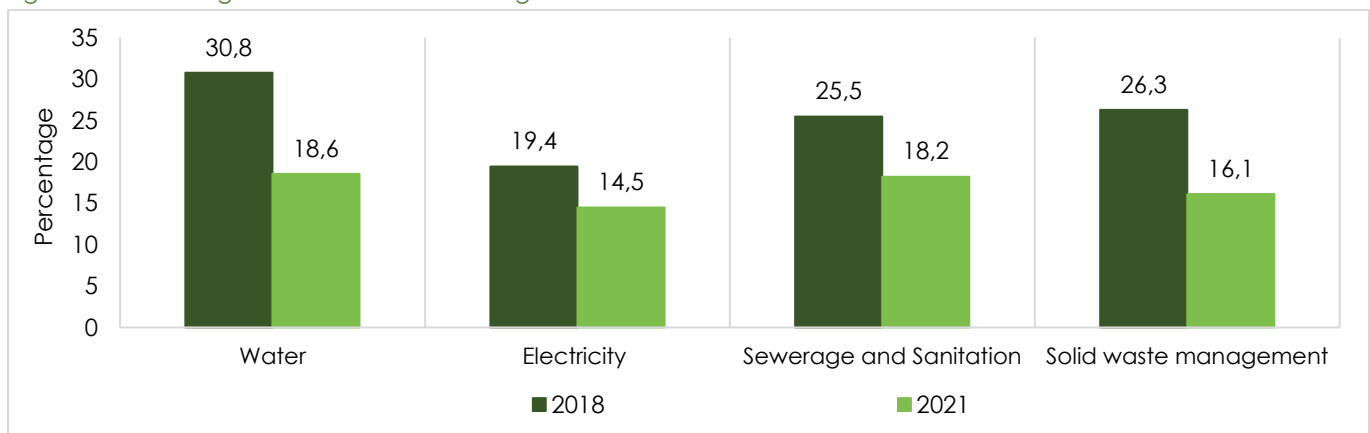
Source: PBO calculations using Stats SA, General Household Survey, 2022 and Stats SA Census 2022

As a result of historical spatial apartheid, the policy approach to basic services since 1994 has been that the government funded the capital costs of new services infrastructure while users covered operation and maintenance costs. However, it became clear that poverty, unemployment and the high running costs meant that poor people – who constitute a substantial part of the population – could not afford the charges. Therefore, this approach would not ensure equity of access to basic services. Thus, the general agreement is that poor households cannot afford to pay the full price for essential basic services. Therefore, in 2001, South Africa adopted the Free Basic Services Policy intended for the provision of free basic services to poorer households.

However, millions of eligible households for free services do not get them due to the onerous registration process. Only a small fraction of income-poor households receives any benefits under these policies (i.e., according to studies, it is estimated that that 2.3 million households out of 10 million poor households were able to access free electricity).¹¹ The free services that available to households are generally insufficient to meet their basic needs.

Figure 6, derived from the latest Non-Financial Census of Municipalities (NFCS), shows that fewer consumer units received free basic services in 2021 than in 2019.

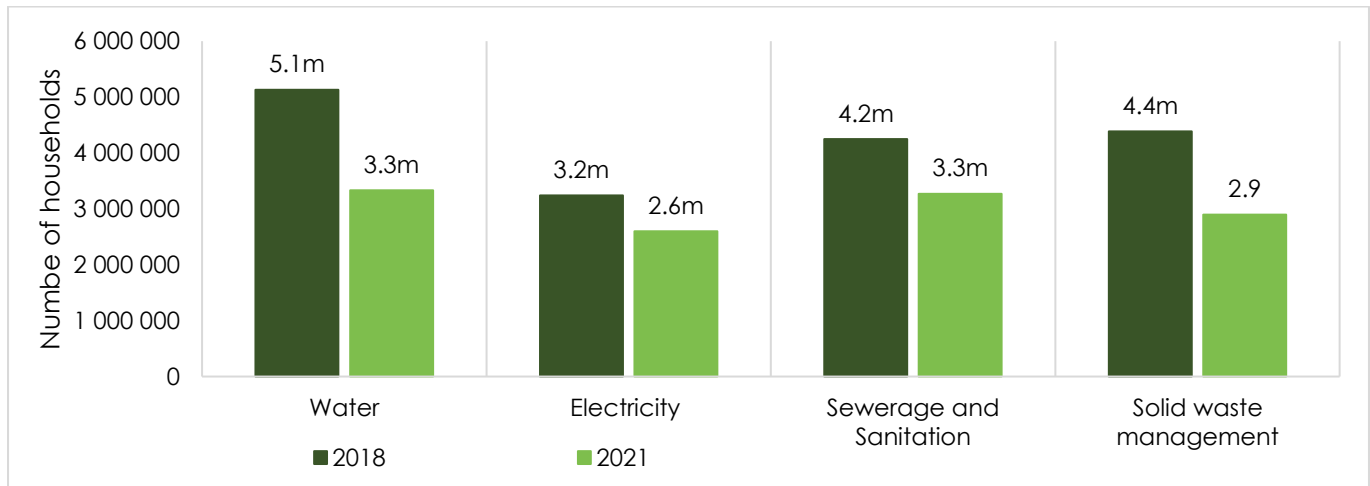
Figure 6: Percentage of households receiving free basic services in 2018 versus 2021



Source: Stats SA, Non-financial census of municipalities for the year 2018 and 2021

¹¹ D Erasmus, Free electricity programme fails to reach most poor households (2023)

Figure 7 : Number of households receiving free basic services in 2018 versus 2021



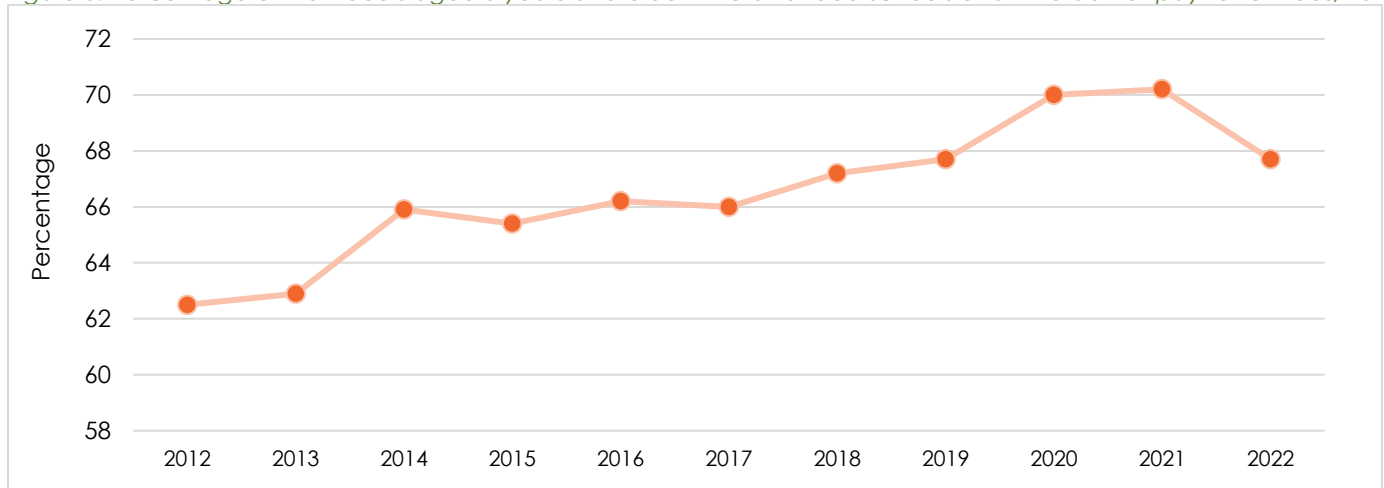
Source: PBO calculations using Stats SA, General Household Survey, 2022

The provision of education

One of the contributors to the high levels of inequality in South Africa is education. The disparity in educational opportunities is especially evident during the transition to tertiary education, where access remains limited. The influence of education on inequality highlights the challenges faced by low-income families, who often lack access to credit markets and face relatively high costs of sending a child to post-school education and training. This is a barrier to getting sufficient levels of education to participate actively in the semi-skilled and skilled labour market.

Investment in education has been found to be the primary source of improved human resources, which is likely to lead to an increase in economic development through skilled labour force. Although notable progress has been made in terms of broadening access to basic education since its structuring along racial lines, the percentage of individuals aged 5 years and older who attended schools where no tuition fees were levied decreased to 67.7 per cent in 2022 from 70.2 per cent in 2021 (see Figure 8).

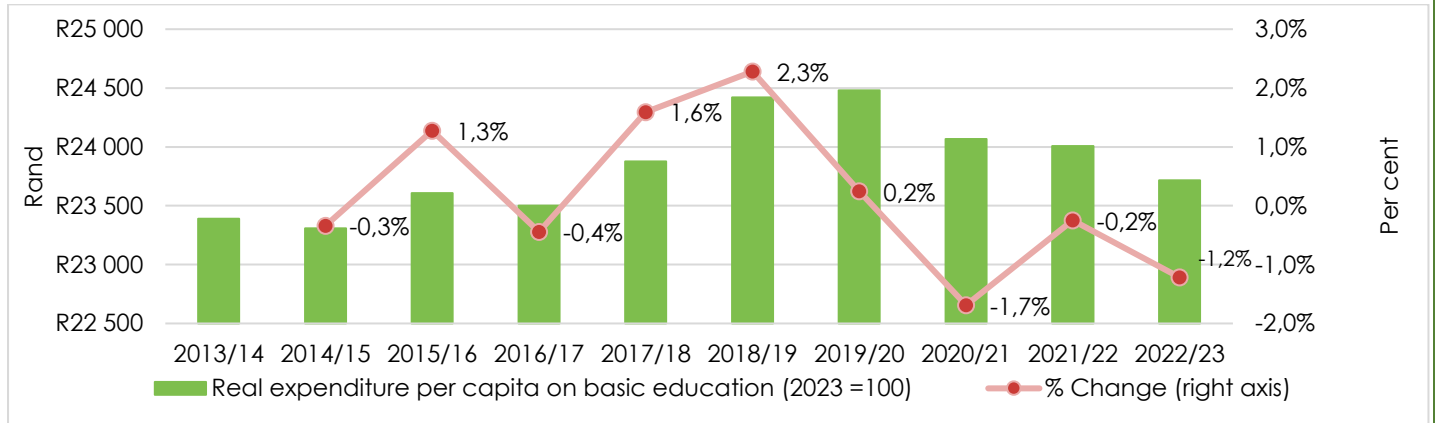
Figure 8: Percentage of individuals aged 5 years and older who attended schools and who do not pay tuition fees, 2022



Source: Stats SA, General Household Survey, 2022

This trend poses a concern as the battle to strengthen the outcomes of the country's education system is usually lost or won at primary school. A calculation using the Medium Term Budget Policy Statement's (MTBPS) expenditure on basic education data and DBE's number of learners in ordinary schools data, in real per capita terms, shows that the government has been spending less per learner since 2018/19 on basic education (see Figure 9).

Figure 9: Real per capita expenditure on basic education (2023 = 100)



Source: PBO calculations using MTBPS 2023, Stats SA CPI headline index numbers and DBE learner population data

According to research from the World Bank, although increasing access to education is important, what leads to socio-economic returns is the quality of education. This is because education enhances the cognitive skills of learners, which leads to improvements in employment, individual earnings, distribution of income, and economic growth. In South Africa, the quality of education remains a critical concern. South Africa spends roughly 6.5 per cent of its gross domestic product (GDP)¹² on education, which is more than many African countries, yet according to studies, the country ranks at the bottom of middle-income countries in math, science, and literacy¹³. Within Africa, the country performs worse than countries that are poorer than South Africa, including Kenya, Tanzania, and Swaziland. Oxford University Press reports on early grade reading in South Africa indicate that fewer than 50 per cent of Grade 1 children learn the letters of the alphabet by the end of Grade 1. The International Reading Literacy Study (PIRLS) shows that 81 per cent of Grade 4 learners in South Africa cannot read for meaning in any language¹⁴. However, South Africa's tertiary education does outperform African peer countries and many other emerging countries.¹⁵

The provision of healthcare

Two healthcare systems exist in South Africa: a private system catering to 15.8 per cent of the population who pay increasingly exorbitant monthly as well as out of pocket fees and a public system that is overstretched and understaffed (see Table 1 and Figure 9). The public system, which is funded mainly by tax revenues, serves all South Africans. However, the 84.2 per cent of the country's population without medical aid are reliant on the public health system. There are economic and racial disparities in private healthcare access, with the white population enjoying the bulk of medical aid coverage. According to the Institute for Economic Justice (IEJ), private sector healthcare spending is 4.2 per cent of GDP versus 4.4 per cent for the public sector. This unequal resourcing leads to unequal health outcomes that mirror the fault lines of race and geography inherited from apartheid.

Table 1: South African public sector health workforce, 2019

| Group | Health worker category | National density (per 100 000 public population), 2019 |
|----------------------|--------------------------|-----------------------------------------------------------|
| Doctors | Medical Practitioners | 33.11 |
| | Medical Specialists | 9.96 |
| Nurses | Professional Nurses | 147.95 |
| | Enrolled Nurses | 64.04 |
| | Nursing assistants | 69.78 |
| Other health workers | Community health workers | 111.79 |
| | Clinical associates | 0.77 |

Source: DoH, 2030 Human Resources for Health Strategy: Investing in the health workforce for Universal Health Coverage, 2020 workforce, 2019

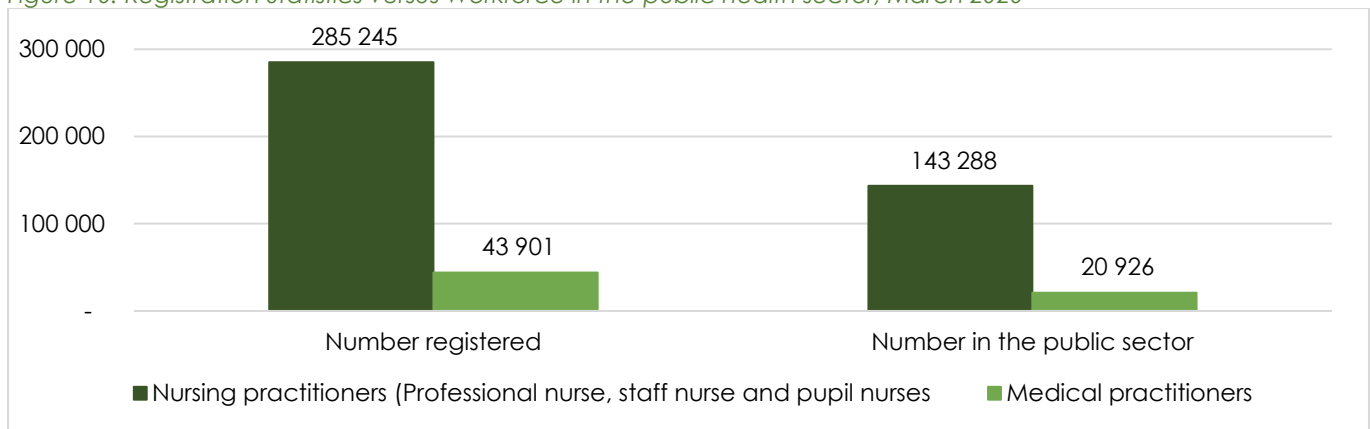
¹² PBO calculations using data obtained from Stats SA, Q3, 2023

¹³ M Radcliffe, The Effects of the Education System on South Africa's Economic Growth

¹⁴ University of Pretoria, Progress in International Reading Literacy Study (2021)

¹⁵ M. Mlachila and T. Moeletsi Struggling to Make the Grade: A Review of the Causes and Consequences of the Weak Outcomes of South Africa's Education System

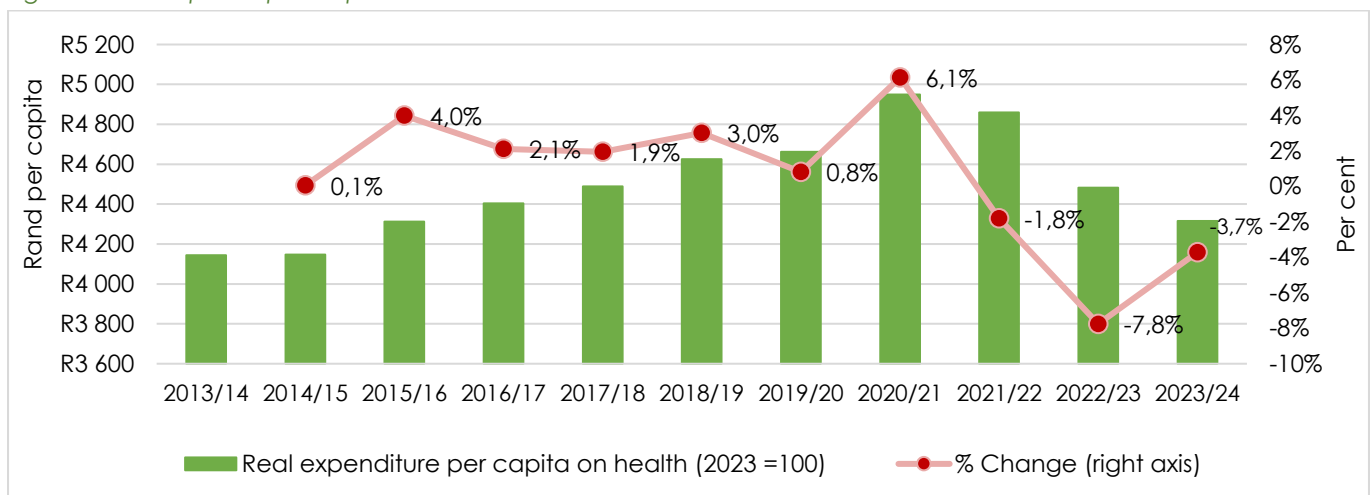
Figure 10: Registration Statistics versus Workforce in the public health sector, March 2020



Source: M. Matseke, Taking Stock of the Healthcare Workforce in the Public Health Sector of South Africa during Covid-19: Implications for Future Pandemics, 2023

As a result of medical companies hiking contributions by more than inflation¹⁶, the population without medical aid has grown substantially over time between 2008 and 2022. The uninsured population grew at an average rate of 1.62 per cent per year, while real per capita health expenditure has decreased since 2021/22 (see Figure 10). This has been happening despite the rising burden of disease. The inconsistency in spending has ramifications for the State's capacity to maintain, as well as to improve, care. There are also variances between how resources are equitably allocated across provinces and the standard of health care delivered. Health outcomes diverge along the rural versus urban geographies.

Figure 11: Real per capita expenditure on health



Source: PBO calculations using MTBPS 2023, Stats SA CPI headline index and Mid-year population estimates

Universal access to healthcare is a fundamental right provided for section 27(1)(a) of the Constitution of South Africa, which states that "Everyone has the right to have access to healthcare services, including reproductive health care." Section 27(2) provides for the State to "take reasonable legislative and other measures, within its available resources to achieve the progressive realisation of the right." Although a pledge to fulfil part of this right was made in the 2024 State of the Nation Address, stating, "We plan to incrementally implement the NHI, dealing with issues like health system financing, the health workforce, medical products, vaccines and technologies, and health information systems" the feasibility remains uncertain in light of the continued reduction in real per capita expenditure on health.

¹⁶ Business Tech, Medical aid price hikes for 2024 – what to expect (2023)