The DA's Budget That Will Rescue South Africa

Alternative Budget

19 February 2024

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1. Introduction

On 21 February, Minister of Finance, Enoch Godongwana, will deliver the 2024 National Budget Speech. On this day the Minister will provide an update on Government's fiscal performance and outline its policy that will guide spending in the medium-term expenditure framework (MTEF).

After almost 30 years of ANC government, South Africa's economy still grapples with prolonged instability and deteriorated sentiment, now at escalated levels. More recent repercussions have been concrete and include, but are not limited to, our greylisting by the Financial Action Task Force (FATF), declining GDP per capita, a worsening international standing, an escalating cost-of-living crisis, and unacceptably high levels of unemployment.

Decades of financial mismanagement and failed economic policy have now come to a head.

In September last year, Treasury disclosed that Government has effectively run out of money and that it would need to implement urgent austerity measures to curb runaway expenditure and manage ballooning debt. The measures announced in the Medium-Term Budget Policy Statement (MTBPS) were woefully insufficient to address these concerns.

Throughout 2023 the ANC Government continued to demonstrate its inability to effectively facilitate the South African economy. The appropriate course of action for Government to address our underperforming economy would have been to enable a more flexible and responsive environment. Regrettably, the governing party has positioned itself in the wrong place in our economy and is getting in the way of any recovery.

Its ongoing pursuit of forcing an incapable government to play a central role in our economy has obstructed the growth-promoting forces that foster an enterprising economy.

The DA has formulated this Alternative Budget to course correct and display how a caring government would tackle the cost-of-living crisis, head-on.

Without any major alterations in growth assumptions, our Alternative proposal presents an adjusted expenditure framework that reconfigures Government spending in such a manner that our fiscal trajectory is redirected from the current dead-end towards a more sustainable future. It presents the immediate and longer-term fiscal interventions that are needed for our economy to grow and generate the jobs South Africans so desperately need.

Implementing more sound fiscal management will enable more effective economic- and labour market participation, stabilise public debt, attract foreign and domestic investment, improve living standards, and shield South Africa's most vulnerable from the ravages of inflation.

To achieve lasting prosperity, South Africa must enact comprehensive economic reforms that capitalise on the extensive resources and expertise of the private sector.

The starting point for such reforms is the elimination of government-imposed obstacles to growth. An effective government is not one that seeks to control every economic lever but rather focuses on the successful delivery of essential services such as education, healthcare, infrastructure, defence, law enforcement, and a social security net. It is only then that we can create an economy that is both dynamic and responsive, and driven by market forces and individual agency.

Our Alternative Budget is therefore directed by four core policy directives:

1. Establishing the Foundations for Sustainable Economic Growth that Generates Jobs
2. Revitalizing the Electricity Sector to Address Ongoing Power Outages
3. Achieving Fiscal Stability through Controlled Government Expenditure and Debt Reduction
4. Supporting Vulnerable South Africans by Protecting Social Wages

The barriers to realizing these objectives are formidable.

To realise these outcomes a DA Government will prioritise fiscal sustainability from the outset by fostering a competitive, low-regulation market environment that empowers individuals.

Within the DA's first year of governance, we will deliver enhanced economic growth prospects by stabilising public debt- and consolidated government expenditure. We will continue to ensure vulnerable citizens receive adequate social support through targeted programs and improved service delivery.

We will achieve this without raising taxes on ordinary South Africans.

Strengthening key institutions like the Hawks, SAPS, and NPA will be crucial to combat the corruption and organized crime that has compromised public safety and stunted growth. The chronic underfunding and weak performance of these agencies have contributed to South Africa's FATF greylisting and high organized crime ranking which has deteriorated international sentiment. A DA Government will prioritize adequate funding and reforms to ensure these institutions effectively fight crime and protect South Africans.

2. Establishing the Foundations for Sustainable Economic Growth that Generates Jobs

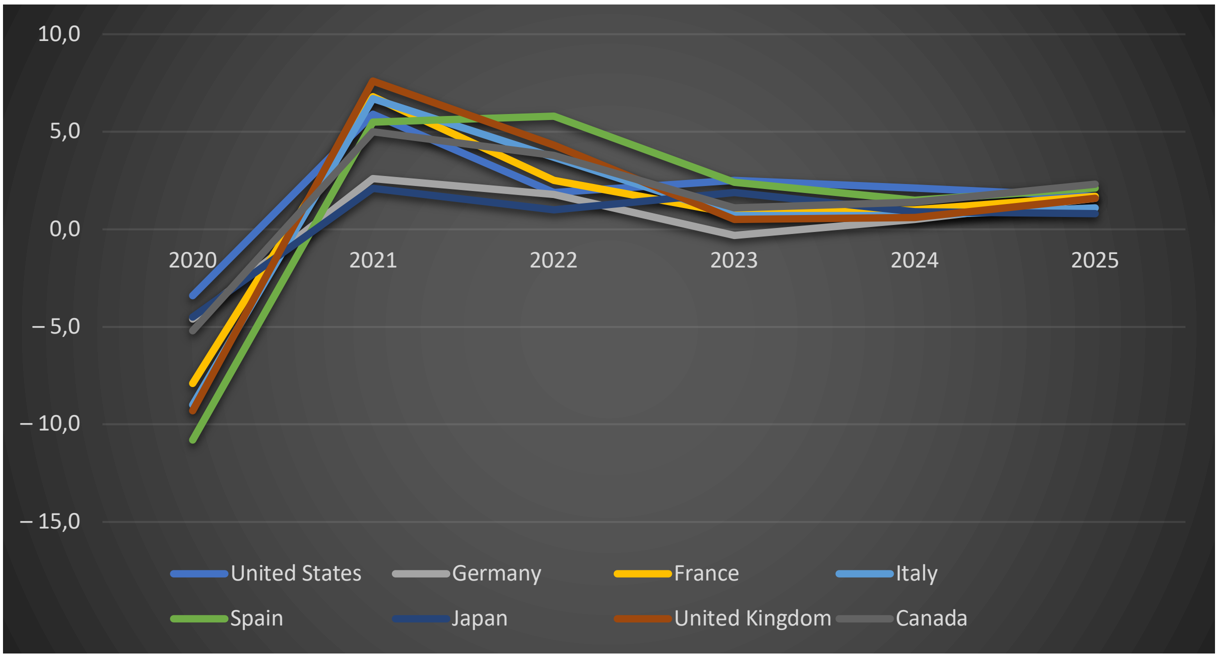
The global economy remains in a state of inertia amid the residual drag of the overlapping negative shocks from the pandemic, Russia's war on Ukraine, conflict in the middle east, and the 'higher for longer' monetary stance of most central banks.

Despite the disruption in energy and food value chains, which has emerged due to escalating global tensions, the global economy has slowed, but not stalled. In the absence of further large shocks to food and energy prices, projected headline inflation is expected to return to levels consistent with central bank targets in most major economies by the end of 2025.

The momentum that global economic activity exhibited last year is expected to continue at 3.1% in 2023 to 3.1% in 2024, and 3.2% in 2025, all else being equal [1].

Average expected growth in advanced economies is however less promising and is projected to decelerate from 1.6% in 2023 to 1.5% in 2024.

Figure 1: Advanced Economies Growth Expectations

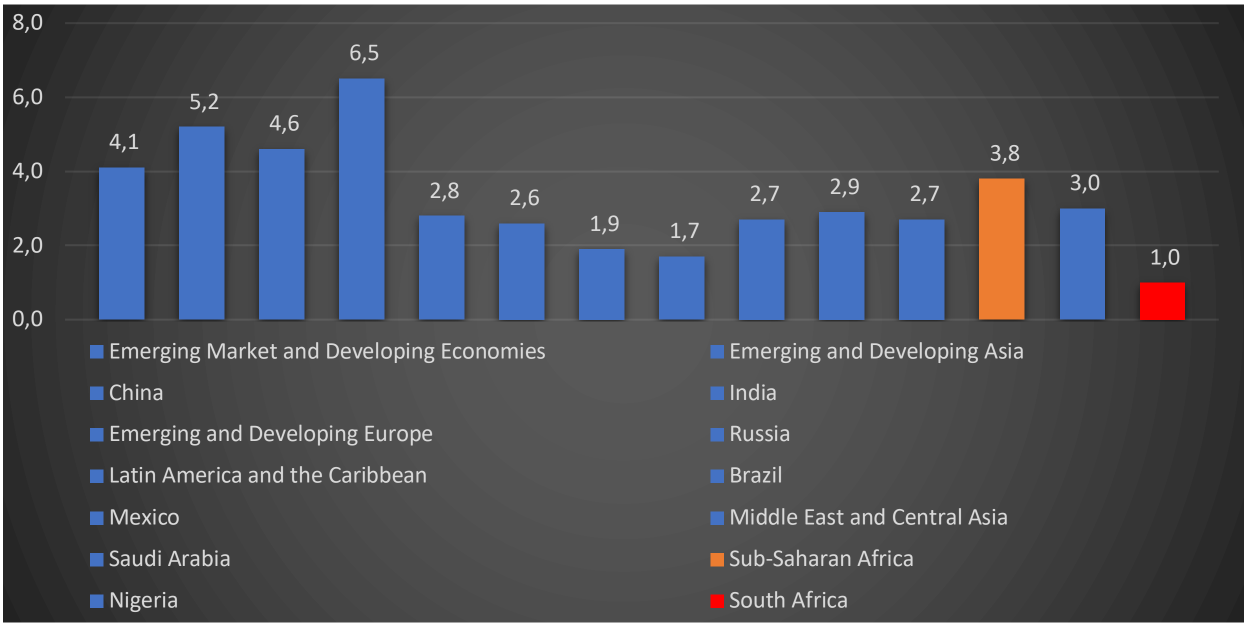


Important divergences are appearing. The slowdown is more pronounced in advanced economies than in emerging markets.

Average growth in many emerging economies is expected to decelerate from 4.1% in 2022 to 4% in 2023.

[1] https://www.imf.org/en/Publications/WEO/Issues/2024/01/30/world-economic-outlook-update-january-2024

Figure 2: 2024 Emerging Market Growth Expectations



In sub-Saharan Africa, growth is projected to decline to 3.3% in 2023 before picking up to 4.0% in 2024; below the historical average of 4.8%.

South Africa's economic contraction of -6.4% in 2020 positioned it among the most adversely affected by the pandemic within the developing world. An underwhelming recovery of 4.9% was followed by a suboptimal average growth rate of 1.9% for 2022/23; revised down from the 2022 Budget's initial estimate of 2.1%. South Africa's expected output for 2023 has been revised downwards to 0.8%. South Africa may have skirted a technical economic recession during 2023 but output continues to lag behind emerging market counterparts.

This sluggish performance is indicative of an economy that is performing far below its potential. The projected decline reflects an unworkable developmental state model that is characterised by rigid and often contradicting policies, a bloated public sector, and severe domestic supply issues - most notably in the electricity and logistics sectors.

In the medium-term, output was forecast by the February Budget to expand by 1.4%[2]**.** This expectation, even though uninspiring, now appears overoptimistic and unachievable.

Given the scale of the rolling blackouts - contrary to Treasury's projections - the South African Reserve Bank (SARB) revised projected growth in the MTEF downwards to only 1.1%. The Reserve Bank cited the extensive power cuts as a primary growth inhibitor and estimates that it could have deducted as much as 2% from growth in 2023. The SARB further projects our economy to expand by 1% in 2024 and by 1.1% in 2025 [3]. Figure 3 depicts that South Africa will continue to remain the lagging factor for Southern Africa's growth prospects.

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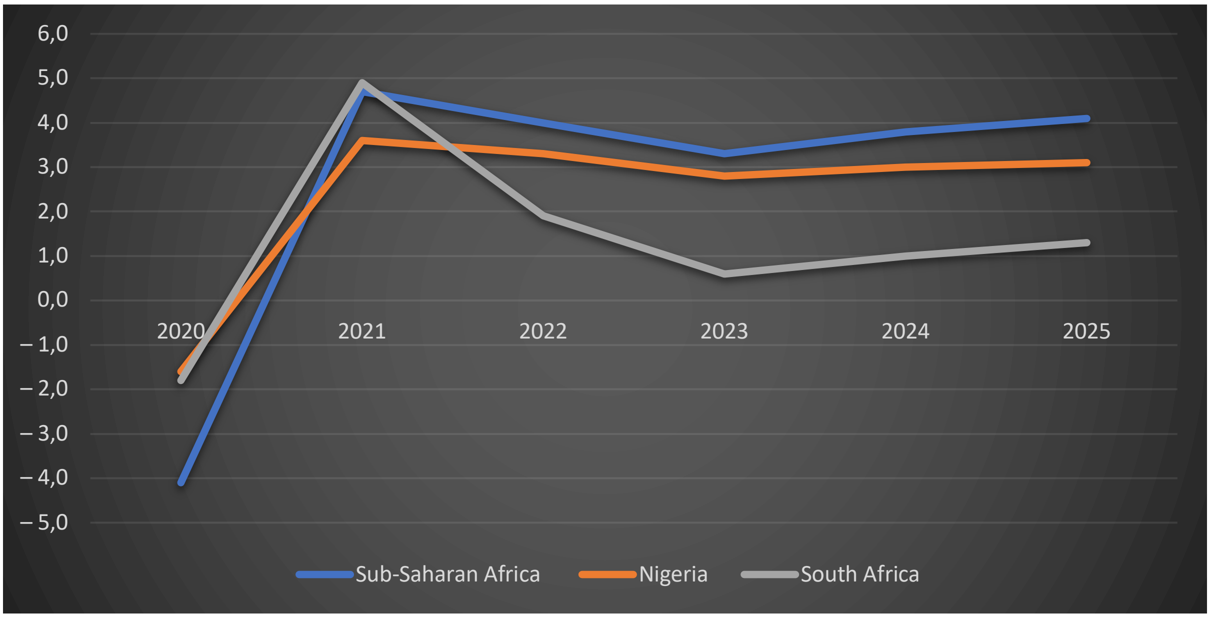
[2] https://www.treasury.gov.za/documents/national%20budget/2023/review/FullBR.pdf

[3] https://www.resbank.co.za/en/home/publications/publication-detail-pages/statements/monetary-policy-statements/2023/Statement-of-the-Monetary-Policy-Committee-September-2023

Figure 3: Southern Africa Growth Expectations



Evidently, prevailing structural weaknesses in the South African economy have constrained our ability to remain resilient in the face of growing international uncertainty. Our fiscal environment remains characterised by an unsustainable level of public debt, persistent deficit spending, anaemic economic growth, stubbornly high levels of unemployment, decelerating foreign and domestic capital formation, declining GDP per capita, escalating living costs, looming food insecurity, and continued political volatility.

Without deregulating the policy environment, economic durability will not be attainable, inflation will continue to run rampant, the rate of unemployment will continue to spiral upwards and economic growth will remain meagre, if at all positive.

As a developing country with a growing workforce and a healthy demographic profile, South Africa ought to have, by now, secured sustained positive economic growth. If the Government were to implement the policy reforms presented in the DA's policy suite, it is possible that South Africa could realise economic growth rates comparable to our emerging market counterparts and the 3% growth projection made by the IMF as of 2024/25 [4].

This is the opportunity cost of a failing government.

2.1. Attracting Foreign Capital to Stimulate Economic Growth

Attracting foreign capital is crucial for fostering economic growth. Foreign investment and capital bring substantial benefits to the local economy. It accelerates local capital formation, technological transfer and -adoption rates, an improved balance of payments, and economic stability. This will catalyse the creation of new businesses and job opportunities, the expansion of domestic markets, increased competitiveness, and a reduction in the impact of domestic

[4] https://www.news24.com/fin24/economy/imf-says-sa-could-grow-by-3-if-eskom-transnet-are-fixed-20230815

and international economic shocks. All of this also contributes to a more stable currency. The role of foreign capital in promoting local economic growth is therefore paramount and cannot be overstated.

However, the constraining nature of existing policies have deterred foreign investors - foreign investors have withdrawn a net R1-trillion from bond and equity markets over the past 10-and-a-half years – the exodus was triggered by successive credit downgrades, the sharp deterioration in the South Africa's fiscal position, rampant corruption, and the sustained decline of SOE's[5].

The international community's outlook on South Africa has worsened further given our recent inclusion on the 'FATF Greylist' and Government's inability to reign in corruption and other illicit activities (discussed in the following subsection).

To reverse the declining FDI trend, the DA will implement a multifaceted approach:

1. FATF Greylist: The DA will prioritise that which is necessary for South Africa's removal from the FATF grey list (discussed in the following subsection). This will signal to the international community that the DA, as South Africa's government, is serious about addressing the systemic corruption at the root cause of our greylisting and capable of offering an investment friendly environment.

2. Market liberalisation: By implementing the DA's market-centric policy framework that will reduce state intervention and increase economic freedom, South Africa will be able to create a more favourable investment climate and reduce barriers to foreign investment. The DA will encourage more private sector development through favourable policies that promote entrepreneurship and job creation.

3. Secure Property rights: Ensuring the security of property rights is paramount. The DA will do away with all policies that seek to expropriate private property without compensation to the extent that they are a non-issue.

4. Trade openness: Open markets provide foreign investors with access to larger markets and the freedom to operate competitively. The DA will pursue trade openness by reducing protectionism, and scrap exchange controls.

5. Regulatory streamlining: The DA will streamline regulations by cutting unnecessary bureaucratic red tape that impede business operations.

2.1.1 The Deterring Effects of Corruption on Foreign Investment

Corruption serves as both a catalyst for and an aggravator of the detrimental effects brought on by organized crime. It hinders efficient resource allocation and distorts market mechanisms. Such an environment impairs efforts to combat organized crime and hampers economic growth by perpetuating poverty and limiting opportunities for citizens. The repercussions

[5] https://www.businesslive.co.za/bd/economy/2024-02-07-foreign-investors-pull-out-r1-trillion-from-sa-markets-over-economic-jitters/

extend to inflated living costs and market prices, the rise of shadow economies, and elevated levels of uneven wealth distribution. Moreover, corruption dampens innovation, foreign investment, and trade incentives. It also leads to a decline in the quality of education and healthcare, alongside fostering low and unproductive savings.

The latest annual Corruption Perceptions Index (CPI) indicates that according to the latest global ranking of corruption perceptions, South Africa has fallen to its lowest level ever recorded. The country scored an abysmal 41 out of 100 on the global index. According to the rankings, the endemic corruption of the current administration has reduced our country to a "flawed democracy."

Moreover, the 2023 Global Organised Crime Index (GOCI) indicated that South Africa now ranks 7th in the world out of 193 countries and 3rd in Africa for mafia-style criminal networks and organised crime syndicates.

The systematic degradation and hollowing out of South Africa's law enforcement agencies has transformed the country into a haven for organised crime syndicates who are threatening to overrun every sector of the economy.

The DA has established that organised crime syndicates – which include the Eskom mafia, illegal mining networks, wildlife syndicates, public infrastructure stripping networks, and the construction mafia among others – have bled the economy of R155 billion in 2023.

This is a conservative figure as it only reflects the direct costs incurred by the state or legitimate players in that specific sector as a result of the operations/activities of criminal networks. It does not factor in the knock-on effects that these crimes have on the economy. For example:

- Telkom, Eskom, the Passenger Rail Agency of South Africa (PRASA) and Transnet once revealed that the persistent problem of cable theft and infrastructure vandalism had a R187 billion knock-on effect on the economy per annum.
- The Minerals Council South Africa estimates lost sales, taxes, and royalties of R21 billion a year through illegal mining.

The inability of South African law enforcement agencies to effectively combat organized crime compounds the crisis. According to GOCI metrics, which measure respective countries' capacity to combat illicit activities, South Africa's score of 5.63 places it 49th worldwide, and third in Africa.

Under these circumstances, the prospect of investment becomes markedly unattractive. Attracting foreign investors has become a particularly difficult as they are deterred from engaging with such a high-risk environment.

2.1.2. Financial Action Task Force Greylisting

A 2019 report from the FATF, an international watchdog that monitors compliance with anti-money laundering and combating terrorism financing measures, identified significant weaknesses in parts of South Africa's financial regulations which have resulted in high cases of money laundering and terrorism funding.

Two days after the Minister’s Budget speech, on 24 February 2023, South Africa’s greylisting was announced. Though expected and apparently priced in, it nonetheless underscored our eroding credibility as an emerging market that is plagued by regulatory lapses and corruption.

Greylisted countries are provided with a set of requirements they would need to fulfil to be removed from the list. Those that fail to comply either remain greylisted or get blacklisted, with punitive consequences.

Taking steps to remove South Africa from the list and ensuring we meet the requirements’ deadline in early 2025 does not appear to be on the top of Government’s priority list. Except for an announcement on May 17 that Treasury allocated R265 million to the Financial Intelligence Centre (FIC), little has been communicated on the progress towards reaching this goal.

Our greylisting has signalled to the global economy that South Africa lacks the capability and determination to effectively address systemic organized crime and high-level corruption and serves as a warning to international market participants of the potential risks associated with engaging in transactions with South African companies and individuals. Processing cross-border financial transactions have become significantly more difficult since the greylisting.

Being added to the greylist has also led to increased difficulties for other countries to conduct business with South Africa, as well as local companies being subjected to additional regulatory scrutiny. As a result, South African clients are required to undergo enhanced due diligence, which includes more frequent and in-depth assessments for anti-money laundering and combating of terrorism financing risks. This has already resulted in increased costs for South African businesses and individuals that engage in international trade and have financial accounts abroad. These costs will be particularly significant for South African banks in managing correspondent banking relationships and relationships with global infrastructure providers such as payment systems.

2.1.3. Funding of Institutions that Combat Corruption and Organized Crime

Government's proclaimed commitment to bolster institutions responsible for combating crime, such as the National Prosecuting Authority (NPA), the Special Investigating Unit (SIU), and the FIC, has yet to be fully realized in terms of financial allocation.

Despite the unresolved state capture crisis and the critical role these institutions play in addressing corruption and other specialized and organized crimes, the 2023 MTBPS, much like previous budgets, has not provided significant relief to these perennially underfunded agencies.

According to the NPA, the limited additional funding allocated to it will not be sufficient to effectively bring all those involved in state capture to justice. The NPA’s budget for this year amounts to only R5.5 billion.

It is unfortunate that while significant funds have been directed towards bailing out dysfunctional state-owned enterprises, little has been done to allocate funds towards law enforcement agencies that combat specialized and organized crime such as corruption, money laundering, and terrorist financing.

The NPA has requested an additional R1.9 billion to effectively carry out its mandate [6], however, given the government's historical neglect and underfunding of these institutions, it remains uncertain whether this request will be fulfilled. The 2024 Budget presents an opportunity for the government to rectify this issue. The DA will commit to increasing the funds allocated to the agency.

2.2. Encourage Domestic Saving for Investment in The Economy

It is saving, not spending, that makes the wheels of an economy turn. Saving provides the means for investment. Without savings, there would be substantially less investment. Without investment, there would be no progress.

Domestic savings are preferred over foreign savings for funding fixed investment due to several key factors:

1. Channelling savings into value-investments catalyses capital formation which, in turn, spurs job creation and business expansion.

2. Relying on local savings reduces a country's dependence on foreign capital, which can be volatile and influenced by international financial market fluctuations. This independence is crucial for greater economic stability. Another significant advantage is the lower risk of currency mismatches. When investments are funded by local savings, there is less likelihood of facing financial instability due to discrepancies between the investment revenue in local currency and debt in foreign currency. This is particularly important if the local currency depreciates against the foreign currency – a persistent risk for South Africa.

3. Local savings are also more likely to align with the interests and needs of the local economy. This alignment ensures that the investments are not only financially sound but also socially and economically relevant.

4. Utilising local savings for investment helps in the development and deepening of domestic financial markets. It promotes financial inclusion and enables a broader segment of the population to participate in the economic growth process. This strengthening of the domestic financial market is a crucial step towards a self-sustained economy.

5. Funding investment through local savings helps avoid the accumulation of foreign debt, which comes with conditions and covenants that might not align with the South Africa's long-term strategic interests.

6. Economies which rely on their own savings for investment are more resilient to global economic shocks. They are not as exposed to sudden stops in capital flows, which can occur during global financial crises, thus ensuring a more stable economic environment.

[6] https://www.youtube.com/watch?v=F3aK5WsmYys&ab_channel=SABCNews

7. There is more control over investment decisions when the funding is local. This ensures better alignment with national development goals and local priorities, leading to more effective and beneficial investment outcomes.

South Africa’s current fiscal environment does not favour saving. Soaring inflation continues to cripple individual savings and pushes households towards increased spending to maintain basic needs. While this may inflate GDP figures, it's a hollow measure of economic progress. It instead reflects the desperate scramble of many to stay afloat, not genuine growth or prosperity. Low-income families are disproportionately burdened and face a double whammy: their limited savings vanish quickly, and essential items like food, the prices of which are ballooning at twice the general inflation rate, become increasingly out of reach.

To reverse this trend and encourage more domestic saving, the DA has proposed multiple policy measures. They are outlined in Section 6.

2.3. State-Owned Entities (SOE’s)

Minister Godongwana's “tough love” commitment to reign in bailouts to rescue faltering SOEs has failed, and this unsustainable practice continues unabated.

The continued bailouts have failed to provide the intended corporate revitalization that would have addressed the underperformance and financial struggles of these entities. Instead, these fiscal injections have largely been used to finance debt services, excessive wage bills, and inflated spending on suppliers which yielded negative rates of return and crowded out infrastructure investment.

Table 1: Historical Bailouts of SOE’s[7]

SOE Bailouts	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
R'mil											
Eskom	R -	R -	R23 000,00	R -	R -	R -	R 49 000,00	R 56 000,00	R31 693,00	R21 857,00	R181 550,00
SAA	R -	R -	R -	R 10 000,00	R -	R10 500,00	R 20 800,00	R 4 300,00	R 1 800,00	R 1 000,00	R 48 400,00
SANRAL	R -	R -	R -	R -	R -	R -	R -	R -	R -	R23 736,00	R 23 736,00
Sasria	R -	R -	R -	R -	R -	R -	R -	R -	R22 000,00	R -	R 22 000,00
Land Bank	R 300,00	R 500,00	R -	R -	R -	R -	R -	R 3 000,00	R 4 563,00	R 5 200,00	R 13 563,00
SAPO	R 205,00	R -	R 174,00	R 650,00	R 3 700,00	R 3 263,00	R -	R -	R -	R 2 400,00	R 10 392,00
Denel	R -	R -	R -	R -	R -	R -	R 1 800,00	R 576,00	R 3 036,00	R 3 583,00	R 8 995,00
DBSA	R2 400,00	R 2 500,00	R 3 000,00	R -	R -	R -	R 12,00	R -	R -	R -	R 7 912,00
Transnet	R -	R -	R -	R -	R -	R -	R -	R -	R -	R 5 837,00	R 5 837,00
SA Express	R -	R -	R -	R -	R -	R 1 249,00	R 300,00	R 164,00	R -	R 1 583,00	R 3 296,00
SABC	R -	R -	R -	R -	R -	R -	R 3 200,00	R -	R -	R -	R 3 200,00
ACSA	R -	R -	R -	R -	R -	R -	R -	R 2 325,00	R -	R -	R 2 325,00
Total	R2 905,00	R 3 000,00	R26 174,00	R 10 650,00	R 3 700,00	R15 012,00	R 75 112,00	R 66 365,00	R63 092,00	R65 196,00	R331 206,00

The persistent inefficiencies of SOEs, despite significant taxpayer investment, demand a reassessment of the strategies intended to address them. The reality is that Government cannot continue to delay the inevitable collapse of moribund SOEs in the misplaced hope they will spontaneously self-correct and fund themselves from their own balance sheets. The immediate course of action should be to introduce Public-Private Partnerships (PPPs) as a precursor to full privatization. Failure to act now by opening the sector to private sector investment will keep the country locked in an indefinite low growth trap.

[7] https://pmg.org.za/files/230314_NT_-_SCOPA_Presentation_-_13_March_v2_-_SOEs_bailouts_and_guarantees.pdf

In recognising the role of network industries — telecommunications, transportation, energy, and water — in economic growth and social impact, it is imperative to prioritise these sectors. South Africa's network SOEs (Telkom, Transnet, PRASA, Eskom, and various water utilities), are crucial yet underperforming. While the telecommunications sector shows relative stability, the urgent need for reform in energy, water, and transportation cannot be overstated. Therefore, immediate action towards privatization, particularly in these sectors, is critical for national recovery and future resilience.

The DA remains firmly opposed to bailing out of SOE's at the expense of crowding out other necessary expenses and this Alternative Budget will therefore assume that for the foreseeable future no public funds will be used for this purpose.

2.3.1. The Proposed SOE Holding Company

The Department of Public Enterprises (DPE), under the stewardship of Minister Pravin Gordhan, has introduced the 'National State Enterprises Bill'. The draft legislation seeks to overhaul the manner in which strategic state entities are governed. The Bill will dissolve the DPE, which currently exercises political and legislative control over SOEs, and see the creation of a new state-owned holding company - the State Asset Management SOC Ltd - which will manage the SOEs and their finances.

A state-owned holding company that will centralise South Africa's commercial SOEs will do nothing to fix the sector and will serve as a new deployment station for ANC cadres. The notion that a new SOE will resolve the operational and financial management inefficiencies of other SOEs is a desperate attempt from a failing government to keep its failed economic model alive. SOEs need genuine reform, not another layer of mismanagement masquerading as progress.

This holding company will only serve as another fiscal sinkhole and must be rejected.

2.3.2. Transnet

The ANC's mismanagement of the logistics and transport sector has left Transnet finances in disarray. The entity has an existing debt pile in the region of R135 billion, which attracts interest of approximately R13 billion per annum. It further managed to incur a financial loss of R5,7 billion in the previous financial year and a further financial loss of R556 million due to irregular expenditure.

Taking a cue from Eskom's debt relief scheme Treasury has been strong-armed into granting Transnet the same – a R47 billion guarantee facility has been issued to the entity. The DA rejects this guarantee as it heightens taxpayer risk exposure and incentivises further mismanagement.

Exporters who have capacity should be given unconditional access to Transnet corridors to transport their products. Moreover, Government must immediately suspend bureaucratic hurdles, such as BBBEE and localisation criteria, in all procurement processes within Transnet. The business units under Transnet have no validity in central management and ownership. They must also be unbundled, and innovative public/private partnerships must be sought to own and run these as a precursor to privatisation.

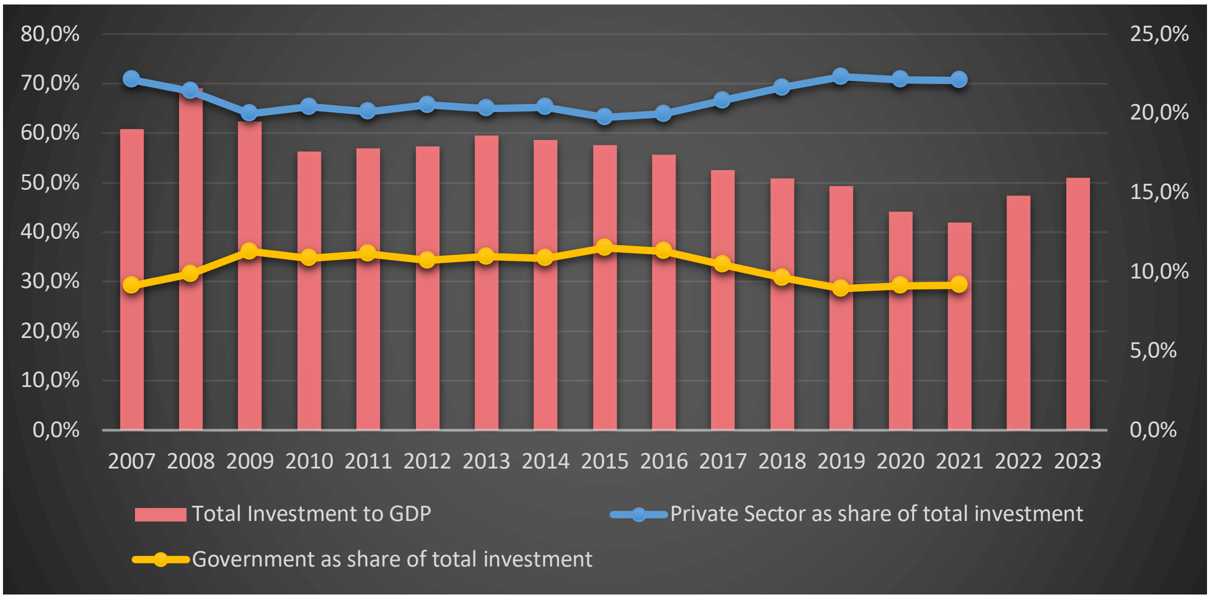
2.4. South Africa's Crumbling Infrastructure

Growth within the South African economy has been and continues to be constrained by the deteriorating state of public infrastructure.

Inefficiencies in South Africa's ports and railway infrastructure have resulted in substantial opportunity costs for the mining industry and represents a significant loss in potential revenue for both the sector and the government.

Figure 4 displays total investment to GDP has fallen by nearly 40% from 2008 to 2021.

Figure 4: Investment to GDP and Private vs Public Investment in South Africa [8]



Analysis by GAIN Group estimates that inefficiencies at Transnet and its inability to rail sufficient commodity volumes to ports cost the South African economy R411 billion in 2022. The group further projects an economic loss of around R353 billion in 2023.

This shortfall translates to a missed opportunity for significantly higher economic growth. Instead of the anticipated 0.7% for 2023, GAIN Group estimates potential growth could have reached 5.4%, nearly ten times higher. This represents a daily loss of output approaching R1 billion, or nearly 5% of the potential GDP [9] [10].

When rail services are inadequate, commerce shifts to roads, at a cost premium i.e., the collapse of South Africa's rail network has led to a shift towards road freight as transporters

[8] https://cra-sa.com/products/macro-review/2022/south-africa-in-brief
[9] https://www.news24.com/fin24/economy/governments-new-plan-to-shift-cargo-from-roads-back-to-rail-20240126
[10] https://www.moneyweb.co.za/news/economy/transnet-dagger-pointed-at-the-heart-of-sas-economy/

and businesses are forced to resort to alternative means of transportation, resulting in additional pressure on South Africa's already ailing road infrastructure.

Addressing the issue of South Africa's crumbling infrastructure must therefore be a priority for policymakers as well-maintained infrastructure is crucial for promoting economic growth, revenue generation and international competitiveness.

2.5. Labour Policy

Staggering levels of unemployment beset South Africa.

The number of employed people dropped from 16.3 million in 2019 to 14.1 million in 2020. The pandemic – and Government's draconian lockdown in response to it – wiped out more than a decade's progress on job creation. By Q3:2023, employment had recovered to 16,7 million, barely above pre-covid levels.

The official Q2:2023 unemployment rate remains at an alarming 31.9% and represents 7.84 million individuals who are unable to secure employment. This figure does not capture the full extent of the crisis. When accounting for those who have become discouraged from actively seeking employment, the true unemployment rate skyrockets to 41.2%.

This highlights the systemic failures of the ruling party's labour market framework, and the inability of the current government to address the unemployment crisis. It is a bleak reality that the future for the unemployed population of South Africa remains uncertain.

2.5.1. Problematic Labour Legislation that Inhibits Labour Market Participation and Economic Growth

Poor labour policy choices have trapped millions in unemployment. The situation necessitates fundamental structural reforms that will get rid of the primary impediments to labour market efficiency.

2.5.1.1. Race Based Legislation

Preferential Procurement Policy Act of 2000[11] and BEE Act of 2003[12]

Government has enacted laws that require the state to use its purchasing power to award contracts to previously disadvantaged demographic groups. Experience has shown that these race-based policies do not benefit the majority of South Africans, but instead served to enrich a very small group of connected individuals. Businesses that rely on these policies for their state contracts have also become entrenched in the patronage networks established by the ANC's "cadre deployment" policies.

This process has engendered a dependency on the state. It is therefore in the ANC's interest to portray economic progress as being a function of government intervention rather than

[11] https://www.gov.za/sites/default/files/gcis_document/201409/a5-000.pdf
[12] https://www.gov.za/sites/default/files/gcis_document/201409/a53-030.pdf

market forces and the profit motive. The emphasis on government intervention reinforces the patronising idea that individuals and businesses cannot succeed without the support of the state.

What had been an attempt aimed at speeding up black advancement in an organic and pragmatic way became subject to several policies aimed at penalising enterprise if they did not meet racial targets.

2.5.1.2. Employment Equity Amendment Act

Employment targets for business that operate in all industries and sectors are set out in the EEA. The Bill and subsequent amendments enable the Minister of Employment and Labour to “set numerical targets for any national economic sector”, including “targets for different occupational levels, sub-sectors or regions within a sector” to achieve “equitable representation” at “all occupational levels in the workforce”. The Bill further excludes businesses from conducting business with the Government unless they comply with the set targets or ‘reasonably’ justify their failure to do so.

The EEA makes provision for penalising non-compliant businesses through multimillion Rand fines, which could bankrupt many firms. The multiplier effect of likely bankrupting many businesses will knock on to other businesses throughout supply-chains and reduce employment in the process by disturbing economic activity and investment.

One of the primary criticisms of the EEA is that it hands a degree of power to the Minister which is completely incompatible with a market-driven economy while entrenching job reservation. This will deter investment, suffocate growth and disincentivise job creation. The bill also does not adequately address the root causes of inequality in the workforce which more so relate to structural flaws in South Africa’s education system.

The DA has opposed the bill and will continue to oppose all racialised legislation.

2.5.1.3. Labour Legislation in the Small Business Sector

The automatic extension of collective bargaining agreements to non-signatories has resulted in negative consequences for small businesses in terms of increased labour costs, reduced productivity, and profitability. Therefore, small businesses are less able to compete with larger firms, which could lead to lower employment rates in the sector. This has created an uneven playing field in the labour market as small businesses have considerably fewer resources to negotiate favourable terms.

In this light, the DA supports empowering individual economic sectors to set their own minimum wages. Additionally, offering tax exemptions to small businesses will assist them in absorbing the cost of minimum wages. Reforms in this area will promote competition and enhance the overall economic welfare of small businesses and workers.

2.5.2. Resource Allocation and Departmental Efficiency

The inefficient and inadequate performance of various departments under the Department of Employment and Labour is a considerable concern for the business community. In terms of budgeting, it is crucial to identify areas that require increased funding and distinguish them from those that are misusing their resources. The Commission for Conciliation, Mediation, and Arbitration (CCMA) is one such entity within the department that merits additional funding.

Conversely, entities like Productivity SA have proven to be ineffective and wasteful, with little to show for their expenditures. Therefore, resource allocation should be scrutinized and adjusted to optimize the effectiveness and impact of these departments.

3. Energizing South Africa with Pragmatic Solutions for Ending Rolling Blackouts

Throughout 2023 South Africa has experienced unprecedented levels of power blackouts. As of the first week of September, Eskom has shed more GWh electricity in 2023 than the entire eight years combined before that.

By maintaining its monopoly over the energy sector, Government has subjected every South African, with the notable exception of Cabinet members, to an exploitative energy regime which enforces controlled blackouts at will and crushes economic growth.

Government's insistence on mismanaging of Eskom has had repercussions far beyond inconvenient power outages. It has pushed up food prices dramatically. From farmers to grocery stores, stakeholders in the food supply chain, among every other value chain, can't bear the financial strain of halted operations due to power outages anymore. Vast amounts of money are being lost. Major food producers in South Africa are spending enormous sums on fuel for generators, often sacrificed at the expense of crucial business investments which will lead to deteriorating infrastructure. This loss must be recouped somehow. Ultimately, it falls on consumers.

The instability of the energy supply in tandem with a volatile political climate has had a severely detrimental impact on the advancement of South Africa and has effectively stunted the economic growth potential of the country.

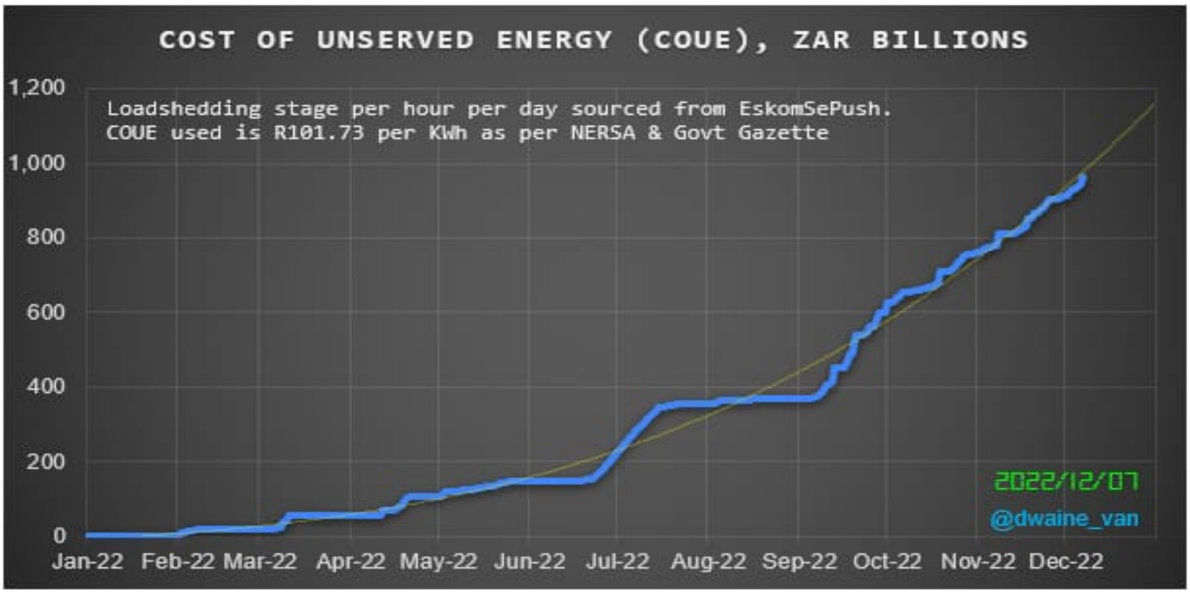
The crisis also undermines the confidence of investors, as realising any positive return on investment is impeded by recurrent power outages.

Since the start of rolling blackouts in 2007, national government has failed to procure an adequate amount of electricity supply to fuel the economy and satisfy increasing consumer demand. With outdated infrastructure, insurmountable debt, and significant cost overruns the entity is on the brink of collapse. Modern day Eskom serves as the ideal case study as to why the government energy monopoly cannot be relied on as the sole national energy supplier.

Continued state ownership of Eskom has not served to benefit poor South Africans, and due to a lack of economic incentives and consequence management, never will. Eskom is representative of the failure of centralised government and its inability to provide sustained energy supply as rolling blackouts have been estimated[13] to cost the South African economy between R1.5 billion and R4 billion per day. The embattled state-owned enterprise sector remains the greatest barricade to the realisation of virtuous economic growth in South Africa.

Figure 5 depicts that record power outages in 2022 has cost South Africa upwards of R1 trillion rand in revenue and production losses. In 2023, South Africa had experienced a total of 6778 hours (335 days) of loadshedding compared to 3776 (157 days) in 2022. The total estimate impact of the blackouts could therefore increase by more than 100%, notwithstanding multiplier effects.

Figure 5: Cost of Unserved Energy [14]



Even through the implementation of the DA's energy sector reforms, the delivery of sustainable energy supply may take up to 10 years[15]. Based on this grim energy outlook, the DA reiterates its call for the unbundling of Eskom and the opening of the energy sector to Independent Power Producers (IPPs).

In the interim, Eskom must prioritise the streamlining of its procurement processes while letting in massive private capacity to power a growing South Africa. By opening the energy sector, innovation and voluntary action will keep the lights on and the wheels of the economy moving towards the growth rate needed to address declining economic participation.

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[13] https://codera.co.za/estimates-of-the-cost-of-load-shedding-in-sa/#:~:text=Total%20cost%20of%20between%20167,between%2060%20and%20120%20billion
https://www.moneyweb.co.za/news/south-africa/no-end-in-sight-as-load-shedding-nightmare-worsens/
[14] https://twitter.com/dwaine_van/status/1600855031942885378
[15] https://mybroadband.co.za/news/energy/475831-big-problem-with-eskoms-grid-south-africa-faces-10-more-years-of-power-cuts.html

3.1. Eskom Debt Takeover

The Eskom Debt Relief Bill commits government to support Eskom in dealing with its debt obligations and the associated finance costs. Specifically, the Bill stipulates that R78 billion will be allocated to Eskom in the 2023/2024 financial year, followed by R66 billion in the 2024/2025 financial year and R40 billion in the 2025/2026 financial year.

As of December 2023, R44 billion of Eskom’s debt has been taken over by Treasury. Another tranche is expected to be transferred within the first quarter of 2024. Given the already strained fiscus, transferring any more of Eskom’s debt to the national balance sheet is not viable.

Government's justification that transferring Eskom's debt onto the national sovereign debt profile will free up space for the entity to acquire more debt and be serviced at a cheaper rate of interest, lacks credibility. The "debt takeover" fails to address the root causes of Eskom's financial distress and introduces a moral hazard that will undermine efforts to improve the efficiency and management of the entity.

Furthermore, government's argument that the "debt takeover" will lead to a reduction in electricity prices is highly questionable and lacks empirical support. Significant policy reform is clearly necessary to address the structural issues within the energy sector. Such reform will need to inject the much-needed private sector expertise throughout the value chain.

It is therefore imperative to restructure the energy industry in a manner that catalyses more competitive privately generated electricity, which will ultimately lead to lower electricity prices. The DA will not support the offloading any more of Eskom’s debt onto the country’s sovereign balance sheet, without a comprehensive plan to unbundle the entity and change its funding model.

3.2. The Unbundling of Eskom

The orderly unbundling and restructuring of Eskom are critical requirements for achieving a well-diversified and competitive energy generation sector. This process must involve the formation of several independent generation companies, as well as the decentralisation of the electricity distribution segment. Furthermore, the establishment of a competitive retail electricity sector, comprising a diverse range of private-sector entities with experience in wholesale procurement, innovative repackaging, marketing, and resale, is also necessary to meet the diverse needs of domestic and commercial customers and various market segments.

The remaining Transmission entity of Eskom should become the future Eskom – this being a national, state-owned, independent transmission system and electricity market operator (ITSMO), responsible for power planning, procurement, contracting, grid system and electricity market operation.

3.3. The DA’s Inclusive Energy Proposals

- At the bare minimum, allow for a waiver or moratorium to be placed on stringent regulations that are preventing Eskom from pursuing an accelerated onboarding of generation capacity potential from IPP projects.

- Provide Eskom with additional state capacity to deal with acts of sabotage and criminality which have been cited as one of the causative factors of loadshedding.

- Lessen or remove the costly regulatory burden, which is standing in the way of self-generation, especially at household level and in discrete industry environments.

- Ensure budget reprioritization of resources from non-emergency expenditure items towards accelerated spending in energy generation projects.
- Help to place a moratorium on localization requirements for renewable energy projects as a way of reducing costs for renewable energy projects.

- Compel the Department of Energy to review the Integrated Resource Plan (IRP), to bring new generation capacity online as quickly as possible.

- Facilitate the opening of transmission and infrastructure investment to public-private partnerships to expedite the integration of upcoming planned generation capacity.

- Require that the Department of Energy provides full transparency on its internal standard operating procedure to ensure that the requests for Section 34 Determinations by municipalities are attended to in the shortest possible time.

- Make it easy for Small-scale embedded generation (SSEG) to become a critical component of the overall electricity generation mix by through the provision of an incentive-driven tariff system for SSEGs that allows municipalities to compensate customers for excess electricity fed back onto their electricity grid.

3.4. Empowering Consumers Towards Independence from Eskom with Solar Rebates

Eskom's implementation of a semi-permanent schedule of rolling blackouts, coupled with the potential for further deterioration, has prompted many South African consumers to explore the possibility of transitioning to off-grid systems through the installation of rooftop photovoltaic panels. Incentivizing the adoption of rooftop solar technology by households and businesses mitigates the impacts of ongoing blackouts. While it may not resolve significant capacity shortages, it can provide much needed relief at the domestic level.

As per Intervention 4 outlined in President Ramaphosa's Energy Response Plan, announced in July 2022, the National Treasury has been directed to evaluate the expansion of tax incentives for residential and commercial rooftop solar installations to accelerate deployment and lower costs.

To this end, in his February budget the Minister of Finance announced a tax rebate for individuals for the installation of rooftop solar panels to the value of 25% of the cost of any new and unused solar panels up to a maximum of R15,000 from March 1, 2023, to March 1, 2024.

The budget also proposed a solar business incentive consisting of a one-off 125% deduction of the qualifying costs for renewable energy projects put into use between March 1, 2023, and 28 February 2025.

However, the brief period does not provide a sufficient incentive to taxpayers to invest in solar solutions. Treasury must consider extending the incentive to March 1, 2026.

Additionally, for the incentive to achieve the desired response it would need to be increased considerably and apply to an entire solar system — including batteries, inverters, frames, and installation costs — and not just the solar panels.

The DA has in this regard proposed an Emergency Solar Rebate (ESR) program to incentivize the installation of solar systems at residential properties. The ESR program, with a duration of three years, aims to address the current energy crisis and would operate as follows:

Tax rebates in the form of a 100% deduction for the cost of installed solar equipment along with other items that incentivise independence from Eskom, capped at R 100 000. Participants would finance the upfront cost of installation and claim the deduction against taxable income during the submission of their annual returns.

The estimated cost of the ESR initiative amounts to R4 billion over three years and is projected to reduce grid consumption by up to 6 GW, assuming moderate participation rates.

4. Stabilising the Fiscal Environment and Public Debt

Government's adoption of a redistributive policy framework has necessitated a significant increase in expenditure. To secure the funds necessary to finance this expenditure, it has resorted to the accumulation of debt. However, it is imperative to note that the ability to repay a loan, including both the principal and interest, is contingent upon the borrower's capacity to generate wealth. Unfortunately, Government, which functions under the economic agenda of the ANC, has demonstrated an inability to serve as a wealth generator. Instead, the state, under the ANC's leadership, operates as a consumptive entity, continuously extracting resources from the true wealth generators of society, namely individual workers, and private sector businesses. Hereby it has undermined the wealth generating capacity of the economy.

The 2024 Budget must therefore be anchored on a framework of fiscal prudence that prioritises the attainment of the primary budget surplus. This focus should concurrently lay the foundation for economic expansion and job creation. Yet, given National Treasury's historical inability to meet its own fiscal objectives, there is a pressing need for a more holistic and integrated strategy for budgetary governance.

The DA's economic policy suite, when implemented, will accelerate the stabilisation of national debt, and achieve fiscal consolidation. This can only be accomplished through catalysing and cultivating robust economic growth that surpasses the expectations under the current administration.

4.1. Government Debt

Government's debt burden has surged from just 27% of GDP in 2008 to 72.2% (R5.06 trillion) in 2023/24 as per the budget's estimations.

Throughout 2023 South Africa's sovereign risk premium has increased significantly. In October of last year, Minister Godongwana revised Government's debt stabilization target to 77.7% of GDP by the fiscal year 2026/27 - a timeline far extended from the projections in the 2023 Budget. This adjustment was prompted by the Eskom "debt relief package", amounting to R254 billion, which mandated a recalibration in the trajectory of public debt.

Debt-service costs have been the fastest growing item on the Budget while consuming an increasing share of GDP and revenue for the past two decades. As a result, debt-service costs have risen from R307.2 billion to R354 billion in the span of a year.

Due to anticipated budget deficits, Government is expected to increase its borrowing. Consequently, both borrowing requirements and debt-service costs are likely to exceed the estimates laid out in October.

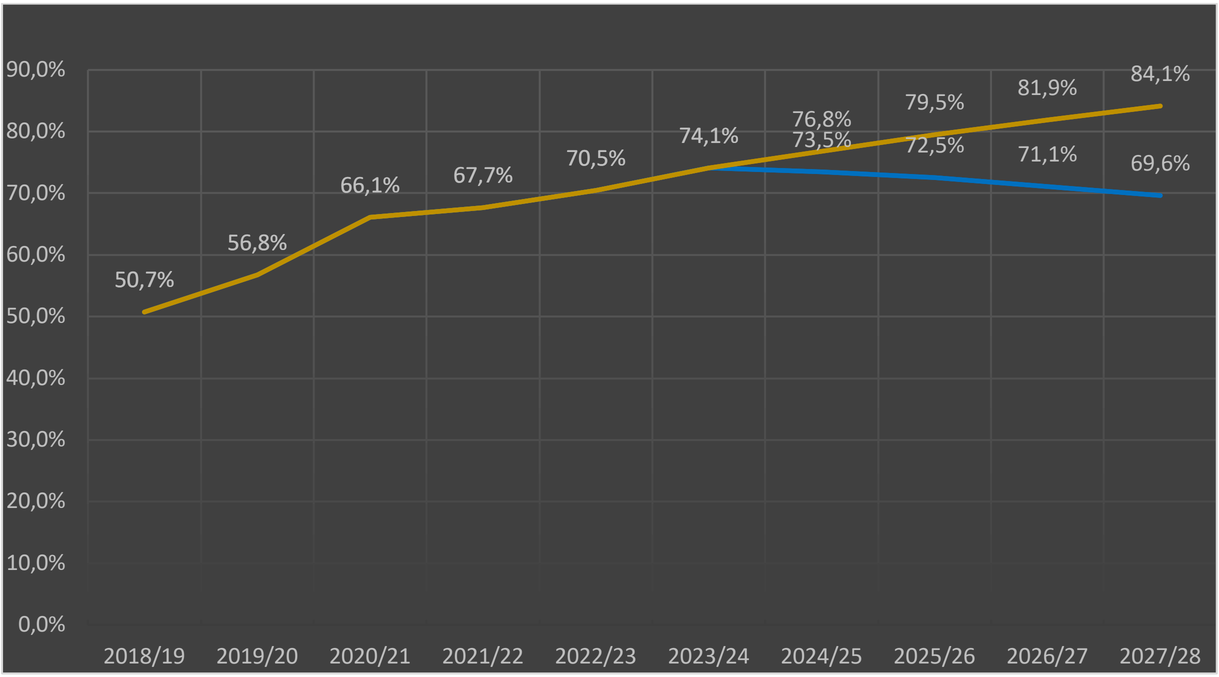
Today, more than 20 cents of every Rand collected in revenue every year will be used to pay debt-service costs. Consequently, interest payments on accumulated debt have crowded out necessary spending on essential public services that include defence, policing, public health, and basic education.

Figure 6 presents a comparative debt forecast under a DA government versus continued ANC governance. The data for this projection is sourced from various institutions, including market consensus forecasts from the Treasury, the World Bank, and the South African Reserve Bank (SARB).

Analysis indicates that, if implemented, governance under the DA will lead to a reversal in the upward trajectory of the government's debt-to-GDP ratio as early as the 2024/25 fiscal year.

The DA has introduced a Responsible Spending private members bill that will accelerate this process. The Bill incorporates both expenditure and debt fiscal rules.

Figure 6: Government Debt-to-GDP Forecast



4.2. Government Expenditure

The causal relationship between economic growth and tax revenue is well-established. Specifically, an economic contraction will be accompanied by a corresponding decrease in revenue intake, and conversely, an upturn would lead to an increase in tax revenue. This relationship, in the South African context, is further complicated by the fact that during downturns the burden of the social wage net intensifies. Inevitably large budget deficits follow if government spending is not contained.

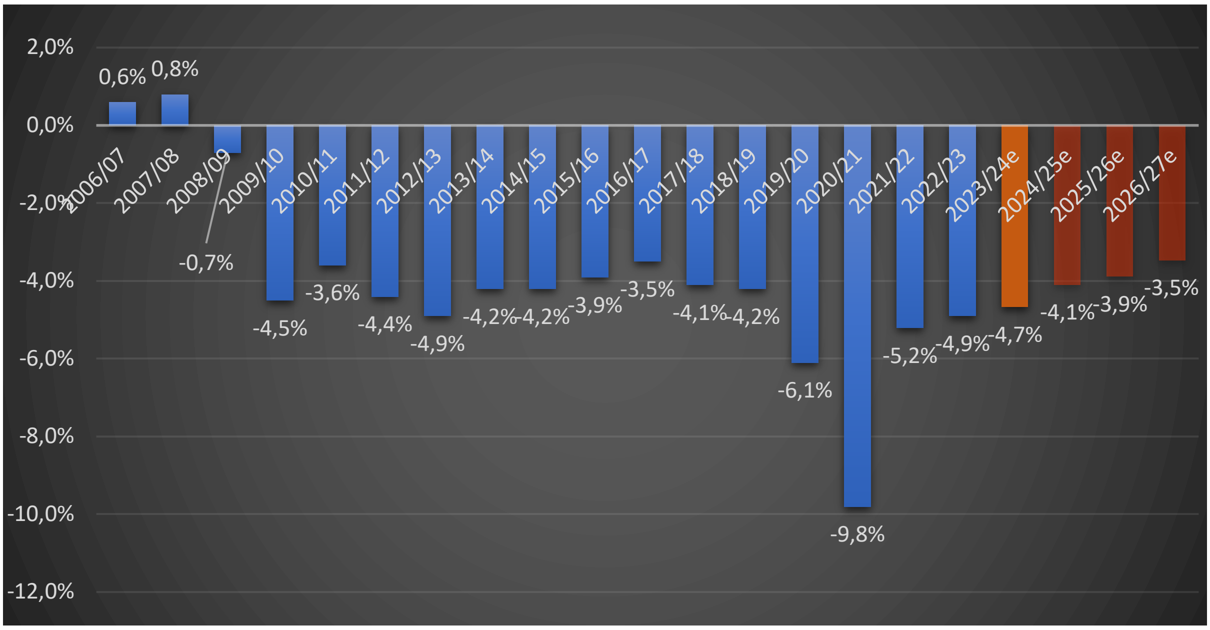
To address such an imbalance, governments often resort to deficit financing via increased debt issuance. While this strategy does provide immediate liquidity, it engenders a cascade of adverse effects. In South Africa's case, this approach has resulted in a marked uptick in our risk premium and debt-servicing costs. In this way, irresponsible fiscal management crowds out even more necessary spending items and reduces fiscal flexibility.

The 2023 MTBPS projected a consolidated budget deficit of 4.9% for the 2023/24 fiscal year. The MTBPS also projected a consolidated budget deficit of 4.6% for the fiscal year 2024/25 which it said would narrow to 4.2% in 2025/26. Consolidated expenditure over the MTEF was projected to be R7.414 trillion, with an average deficit of 3.67%. Most recent data released by Treasury suggest that this is unattainable, and the deficit has widened significantly.

Given Treasury's historical track record of underperformance in meeting projected fiscal estimates, the detrimental effects of load shedding on economic growth, continued debt appreciation, and the exacerbation of social issues such as poverty, inequality, and unemployment, it is unlikely that any of these projections will be realized.

The figure below depicts the historical and projected government budget deficit/surplus for South Africa in current trends are not overturned.

Figure 7: South Africa Government Budget Deficit/Surplus



It is evident that the current expenditure trajectory is not sustainable, as the continued expansion of welfare and deficit spending alone cannot lead to new sources of capital formation, wealth generation, and prosperity.

Furthermore, achieving a surplus while growing the economy through prudent fiscal management will be especially challenging given that the recent commodities boom, that provided some temporary reprieve to the fiscus in previous years, is over.

4.2.1. Wage Bill

The escalating debt and deficit spending have not been channelled into infrastructure development or capital formation; rather, they have fuelled consumption expenditure. Government salaries, specifically those within the 'millionaire manager' class, have inflated to unsustainable and unjustifiable levels, particularly given the absence of a corresponding increase in productivity. This has been most pronounced in the sectors of social work, transport, and central government administration.

Between 2014/15 and 2019/20, civil-service compensation grew above inflation at an average annual rate of 7.3 %. Over the MTEF (between 2024/25 and 2026/27) Treasury estimates spending a minimum of R2.07 trillion on the public sector wage bill.

The past decade has therefore seen a significant rise in South Africa’s public wage bill. The country's wage bill is not only higher than the most OECD member states, but also significantly surpasses the OECD average.

Despite this, the South African economy has not been growing at the rate necessary to sustain such a burden. This is a clear indication of the government's inability to create real value adding and lasting employment opportunities outside of the central administration. The cost of this failure is now becoming unbearable, as it threatens to cripple the government's ability to provide even the most basic services to its citizens. Unless drastic measures are taken, the situation is likely to continue deteriorating at an alarming rate.

Added pressure is applied by increasingly demanding wage negotiations. The danger that double-digit inflation will become entrenched when wage settlements are above the SARB’s target band is a very real risk and once inflation expectations become de-anchored from the target, only drastic policy steps will work.

4.2.2. Preserving The Gold & Foreign Exchange Contingency Reserve Account (GFECRA) is Paramount

As has been established, Government is facing significant fiscal constraints. This has prompted many within the ANC and likeminded individuals to advocate for drastic measures. More specifically, the call to liquidate reserves held by the South African Reserve Bank (SARB). This proposal fundamentally misunderstands the role of central bank reserves in maintaining monetary stability and investor confidence. Liquidating reserves for short-term gain risks inflationary pressures, undermines the credibility of monetary policy, and signals fiscal irresponsibility to international markets.

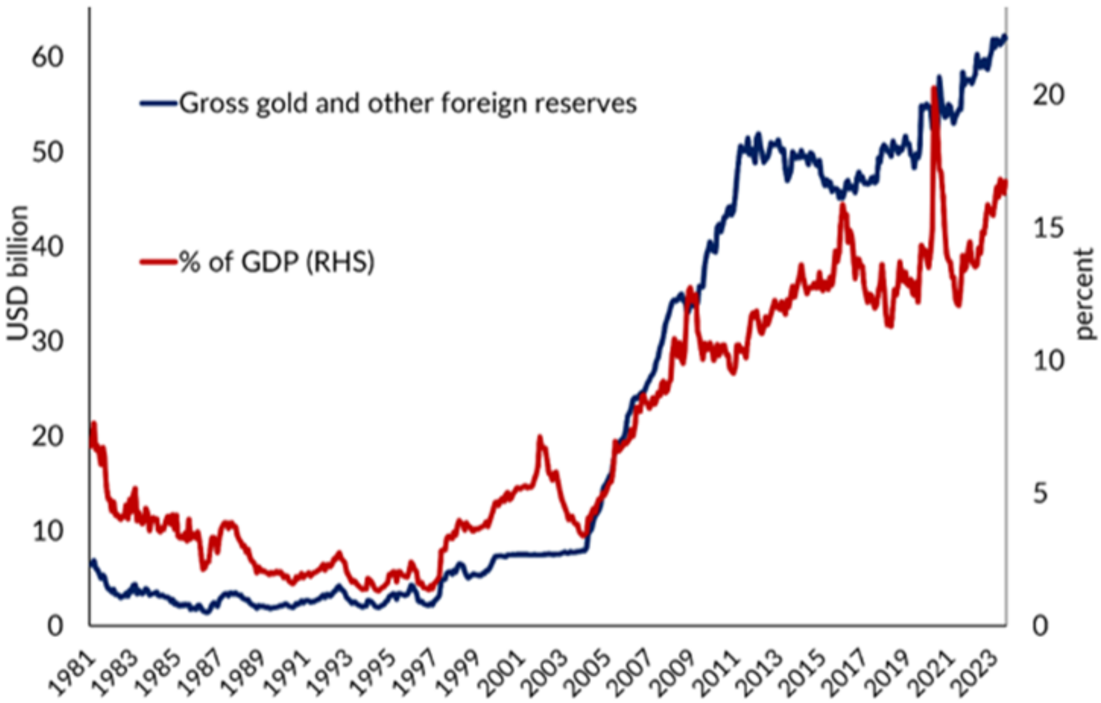
The SARB holds the GFECRA on behalf of the government. It is currently valued at approximately $55 billion. The Rand equivalent of this account is approximately R459 billion. These funds were built up steadily under the Governorship of Tito Mboweni. Because the account is held in dollars, much of its growth has been due to depreciation of the rand. These ‘profits’ accrue to the state under s28 of the South African Reserve Bank Act.

The GFECRA balances are unrealised forex gains, which means that they are paper entries in a ledger whose value can only be realised by selling the underlying asset - in this case, forex reserves or gold bars. This may be obvious, but selling forex reserves would reduce the country's reserves, which are already on the low side of adequate. The rainy day these are waiting for is when the currency needs support not to plug a massive pre-election hole in the budget.

The international community will be watching. Resorting to the GFECRA as a fiscal stopgap would diminish South Africa's standing among global investors and suggest to policymakers the erroneous notion that fiscal discipline can be forsaken for expedient solutions. This will in no uncertain terms lead to runaway profligacy and further fiscal problems.

The DA firmly opposes any measures to deplete the GFECRA.

Figure 8: Gross gold and other foreign reserves and as a % of GDP



4.2.3. Optimising Public Procurement with the Social Impact Bill

Public procurement accounts for 22% of South Africa's GDP. It is thus a powerful lever to incentivise change across and down value chains of the whole economy. Specifically, public procurement has a critical role to play in promoting the inclusive and sustainable growth championed by sustainable development goals (SDG). Unfortunately, procurement policy and SDGs in South Africa are currently not aligned.

Sustainable procurement policy is the most comprehensive approach because it considers all the three dimensions – economic, social, and environmental – necessary for sustainable development. Public procurement can therefore offer the right market incentives for sustainable development to occur.

In line with this vision, the DA has introduced the 'Social Impact Bill'[16]. It seeks to repeal the Broad-Based Black Economic Empowerment Act (BBBEE) and references to it in other legislation. Instead, the Bill proposes the adoption of Sustainable Development Goals (SDGs) within ancillary Acts.

The Social Impact Bill will eliminate BBBEE considerations and amend the Preferential Procurement Policy Framework Act (PPPFA) to incorporate a company's contributions towards a range of SDGs.

[16] https://press-admin.voteda.org/wp-content/uploads/2023/06/PPPFA-.Bill-Draft.docx

Where the current approach deters investment, a turn to social impact would drive investment. The overwhelming beneficiary of improvement in SDGs would be black South Africans since they are most affected by the various deprivations which the SDGs track.

Moreover, this reformed state procurement system will yield savings of up to 20% of the government's expenditure on goods, services and public works. This amount equates to 1.3% of GDP or 20% of consolidated government spending in these areas[17].

5. Supporting Vulnerable South Africans

The economic climate in South Africa exerts a disproportionate burden on low-income and marginalised communities. This burden was intensified by the COVID-19 pandemic and extended lockdowns. The underwhelming economic rebound following the pandemic has not relieved the deprivation experienced by these groups. Their financial hardship is exacerbated by global economic volatility and domestic policies that hinder economic participation while inflating the cost of living. This has evolved into a severe cost-of-living crisis that impacts millions of South African households.

South Africa's expansive social security net does serve as a buffer against the most severe impacts of pervasive poverty and unemployment. However, reliance on social security has been on the rise even before the introduction of the special social relief of distress (SRD) grant. From the fiscal year 1998/99 to 2023/24, the number of social grants — excluding the SRD — skyrocketed by approximately 756%, growing from just over 2.5 million to nearly 18.9 million people. The rapid growth of welfare dependency contrasts sharply with the performance of the economy. Since 2010, the number of social grants disbursed has surpassed the number of individuals employed and by 2019, for every 100 grants issued, there were only 90 employed persons. Post pandemic this number has increased substantially.

For the 2023/24 fiscal year, the Treasury has budgeted for 8.4 million SRD grant recipients. When this figure is combined with other grant recipients, the total monthly grant distribution is projected to reach 27.4 million. This number is nearly double the amount of people employed in the second quarter of 2023.

According to the MTBPS, Government's MTEF spending plans include an allocation of R3.750 trillion (51% of consolidated non-interest spending) for the social wage (combined public spending on health, education, housing, social protection, transport, employment, and local amenities). The budget further set aside R34 billion to extend the special COVID-19 social relief of distress grant to March 2025. An extension beyond this date is notably absent.

Low economic growth for the foreseeable future and little scope for increasing tax revenue mean that the extension of the SRD grant will add significant pressure to the already constrained fiscal position. This is not sustainable over the long term. **Yet, due to the sheer**

[17] An evidence-based approach requires monitoring compensation trends and patterns of recruitment and retention for different occupations on an annual basis and using this as a core input during wage negotiations. For a more detailed discussion see Annex IX of the 2021 Article IV consultation report.

number of South Africans living in absolute poverty, Government spending on direct support to vulnerable households must be protected from cuts.

The DA's policy reform framework enables the continued financing for the rollout of a vast and sustainable social security net.

The emphasis on stimulating economic growth as a dividend is grounded in the well-established metric that growth, when anchored in an enterprising economy, fosters abundant employment opportunities, encourages investment and capital formation, and enhances revenue generation. Therefore, prioritising economic growth serves as the foundational strategy for elevating South Africans out of abject poverty, offering support to the unemployed, and catalysing the formation of both human and physical capital.

With the savings realised from the DA's targeted spending and savings, as well as the implementation of the DA's policy framework targeted at uplifting the poor, **the DA commits to protecting social grants.**

5.1. Job-Seekers Grant

The DA supports providing conditional direct income support targeted at society's most vulnerable, as it does establish an economic safety net that directly channels resources into the hands of consumers, who are best positioned to make spending decisions. This approach facilitates a more efficient allocation of resources compared to coupons or the existing grant system, as market-driven allocative decisions are more efficient than those made by the State. In South Africa, evidence indicates that cash grants of this nature are utilised effectively by recipient households for essentials such as food, education, transport, and healthcare. Globally, research on such cash transfers shows that support does not deter beneficiaries from seeking employment; rather, the transfers often serve as a financial cushion that aids in job-search efforts.

If this is not underpinned by growth, the large immediate expansion of social transfers would jeopardise fiscal sustainability and lead to substantial employment losses by contracting economic activity and growth.

South Africa's debt position is pivotal in this evaluation:

- Without fiscal room for expansionary measures alongside a shrinking tax base, any stimulus is ineffectual.
- If the BIG is predominantly debt-financed, the deteriorating fiscal position increases the risk premium on sovereign debt which weigh on investment and growth.
- If the BIG is predominantly tax financed, significant crowding-out of private expenditure occurs and the risk of mass wealth emigration increases significantly.
- If the BIG is predominantly financed through government expenditure re-prioritisation, the provision of other important public services will be meaningfully compromised.

Although the expansion of social security through any of these avenues may be well-intentioned, the potential economic drawbacks could outweigh the benefits. Any solution must avoid exacerbating the existing problems.

The feasibility of funding a BIG is therefore contingent upon a substantial and sustained increase in economic growth. This can only be achieved through the adoption and implementation of the DA's market-oriented policy suite which prioritises infrastructure investment, expanded labour market participation, and other crucial economic reforms that bolster private sector involvement. These measures are crucial to address the constraints imposed by a limited fiscal position and mitigate the potential adverse impact a further expansion of the social security net will have on fiscal sustainability.

In this context, it is only when the government does accrue the necessary savings, achieve a budget surplus, implement the requisite policies that would spur economic growth, and is able to substantially reduce debt could a BIG grant be fully implemented. The DA will convert the Social Relief of Distress Grant (SRD Grant) into a Job Seekers Grant. This would require recipients to actively seek work opportunities and provide evidence to the Department of Social Development if they continue receiving the grant.

5.2. Increase the Child Support Grant [18]

The Child Support Grant stands out as the predominant grant in our system. In the fiscal year 2023/24, it catered to nearly 50% of total grant recipients.

This grant aids more than 12.8 million children. However, extensive research indicates that its current amount doesn't sufficiently address the fundamental nutritional necessities of the beneficiaries. For instance, it doesn't cover basic food expenses, nor does it guarantee diverse dietary consumption. Alarmingly, even with the sizable dependency on this grant, the yearly allocation consistently lags behind the Food Poverty Line (FPL).

In April 2022, the value of the child grant saw an increment from R460 to R480 which marked an increase of 4.3%. Though the enhancement was positive, the prevailing grant amount remains inadequate, especially when considering the current Food Poverty Line is R760.

The DA will align the child grant with the official food poverty line. The "food poverty line" is calculated by adding up the cost of the minimum nutritional requirements of food necessities a person needs per day (excluding non-food necessities). The increase in the grant to the food poverty line provides the opportunity for children to obtain the necessary nutritional value, and reduce the risk of malnutrition, thereby ensuring their health and survival.

5.3. Alternative National Student Financial Aid Scheme (NSFAS) Funding Model [19]

Over the past decade, public higher education institutions have seen a 19.6% rise in student enrolment. This surge in higher education interest has amplified the demand for top-tier, affordable student accommodation, ideally located near educational institutions and encompassed by a supportive student community. Regrettably, conventional accommodation options, like house-sharing and private rentals, fall short of these criteria.

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[18] https://cdn.da.org.za/wp-content/uploads/2023/03/30101922/DA-Social-Development-Policy.pdf
[19] https://press-admin.voteda.org/wp-content/uploads/2023/08/FINAL-DA-Draft-Position-Paper-on-NSFAS-Accomodation-Caps-250823.pdf

In tandem, there has been a staggering 252% upswing in students availing of NSFAS financial aid. Yet, the present funding structure faces difficulty in the backdrop of diminishing economic growth and a contracting tax base.

The centralised operations of NSFAS and technological disparities between the scheme and various institutions further strain the system. This leads to payment delays and affects students' ability to register or secure accommodation promptly.

The sharp enrolment uptick and rising student housing demand have carved a niche for private student accommodation.

To ensure the long-term sustainability of the funding system, the funding model needs to fundamentally change. The DA has proposed an overhauled model which infuses more funds into the system. This would empower NSFAS to match accommodation allowances with market rates.

The DA alternative funding model will be a tiered system for loans and grants, with a primary focus on providing substantial financial support to students hailing from low-income households.

The DA's proposed tiered system of loans and grants primarily targets students from economically disadvantaged backgrounds. This tailored loan approach is pegged to income tiers, subjected to periodic reviews. It introduces an array of government loans with lenient repayment terms and transitions loans to bursaries based on academic merit to boost institutional performance. This framework ensures funding solutions for the 'missing middle', facilitating partial self-financing without sidelining less affluent students.

By amplifying available funds, we can expand accommodation budgets, dispensing with the one-size-fits-all cap and shifting to customised funding for housing."

5.4. Pension Fund Reform

During the pandemic, the DA proposed a private members bill that would enable pension fund members to access a portion of their pension fund asset. This would address the situation where members resigned in desperation from their jobs in order to withdraw their pension funds.

After significant delays, legislation is now in progress to enable members to access a portion of their funds, while remaining employed. This will relieve severe hardship for members without them having to make the situation even worse by resigning from their jobs.

5.5. No Increases in Taxes

The South African economy is beset by one of the most onerous tax regimes in the world. Governmental impositions on various income streams, consumption, and property ownership, aggravated by public resource mismanagement through waste, corruption, and embezzlement, have eroded public trust significantly.

Recent intensification of tax collection efforts has been met with mounting resistance across society as taxpayers have come to recognise that their hard-earned tax is not effectively or efficiently spent by government. The dire state of public finances in South Africa, along with the absence of accountability and transparency, has only served to exacerbate public discontent.

National Treasury has vetted the idea of increasing the VAT rate by another 1- or 2 percent to finance the ANC's lofty election promises. Given that the existing tax structure is already unduly burdensome, such an increase would be highly regressive and disproportionately impact lower-income households.

The DA will not endorse the implementation of any additional taxes or increment in tax rates, as it would impede economic growth and discourage investment, and ultimately stunt our recovery from the current cost-of-living crisis. The DA will accordingly not support a tax increase of any kind to fund the NHI - the costs of which is projected to be near half a trillion Rand per year – or for any other purposes.

On the contrary, given the current cost of living emergency, the DA will reduce tax on fuel and expand the zero-rated VAT food basket.

5.5.1. The Need for an Expanded Zero-VAT Rated Food Basket

The zero-VAT rated food basket is a policy tool aimed at making essential food items more affordable by exempting them from the standard 15% VAT. The DA will expand the list to include bone-in chicken, beef, tinned beans, wheat flour, margarine, peanut butter, baby food, tea, coffee, and soup powder. The Standing Committee on Finance has, in November of last year, supported the DA's proposal[20].

Eliminating the 15% VAT on these additional items will assist households in balancing their budgets and enable them to opt for more nutritious food options. In the medium to long term, the intervention would pay for itself through improved health, work, and learning outcomes. Poor South Africans need an affordable source of protein to prevent them shifting to a less nutritious, high-carbohydrate diet, as their budget is squeezed.

There are several reasons why an expansion of the zero-VAT rated basket is necessary.

Firstly, amid the current inflationary environment, lower income households continue to struggle to afford basic food items. Widespread poverty and inequality mean that many households are unable to meet their basic needs, including the need for nutritious food. By expanding the zero-VAT rated basket to include additional items, the government would be able to make these items more affordable for poor households, which would help to improve nutritional intake and overall well-being.

[20] https://www.businesslive.co.za/bd/national/2023-11-14-finance-committee-calls-for-more-foods-to-be-free-of-vat/

Secondly, the current basket does not adequately reflect the dietary needs of lower-income households. For example, the inclusion of wheat flour and margarine in the basket would enable poor households to afford more varied and nutritious diets, as these items can be used to prepare a wider variety of meals. Including baby food and peanut butter would help meet the nutritional needs of children, while adding tea and coffee provides affordable options for hydration and a small energy boost.

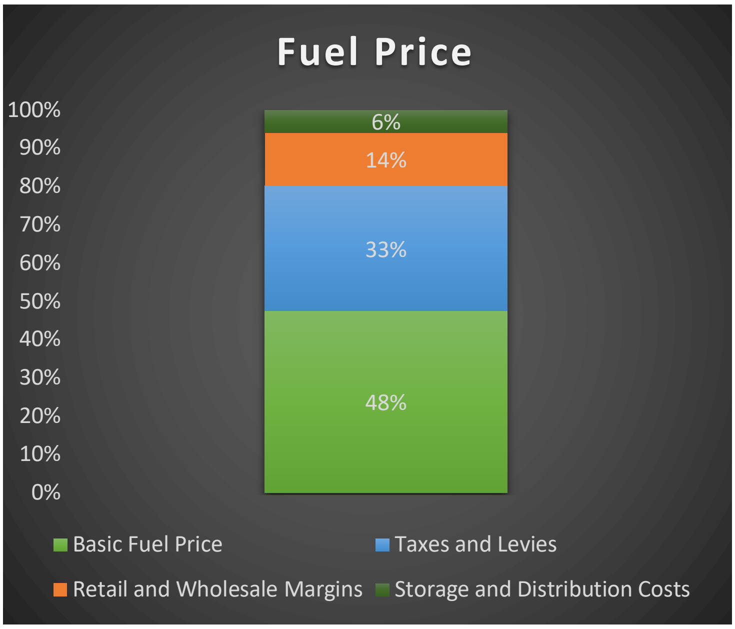
The cost of expanding the zero-VAT rated basket is affordable under a caring DA Government. It is relatively small compared to the cost of bailing out dysfunctional state-owned enterprises (SOEs). According to a report by the South African Treasury, the total cost of bailing out SOEs from 2014 to 2023 was over R331 billion. When compared to such a figure, the cost of expanding the zero-VAT rated food basket is minimal at approximately R20.1 billion for the fiscal year, R21.5 billion next year, and R22.7 billion for the following year.

5.5.2. Cut tax on Fuel [21]

The current administration's imposition of a 33% tax hike on fuel prices through various levies intensifies inflationary pressures, particularly for low-income groups. Given fuel's critical role in a motorized economy, the high level of taxation it is subjected to in South Africa is incongruent with its essential nature. A historical review shows staggering increases in fuel-related levies since 2008: the Road Accident Fund (RAF) levy has surged by 425%, the general fuel levy by 225%, and the basic fuel price by 119%. These hikes elevate the transportation costs of goods, including essential food items and thereby limits access to basic sustenance for a large segment of the population.

This model is highly unsustainable, particularly in its impact on household consumption.

Figure 7: Fuel Price Composition [22]



[21] https://www.slashfuelprices.co.za/
[22] https://www.statssa.gov.za/?p=14933

The brief R1.50 levies relief that was announced in 2022 exposes the fuel levy as not only flexible but also unnecessary and susceptible to abuse. The DA has repeatedly called on Minister Mantashe and Minister Godongwana to undertake a comprehensive review of the Basic Fuel Pricing model — a review that the ANC itself promised to execute, yet we continue to wait for action.

Moreover, it's crucial to highlight that the Road Accident Fund (RAF) levy portion applies universally to all fuel purchases, irrespective of their purpose. This means that when Eskom purchases diesel for electricity generation, it too contributes to the RAF, effectively inflating operating costs.

The DA government will therefore review fuel price determination model urgently and reduce the fuel levy.

6. What a DA Government will do

6.1. Fiscal Interventions

Tax Incentives and Measures:

To encourage more domestic saving the DA will:

- Introduce Tax incentives: Government must provide tax incentives for individuals who want to save, such as tax-free interest on savings accounts or deductions for contributions to retirement accounts.

- Raising the threshold on taxes on interest earned to R 500 000

- Increasing the annual tax-free savings limit to R 100 000

- Extend the Rooftop Solar Tax Incentive to 1 March 2026

- The DA will not endorse the implementation of any additional taxes or increment in tax rates, as it would impede economic growth and discourage investment, and ultimately stunt our recovery from the current cost-of-living crisis.

Cost of Living:

- The DA will expand the zero-VAT rated food basket to include bone-in chicken, beef, tinned beans, wheat flour, margarine, peanut butter, baby food, tea, coffee, and soup powder.

- The DA will review fuel price determination model urgently and reduce the fuel levy.

- The DA commits to protecting social grants.

- The DA will convert the Social Relief of Distress Grant (SRD Grant) into a Job Seekers Grant. This would require recipients to actively seek work opportunities and provide evidence to the Department of Social Development if they continue receiving the grant.

- The DA will commit to increasing old age grants at a higher rate than the ANC currently projected.

State Owned Enterprises:

- The DA will not allocate a cent towards bailing out moribund SOEs.

- The DA will not endorse taking over the debt of any SOE.

- The DA will not support any expenditure related to the formation of the President's proposed holding company for SOEs.

Small, Micro, and Medium Sized Enterprises:

The tax regime for small firms needs to be addressed to accelerate growth in the sector. The DA will implement the following interventions:

- Amend section 12E of the present Income Tax Act to allow small firms to deduct the cost of all capital equipment from their taxable incomes in the year in which cost is paid, not just the cost of plant or machinery used in manufacturing.

- Raise the annual gross-income ceiling for this capital-equipment deduction from R 20 million to R40 million

- Raise the annual turnover ceiling which qualifies a micro business for registration from R1 million to R2 million

- Increase from R 3,5 million to R7.5 million the amount deductible from the net value of an estate in determining the dutiable amount for estate duty purposes.

- Increase from R 500 000 to R1.2 million the minimum total renumeration paid by an employer to his employees before skills development levy contributions become compulsory.

Labour:

- The DA rejects increasing public sector wages for workers not compensated by the Occupation Specific Dispensation fund. To address the bloated public sector wage bill, the DA will freeze the wages of public servants not covered by the Occupation Specific Dispensation (OSD) (including the likes of head-office managers and supervisors) over the three-year MTEF period.

- **The DA will implement** a temporary wage freeze for the millionaire manager class while undertaking staff and skills audits which include review of the remuneration and benefits structure, for a more nuanced and sustainable plan to be implemented. Functional reviews can help prevent the recurrence of wage bill pressures - they provide the necessary background for structural reforms and institutional reforms that focus on deficiencies in the management of wage and employment processes. *Government can save another R22 billion over the MTEF period by reducing the number of 'millionaire managers' in the civil service.*

Expenditure Cuts:

The DA will reduce expenditure by:

- R900 million by reducing fruitless and wasteful expenditure in Government entities over the MTEF.

- R 66 billion in the form of debt service costs saved from not taking over debt from Eskom and SANRAL, and Transnet, and other SOEs.

- R1.5 billion over the MTEF by slashing spending on VIP Protection and Security Services

- R1.5 billion shutting down the National Youth Development Agency over the MTEF.

- R5 billion over the MTEF through eliminating all National Health Insurance (NHI) related expenditure.

- R6.8 billion saved through less spent on Ministerial Department and other catering, accommodation, and entertainment.

- Not supporting any expenditure related to the Ministry of Electricity, which amounts to around R80 million

- R50 billion over the MTEF by cutting expenditure on the RAF.

- Optimising the public procurement framework. Throughout the DA's first administration (which will be 5 years) an increasing share of up to 1.3% of GDP of savings will be achieve. Savings will amount to R 165 billion over the medium term.

6.2. Legislation

- The DA will table a Constitutional amendment for the establishment of the Scorpions 2.0 – a Chapter 9 anti-corruption body that will work independently of the executive and without the threat of disbandment by parliament.

- The DA will scrap all race-based legislation and cadre deployment practices and instead embrace a labour legislative framework which will pursue true non-racialism through economic empowerment of all who live in South Africa.

- The DA has introduced a 'Responsible Spending Bill' that is designed to prioritise responsible and optimal expenditure and reduce overall government debt.

- The DA has introduced the 'Social Impact Bill', which will facilitate a more efficient public procurement framework. This will enable Government to save up to R165 billion Rand over the medium term.

7. Conclusion

The South African economy is beset by an array of government-induced crises.

Economic growth has been stunted by a burdensome regulatory environment, a deficient skills base and low labour market participation rates, a shrinking tax base, overburdened public and private infrastructure, diminishing capital formation, and alarmingly high levels of crime.

Given the dire state of affairs, it is imperative that immediate and decisive action is taken. The failing ANC government is unwilling and unable to act. It is incompetent, incapable, and positioned in the wrong place in our economy. The ANC's inclinations to expand its regulatory reach is fundamentally incompatible with cultivating a market-friendly environment that can attract vital capital, fuel economic growth, ease the debt burden, and create the job opportunities necessary for lifting millions of South Africans out of poverty and despair.

The ANC Government does not respond because it does not care. South Africa deserves a government that can unlock its limitless potential. That government is the Democratic Alliance.

Table 2: Alternative Budget Framework

	2024/25	2025/26	2026/27
As Per Budget 2023			
Nominal GDP (NT 2023 MTBPS Projection)	R 7 321 448 000 000,00	R 7 786 803 000 000,00	R 8 288 691 000 000,00
True Nominal GDP (SARB Projection)	R 7 505 199 354 906,09	R 7 940 500 917 490,64	R 8 385 168 968 870,12
Main Revenue	R 2 063 098 263 361,62	R 2 181 547 467 337,62	R 2 313 137 467 207,77
Main Expenditure without FINAL NHI	R 2 352 536 000 000,00	R 2 473 296 000 000,00	R 2 588 566 000 000,00
Non Interest Expenditure	R 1 958 085 222 696,90	R 2 035 562 472 723,12	R 2 108 863 677 575,36
ANC Budget Balance	-R 289 437 736 638,38	-R 291 748 532 662,38	-R 275 428 532 792,23
ANC Primary Budget Balance	**R 105 013 040 664,72**	**R 145 984 994 614,50**	**R 204 273 789 632,41**
ANC Main Balance % of GDP	-4,10%	-3,89%	-3,47%
Tax Buoyancy	1,15	1,07	1,05
Headline Inflation (SARB)	5,00%	4,50%	4,00%
DA Alternative			
DA GDP Growth (1,2%; 1,3%; 1,6%)	R 7 677 849 778 634,90	R 8 285 801 764 948,27	R 8 903 120 240 056,56
Main Budget Revenue (DA Growth)	R 2 070 966 743 574,35	R 2 213 857 661 741,67	R 2 367 791 868 775,95
Main Budget Expenditure (DA Growth)	R 2 344 114 128 573,77	R 2 435 038 013 795,45	R 2 491 618 244 953,01
DA Budget Balance	-R 273 147 384 999,42	-R 221 180 352 053,78	-R 123 826 376 177,06
DA Primary Budget Balance	**R 112 752 615 000,58**	**R 195 807 420 001,69**	**R 318 354 704 230,31**
DA Main Balance % of GDP	-3,865088%	-2,880759%	-1,494440%
DA Revenue Reduction			
Cut fuel levy	R 19 234 200 000,00	R 40 978 160 000,00	R 65 462 632 965,00
Expanded Zero Rate Food Basket	R 20 357 057 033,38	R 21 578 480 455,38	R 22 765 296 880,43
DA Additional Expenditure Items			
Old Age Grants	R 543 320 000,00	R 1 581 905 600,00	R 2 392 536 048,00
Basic Income Grant / SRD Continuation	R -	R 34 416 840 741,44	R 36 026 716 820,95
Additional Funding For National Proscecuting Authority (NPA)	R 1 900 000 000,00	R 2 000 000 000,00	R 2 100 000 000,00
Additional Funding For Special Investingating Unit (SIU)	R 1 900 000 000,00	R 2 000 000 000,00	R 2 100 000 000,00
Solar Tax Incentive Continuation	R -	R 4 000 000 000,00	R 4 000 000 000,00
Social Child Grant Increase (Additional Funds Needed)	R 39 600 000 000,00	R 42 804 264 000,00	R 45 605 266 800,00
DA NSFAS Policy	R 9 730 959 657,44	R 10 469 982 337,58	R 8 823 433 227,17
SCORPIONS 2.0	R 2 300 000 000,00	R 2 433 400 000,00	R 2 569 670 400,00
DA Net Cuts			
Wage Freeze/Gov Expansion Freeze + Wage Agreement Increase	R 8 413 000 000,00	R 20 963 000 000,00	R 36 953 500 000,00
Savings Realised with DA's Procurement Model	R 24 953 011 780,56	R 53 857 711 472,16	R 86 805 422 340,55
Reduce Millionare Managers	R 2 500 000 000,00	R 10 000 000 000,00	R 10 000 000 000,00
Department Fruitless and Wasteful Expenditure	R 300 000 000,00	R 300 000 000,00	R 300 000 000,00
Savings Realised from Debt Service Costs	R 8 550 777 303,10	R 20 745 755 221,41	R 37 521 242 017,28
VIP Protection and Security Services	R 493 075 000,00	R 515 000 000,00	R 538 075 000,00
Shut Down NYDA	R 733 114 000,00	R 504 810 000,00	R 527 425 000,00
Freeze Expenditure on Presidency	R 10 300 000,00	R 27 200 000,00	R 28 400 000,00
Irregular Expenditure	R 5 000 000 000,00	R 5 000 000 000,00	R 5 000 000 000,00
National Health Insurance (NHI) Budget Vote 18 Programme 2	R 1 612 900 000,00	R 1 691 286 940,00	R 1 773 483 485,28
Road Accident Fund (RAF)	R 10 375 400 000,00	R 21 490 400 000,00	R 18 194 400 000,00
Ministry of Electricity	R 80 000 000,00	R 80 000 000,00	R 80 000 000,00
Productivity SA Budget Cuts	R 7 073 000,00	R 54 215 250,00	R 108 430 500,00
Ministerial Departments Catering, Accomodation and Entertainment	R 1 367 500 000,00	R 2 735 000 000,00	R 2 735 000 000,00
Total Net Cuts	R 64 396 151 083,67	R 137 964 378 883,57	R 200 565 378 343,11