**Fiscal Framework and Revenue Proposals - Dr Seán Mfundza Muller**

27 February 2023

This is a summary of the submission to Parliament regarding the 2023 Budget with a particular focus on the fiscal framework and revenue proposals as well as the broader mandate of the Committees. It seeks to cover the following issues and concerns:

* The Political Economy of the Eskom Debt Plan;
* Renewable energy tax incentives;
* The Employment Tax Incentive; and
* Recent developments in civil society.

In its current form proposed Eskom Debt Relief Bill would undermine legislative oversight. Should it be passed, it would allow the Minister of Finance to dictate terms to Eskom without any public consultation or legislative approval. This level of autonomy is inconsistent with the provisions of the constitution relating to executive accountability. The reason for this loosening of controls relating to executive powers may be intended for the approval of loans disguised as aid, or financial support from developed countries. In principle financial support from wealthy countries and debt relief to Eskom are both desirable in order for South Africa to achieve something like a ‘just transition’. However, these necessary initiatives are being co-opted to serve pre-existing agendas and interests. Like the COP26 agreement that was essentially intended to force through the agenda of such interests by making the associated actions a condition of the favourable loans, while giving the impression that wealthy countries are supporting a global just transition. Thus it is in fact those seeking to advance the agenda of an overly rapid, overly decentralised, inequitably financed transition that favour the wealthy who are the ones driving this additional source of corruption. Perhaps the committees could at least do something to ensure a more credible performance of democracy and adherence to the constitution, such as insisting that the relevant conditions must be the subject of public comment and receive the explicit approval of the relevant committee(s).

In South Africa, the National Treasury has been offering tax incentives that reward defection from the national grid. Eskom’s ‘death spiral’ is characterised by wealthier customers defecting from the grid by generating their own power, requiring increases in tariffs for less wealthy customers who incidentally are less able to pay. In the absence of evidence or substantive reasoning, it is quite possible that these incentives are merely another rent-seeking scheme. As things stand, those who can afford large domestic solar systems already save money over the medium-term relative to those of equivalent usage rates who cannot afford to install such systems. These incentives have the potential to channel R9bn to wealthier individuals and better-resourced businesses for little public benefit, thereby increasing inequality and further hastening Eskom’s demise.

The budget documents provide the most recent information on the amount of tax revenue foregone due to the Employment Tax Incentive (ETI). In 2020/21, the amount increased to R7.1bn from R4.7bn the year before. Previous research on the ETI indicated that there is no credible evidence of net job creation, and implied the money meant for poor South Africans is instead going to company profits and the ETI is in effect a massive rent-seeking scheme. Therefore the insistence for the Presidency, Ministry of Finance and National Treasury , business press, and the legislature to allow the continuation and even expansion of the ETI therefore discredits any claims to be committed to ‘evidence-based policy’ or a ‘developmental state’. In its last submission to Parliament (2022/23), the Financial and Fiscal Commission (FFC) however endorsed the ETI’s expansion and based their recommendation on analysis that excluded all references to critical scholarship on the policy, which does not reflect well on the FFC’s competence, credibility or impartiality.

One of the most credible Civil Society Organisations (CSO) involved in legislative oversight, which was also leading the ‘ParlyWatch’ initiative, has apparently had to close down due to a lack of funding. The organisation in question was the Women and Democracy Initiative (WDI) at the Dullah Omar Institute at University of the Western Cape (UWC). The WDI had recently led a four-year project on parliamentary oversight that worked with grassroots organisations to try and increase the linkages between the concerns of South Africans and legislatures – especially at provincial but also at national level. CSOs are heavily reliant on foreign funders and the drying up of such funding wells reveals a lot, most notably, about what really determines the criteria for funding and subsequently the composition of civil society, and the corresponding implications for parliamentary oversight and public debate in the country. The implications for the composition of South African civil society and representations to Parliament should be of serious concern to anyone who cares about the public interest and national sovereignty.

It is disturbing that the executive, namely, the Ministry of Finance and Treasury prefer to continue and expand rent-seeking schemes, like those mentioned above, for big business and wealthy individuals rather than using those resources to continue much-needed social support for the poorest South Africans.