Brief: Public Finance for Children in the National State of Disaster
Key messages

The South African government faces both explicit and implicit contingent liability commitments in its response to the COVID-19 pandemic. While the extent of its financial obligations during this disaster is contained in policy and law, it retains the flexibility to respond to the crisis based on its own assessments. Given this scenario, we recommend the following:

• That government develops a costed plan of its explicit and implicit contingent liabilities so that the public can assess the government’s assumptions, its methods, and the overall adequacy of its disaster response.

• Given the fractious nature of the present crisis, government is encouraged to be open in engaging implicit contingent liability calls, which call for increases and top-ups to social grant spending and the provision of immediate food relief, as well as to bring its disaster spending in line with other emerging contexts.

• The government is encouraged to ensure the continuous supply of essential public services such as health, on-line learning, water and sanitation, psychosocial support and child protection during the national lockdown to avoid regression in child rights outcomes, especially in informal settlements and high density and rural areas.

• While the government’s initial budgetary response to the disaster may focus on the containment of expenditures, in the context of an expected worsening of social and economic conditions, the government is encouraged to draw upon the full range of fiscal instruments at its disposal, which include substantial reallocations of budgets, drawing down the contingency reserve, international aid to address the health dimensions of the crisis and the potential issuing of a catastrophe (or corona) bond to ease financing requirements.

• Despite the government’s aversion to drastic changes to fiscal targets, it is expected that budgets for children (basic education, social welfare and health) will be subject to change in the short term (2–3 months) to accommodate changes to the health budget and accommodate other implicit financial asks.

• The COVID-19 pandemic provides the country with a strong opportunity to link disaster management much more closely to the country’s annual budget process. If implemented successfully, this would reduce the country’s need for external assistance, improve the credibility of its fiscal target-setting process and provide spending stability during a disaster.
INTRODUCTION

South Africa is entering the third week of a national lockdown due to the COVID-19 pandemic, and the President of the Republic of South Africa has extended the lockdown for another two weeks.¹ The lockdown has brought unprecedented disruptions to normal public and private services and there are justifiable concerns about the impact of the lockdown on the well-being of the country’s most vulnerable populations, namely children, female-headed households, adults without any formal employment, adults who work in the informal economy, the disabled and the elderly.

This brief first addresses the vulnerability of children in the COVID-19 crisis. It then explains what public resources are mandated by the National Disaster Management Act, No. 57 of 2002. It discusses the government’s financial obligations in the context of the COVID-19 health disaster and concludes on what is likely to be the government’s broader budgetary response to the disaster, given the prevailing economic and public finance challenges.

THE UNIQUE VULNERABILITY OF CHILDREN IN THE COVID-19 CRISIS

Children make up one third of the population of the country and close to two thirds (67 per cent) of children live under the country’s upper-bound poverty line. Any disruptions to normal services and programming will have long-lasting and disastrous implications for vulnerable children. Furthermore, poor children are more likely to live in large households and female-headed households, which makes the proposed public intervention doubly important for women and children. The national lockdown, which is driven by the need to contain the spread of the virus, may lead to further socioeconomic divisions in the ability of households to respond to the crisis.

While it is impossible to speculate about the entirety of the impact of the virus on poor and vulnerable children, at a minimum the government should attempt to:

- Target those children and families most in need to prevent hunger and malnutrition;
- Halt conditional grant expenditures that depend on the physical presence of children (infrastructure in schools and early childhood development centres) and use surpluses for feeding children and adults in vulnerable communities;
- Transfer portions of their school feeding budgets to the provincial social development departments to enable the latter to feed qualifying children;
- Provide clarity on whether online models of support for learners will be used for formal assessment, given limited connectivity for the broadest part of the population;
- Preserve the core of budgets in social development and basic education (except for unused conditional grant spending) and safeguard children-specific commitments in national and provincial health budgets that are likely to be subject to large changes.

It is widely assumed that the cost of inaction for children will take much longer to undo and a proactive approach to the crisis is the preferred option.
The National Disaster Management Act makes provision for three broad resources responses, namely a physical asset and personnel response; financial assistance to address post-disaster recovery and assistance for victims and their dependants; and provisions in terms of the country’s premier public finance legislation, namely the Public Finance Management Act, No. 1 of 1999.

The release of physical assets and personnel

The national government is required to release physical assets and personnel to assist in the country’s disaster response in terms of section 27(2)(a) and (b) of the National Disaster Management Act:

If a national state of disaster has been declared in terms of subsection (1), the Minister may, subject to subsection (3), and after consulting the responsible Cabinet member make regulations or issue directions or authorise the issue of directions concerning

(a) the release of any available resources of the national government including stores, equipment, vehicles and facilities;

(b) the release of personnel of a national organ of state for the rendering of emergency services.

Similar provisions apply to provincial governments in section 41(2)(a) and (b) and to local government authorities in section 55(2)(a) and (b). Personnel involve members of the South African Police Services (SAPS), the South African National Defence Force (SANDF) and public servants across national, provincial and local government departments.

Financing for post-disaster recovery and rehabilitation

Section 7 of the National Disaster Management Act addresses the content of the national disaster management framework and 7(2) directs national organs of government to introduce measures aimed at reducing the vulnerability of disaster-prone areas, communities and households. In addition, section 7(2)(k) specifies the kind of funding that obliges the national government to support the country’s post-disaster and recovery effort. The national disaster management framework should:

… provide a framework within which organs of state may fund disaster management with specific emphasis on preventing or reducing the risk of disasters, including grants to contribute to post-disaster recovery and rehabilitation and payment to victims of disasters and their dependants.

The obvious challenge with this provision is that it is not immediately quantifiable and will involve an assessment of compensatory benefits that may or may not be satisfactory to stakeholders that were adversely affected by the national lockdown.

Financing emergency expenditures in the Public Finance Management Act

Chapter 6 of the National Disaster Management Act invokes sections 16 and 25 of the Public Finance Management Act (PFMA), which address the use of funds in emergency situations.
These two sections are similarly worded and apply to the national sphere (section 16) and the provincial sphere (section 25) respectively, hence the reference to section 16 only below:

(1) The Minister may authorise the use of funds from the National Revenue Fund to defray expenditure of an exceptional nature which is currently not provided for and which cannot, without serious prejudice to the public interest, be postponed to a future parliamentary appropriation of funds.

(2) The combined amount of any authorisations in terms of subsection (1), may not exceed two per cent of the total amount appropriated in the annual national budget for the current financial year.

(3) An amount authorised in terms of subsection (1) is a direct charge against the National Revenue Fund.

Sections 16 and 25 quantify the extent of the government’s financial obligations in responding to the health pandemic, unlike the other quoted sections. In view of the challenges in determining the total financial resources required to respond effectively to the disaster, it would be helpful if government presents a consolidated and costed plan of COVID-19-related expenditures.

GOVERNMENT’S PUBLIC FINANCE OBLIGATIONS IN THE CONTEXT OF COVID-19

Gamper et al. (2017) argue that expenditures made in response to disasters are government contingent liabilities. They define contingent liabilities as “… (government) obligations that are triggered when a potential, but uncertain future event occurs.” Some obligations are explicit and are defined in relevant policy frameworks and legislation, while others are implicit and depend on the perceived moral obligation and expectations that fall upon governments during disasters.

Table 1: Explicit contingent liability commitments of the Government of the Republic of South Africa

<table>
<thead>
<tr>
<th>Legislation/policy/facility</th>
<th>Policy clauses: relevant sections</th>
<th>Extent of monetary quantification</th>
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</thead>
<tbody>
<tr>
<td>National Disaster Management Act</td>
<td>7(2) covering post-disaster recovery and rehabilitation for victims and their dependants</td>
<td>Not explicitly quantified</td>
</tr>
<tr>
<td>Regulation No. 318 issued by COGTA in terms of the National Disaster Management Act, 18 March 2020</td>
<td>2(4) instructing all government spheres to make funding available by shifting from existing budgets and without negatively affecting the socioeconomic rights in sections 26–29 of the Constitution of the Republic of South Africa</td>
<td>Not explicitly quantified</td>
</tr>
<tr>
<td>Public Finance Management Act</td>
<td>16 and 25, covering the use of funds in emergency situations</td>
<td>Two per cent of consolidated government funding for FY2020 (excluding debt service costs) is approximately R35 billion</td>
</tr>
<tr>
<td>Public Finance Management Act</td>
<td>30 and 31, covering national and provincial adjustment budgets</td>
<td>Not explicitly quantified</td>
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</tr>
</thead>
<tbody>
<tr>
<td>Public Finance Management Act</td>
<td>43, which deals with the moving of funds within and between votes</td>
<td>Not explicitly quantified</td>
</tr>
<tr>
<td>Division of Revenue Bill 2020</td>
<td>Provincial disaster relief fund (conditional grant)</td>
<td>R138.5 million for FY2020 and R438 million over next three years</td>
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<tr>
<td>Division of Revenue Bill 2020</td>
<td>Municipal disaster relief fund (conditional grant)</td>
<td>R354 million for FY2020 and R1.1 billion over next three years</td>
</tr>
<tr>
<td>Unallocated contingency reserve</td>
<td>Not applicable</td>
<td>R5 billion for FY2020</td>
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Theoretically, government’s financial obligations to respond to the crisis could range from the entire budget proposed in FY2020 (R1.9 trillion) to a more restricted R40–100 billion. The financial size of the entire response will be determined by how the government quantifies the explicit provisions in the table above and how it responds to implicit contingent liability claims. Moral and political pressure and the extent of the media coverage are some of the factors that will influence how the government responds to these expectations. Thus far, claims for implicit contingent liabilities have centred on calls to alleviate poverty and distress and include:

- The need to top up existing social grants to cushion children, the elderly and their families from the economic fallout of the national lockdown;
- Calls to improve public spending in line with developed and developing countries that are devoting large sums to respond to the pandemic and the social and economic effects of various lockdowns; and
- The extension of support to communities and households in distress for a period of six months and longer.

Needless to say, implicit contingent liability claims are difficult to quantify and will require some openness and debate about the government’s chosen path.

At a minimum, the government needs to provide a clear signal for how it intends to quantify both explicit and implicit commitments. This would give the public an overall sense of the required resources, how these will be funded, and whether such allocations are adequate.

GOVERNMENT’S LIKELY BUDGETARY RESPONSE TO FUNDING THE DISASTER RESPONSE

South Africa has published fiscal risk assessments\(^3\) since the 2016 Medium Term Budget Policy Statement (MTBPS). Throughout the period 2016–2019, the MTBPS identified the following fiscal risks: macroeconomic (low growth and growing public debt), subnational governments (unpaid bills and contingent liabilities in health), contingent and accrued liabilities (mostly guarantees for state-owned enterprises) and longer-term economic and fiscal risks (need for structural economic reform, etc.). These assessments have not factored in any natural or health disasters such as COVID-19, which is likely to substantially increase the country’s exposure to contingent liabilities. In the context of slow economic growth prior
to the COVID-19 crisis and the recent credit rating downgrade, policymakers in the National Treasury have limited space and scope to manage the crisis and prevent substantial deviation from fiscal targets in Budget 2020. The Treasury’s response is likely to:

- Tie financial support for the disaster to the government’s broader effort to contain the spread of the virus. This suggests an incremental approach to addressing social and economic issues and an unwillingness to finance large financial commitments immediately.
- Resist big financial proposals such as the doubling of social grants, but a deterioration in the health situation and a worsening social and economic situation may induce more favourable consideration of such proposals.
- Address its explicit commitments first and adopt a conservative quantification of these provisions. This is consistent with an approach that provides financing depending on the severity of the health situation.
- Put a ceiling on the total budgetary expenses devoted to the entire disaster response as a way of addressing the sum total of explicit and implicit obligations.

The broader political environment is conducive to the containment hypothesis, given opposition leaders’ support for the country’s handling of the virus⁴ and the need to avoid the perils of conditional international aid. However, an informed and open debate with all stakeholders will be necessary to achieve some level of consensus and improve the country’s overall social cohesion during this challenging time.

ENDNOTES

1 Statement by President Cyril Ramaphosa on escalation of measures to combat the COVID-19 epidemic, Union Buildings, Pretoria (23 March 2020) and Statement by President Cyril Ramaphosa on measures to combat the COVID-19 epidemic, Union Buildings, Pretoria (09 April 2020).


3 Gamper et al. (2017) define fiscal risk as follows: “Fiscal risks describe changes in the expected fiscal outcomes as outlined in a country’s annual budget or forecasting documents. Fiscal risks may have positive or negative effects on the annual budget.” In the 2019 MTBPS, the National Treasury describes fiscal risks as “…developments that may cause public finance outcomes to deviate from forecasts if they materialise.”
