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**New zero-ratings (VAT exclusions) have had no impact on the food baskets of struggling South African households.**

***The addition of cake flour to the list for zero-rating resulted in a R2,16 saving on the food baskets of households living on low-incomes. The total cost of the April 2019 Household Food Basket was R3 076,76. Zero-rating cake flour has not had any impact on the household affordability crisis.***

In February 2018 Government, through then Finance Minister Gigaba, increased the value-added tax [VAT] rate to 15% and implemented the increase on the 1<sup>st</sup> of April 2018. Due to the public outcry on what this would mean for households living on low incomes, National Treasury appointed an Independent Panel of Experts to investigate options to mitigate the impact of the VAT increase on poorer households. The VAT Panel recommended that the following items be added for zero-rating: white bread, bread flour and cake flour; sanitary pads; school uniforms; and nappies; and that the National School Nutrition Programme be strengthened and the Old-Age Grant and Child Support Grant be increased.

Most of the VAT Panel recommendations were dismissed. In October 2018, Minister Mboweni announced that as of the 1<sup>st</sup> April 2019 government will (just) zero-rate sanitary pads, bread flour and cake flour. No changes were made to the Old-Age Grant or the Child Support Grant to mitigate the impact of the VAT rate increase.

Shortly after Minister Mboweni's announcement, PMBEJD released a media statement arguing that removing VAT off a few food and non-food items would not in itself be enough to mitigate the impact of the VAT increase on poorer households. We showed that zero-rated foods themselves were not affordable and that households living on low incomes were highly exposed to VAT with 20 out of the 38 foods which make up the typical food basket subject to VAT.

It seemed to us that National Treasury's response to mitigate the impact of VAT on poorer households by zero-rating a few more foods and non-food items was not only based on several flawed assumptions on what people eat and how meals are put together but they had also missed the central point raised by civil society and trade unions - *South African households are facing a massive food affordability crisis and require urgent government intervention.*

Whilst the increase in the VAT rate exacerbated the household affordability crisis, it was not the cause of it. Adding a few more foods and non-food items to the list for zero-rating would not be enough to deal with the fundamental problem which is that millions of South African families cannot survive on the little money coming into the home and cannot afford the cost of a monthly basket of food. Making food cheap by asking farm workers to subsidise the country through lower wages is also not the answer. It is for this reason that many civil society organisations and unions were calling not just for government to reverse the 1% increase on VAT but for all VAT to be removed off food and for further urgent and substantial interventions to be made to address the deepening household affordability crisis at the level of household incomes by increasing social grants and low-baseline wages.

The new zero-ratings become effective on the 1<sup>st</sup> of April 2019. We collected our monthly food price data on the 2<sup>nd</sup> of April 2019 from 6 retail supermarkets which target the low-income market in Pietermaritzburg. Out of the three items<sup>i</sup> selected by government for zero-rating, PMBEJD tracks cake flour and sanitary pads<sup>ii</sup> through our monthly Household Affordability Index. Below we show what difference the addition of cake flour for zero-rating has made for household affordability.

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***PMBEJD's Household Food Basket***

In **April 2019**, the cost of foods in the Household Food Basket was **R3 076,76**. The basket is designed with women living on low incomes in Pietermaritzburg and includes 38 basic foods and the volumes of foods which women living on low-incomes try and buy each month for a household size of seven members.<sup>iii</sup>

From April 2019, with cake flour now excluded from VAT, 19 out of the total of 38 foods in the Household Food Basket are subject to VAT. Foods subject to VAT make up more than half (53%) of the total cost of the Household Food Basket and cost R1 618.05. VAT on the total household food basket came to **R211,05** in April 2019. This means that **6,9%** of the Household Food Basket is made up of VAT.

### **Zero-rating cake flour**

The Household Food Basket includes and tracks the cost of 10kg of cake flour.

In **March 2019** the cost of 10kg cake flour on supermarket shelves was **R75,82**.

In **April 2019** the cost of 10kg cake flour on supermarket shelves was **R73,66**.

The cost difference between March 2019 and April 2019 was **R2,16**. This is a drop of **-3%**.

All things being equal, off the March 2019 price we should have seen the April 2019 price decline by **15% to R65,93**, resulting in a savings to consumers of **R9,89**. Instead the introduction of zero-rating on cake flour has resulted in a savings to consumers of **R2,16**. See *Table 1 on page 3 of this media statement*.

Zero-rating cake flour as an intervention to mitigate the impact of a rise in the VAT rate, as our data shows, has not been successful.

More importantly however, is not the addition of cake flour to the zero-rating list, but government intervention in the totality of the household affordability crisis – here we see that zero-rating as a mitigation strategy is wholly inadequate because the savings to consumers are so marginal relative to the total cost of securing a household food basket. **Instead of costing R3 078,92; the Household Food Basket costs R3 076,76.**

### **In Summary**

1. Zero-rating has not reduced the price of new list items to the level expected.
2. Zero-rating a few more items have not been a successful intervention to mitigate the impact of VAT on households living on low incomes.
3. The marginal declines delivered through zero-ratings have not been enough to deal with the fundamental problem which is that the total cost of the food basket is too expensive relative to income levels.
4. The sheer scale of the household affordability crisis and the very serious consequences of the crisis requires a mix of interventions which target both income and expenditure and go beyond mitigation to that of addressing the fundamental causes of the crisis.

When looking at household food affordability, it is not the individual prices of foods which make the basket affordable or not but the totality of the cost of the basket. Here, if an intervention is introduced to mitigate the cost of food, it must bring the total cost of the basket down – and not just reduce the cost of one or two foods. Dealing with food price affordability must also extend to the cost of all other goods and services which compete in the household purse viz. the cost of transport, electricity and education. Ensuring that households can afford proper nutritious food therefore requires a mix of interventions targeted at the income level and the expenditure level. Exempting just cake flour, as we have shown, has resulted neither in mitigating the impact of VAT for poorer households nor in making the household food baskets of millions of South African households, in desperate need of help, more affordable.

*Government had a range of policy options to choose from to intervene in the household affordability crisis. Increasing the old-age grant and child support grant and removing VAT off all food would have yielded much better socio-economic and development results than zero-rating cake flour. The looming 13,8% increase in electricity tariffs and fuel price hikes will mean that life for millions of families is only going to get worse, with even less money available to put food on the table.*

*How long can government continue to ignore the household affordability crisis facing millions of South African households? Why does government not think this is important?*

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<sup>i</sup> We do not track bread flour as women living on low incomes in Pietermaritzburg tell us that they do not buy bread flour.

<sup>ii</sup> This media statement just deals with cake flour. We have not included the figures for sanitary pads, a non-food item, as the April 2019 data is skewed because many of the shops removed pads off their shelves in April. Although the picture we see is like that of cake flour, we decided to withhold our data and analysis until more prices can be assessed. We will provide analysis for sanitary pads in the coming months.

<sup>iii</sup> This is the average low-income household size in Pietermaritzburg.

**Table 1: Analysis of 10kg cake flour for zero-rating on 1 April 2019**

Months tracked	Supermarket 1	Supermarket 2	Supermarket 3	Supermarket 4	Supermarket 5	Supermarket 6	Average across all 6 SMKTs each month
2018 October	R67,99	R79,99	R76,99	R71,99	R71,99	R84,99	R75,66
2018 November	R79,99	R69,99	R76,99	R79,99	R75,00	R87,99	R78,33
2018 December	R76,99	R72,99	R75,99	R69,99	R73,99	R87,99	R76,32
2019 January	R79,99	R69,99	R69,99	R72,99	R79,99	R95,99	R78,16
2019 February	R72,99	R69,99	R69,99	R69,99	R74,99	R76,99	R72,49
2019 March	R76,99	R69,99	R69,99	R69,99	R77,99	R89,99	<b>R75,82</b>
2019 April	R69,99	R69,99	R74,99	R82,99	R68,99	R74,99	<b>R73,66</b>
<b>What April price <i>should have been</i> off March price</b>	R66,95	R60,86	R60,86	R60,86	R67,82	R78,25	<b>R65,93</b>
<b>ZAR difference between March &amp; April 2019</b>	-R7,00	R0,00	R5,00	R13,00	-R9,00	-R15,00	<b>-R2,16</b>
<b>% difference between March &amp; April 2019</b>	-9%	0%	7%	19%	-12%	-17%	<b>-3%</b>