People's Budget Campaign

Expanded People's Budget Campaign response - 2004/05 Budget

20 February 2004

With reference to our initial press statement, we have further expanded our comment and analysis on the 2004/5 Budget. As interest wanes around this year's budget, the following proposals and analysis are forward-looking and is aimed to encourage debate on how to include on-going concerns in the first budget of the new decade of democracy. It aims to take stock of the challenges faced for the 2005/6 budget.

The People's Budget Campaign was launched by the COSATU, SACC, SANGOCO. It represents the three key pillars of civil society namely, the church community, non-governmental organisations, and trade unions. Our general objectives remain to keep economic policy alternatives on the public agenda, build support for a developmental State, provide credible and evidence-based data and arguments to engage more practically and specifically on fiscal and related policies that would favourably impact on the lives of South Africans, particularly the poor, workers and working class communities and the disadvantaged.

At the beginning of the cycle to prepare the 2004/05 Budget, the People's Budget Campaign released its third annual People's Budget for 2005/6.

This called for:

- macroeconomic policies designed to move the country out of a poverty trap;
- a more expansionary budget that can provide incomes, build capabilities and redistribute assets through allocation of resources to land reform, housing, free basic service delivery and comprehensive social security coverage;
- Mechanisms to harness additional resources in the fight against poverty and joblessness; and

- Reforms to the budgeting process that can enhance opportunities for popular participation at national and local levels

Earlier this week, we released our budget proposals for the coming year. Although we measure our response to the current budget against our previous proposals, our analysis is necessarily informed by research conducted for the 2005/6 People's Budget. Our responses assess the extent to which fiscal policy, macroeconomic assumptions and the economic development path chosen by government enables or inhibits the realisation of our proposals.

Overall analysis

Our analysis of the Budget is that it has sustained the momentum of certain positive initiatives, even within the context of diminished revenue collection.

These include the significant increases in the rollout of antiretrovirals and treatment to address the HIV/AIDS pandemic, and allocations for the extension of child support grants. Whilst much is said in the budget on the expanded public works programme, the R15 billion allocation over 5 years is grossly insufficient. It remains unclear how this allocation is linked to the R100 billion listed in the GDS Agreements.

Economic growth remains an important aspect of any economy. However, of equal importance is the trajectory of the economy. It should constantly be tested, assessed and monitored to check its alignment with public goals and objectives and, when necessary and appropriate, be adjusted, revised or fundamentally changed. In this regard, we see very little attempts by Government to expand on how the stated GDS commitments of halving unemployment by 2014 will realistically be accomplished within the current trajectory path.

Whilst there is an acknowledgement that unemployment is a primary concern for government, there is little in terms of linking this to long terms sustainable, quality jobs creation and addressing the structural inequalities inherited by apartheid. We remain acutely concerned that genuine public participation in fiscal policy formulation, and in particular the Treasury's Constitutional obligation to table money bill amendment legislation in Parliament remains a stalled process.

The People's Budget Campaign welcomes the trend in this year's Budget of being more expansionary budget, and government's commitment to poverty eradication and job creation. However, we continue to assert that more can be done, both in terms of harnessing resources for equitable development and effective deployment of existing resources. Below are specific areas for analysis recommendations.

Budget process

During the past decade, we have made significant progress in transforming our national institutions, promoting popular accountability, and creating new opportunities for popular participation in national policy debates. The National Treasury, whilst enhancing the regularity, predictability and content of budget documentation, has resisted any attempt to make the budget process genuinely participatory.

The People's Budget Campaign has repeatedly put forward detailed, reasonable proposals for facilitating greater public participation in budgeting. These included recommendations for the scope and nature of parliamentary amendment powers, strategies to enhance Parliament's research and analysis capacity on economic issues, and ways of enabling regular and substantive engagement between government and civil society throughout the budget cycle.

However, the most conspicuous lacuna in South Africa's process of democratisation is our failure to open economic and fiscal decision-making to the same level of public participation that characterises other political decisions. Parliament is the primary forum for popular engagement with government policy; but South Africa's second democratic Parliament will soon dissolve, never having had access to the powers guaranteed it by section 77 of the Constitution: the power to amend money bills. There was in fact never a Bill tabled to Parliament to make any changes to the Budget.

This is not an esoteric legal argument. Control of public resources is essential to democratic control of the economy. Democratising fiscal and budget decisions requires the creation of formal, visible and meaningful opportunities for organs of civil society and the public at large to articulate their needs and interests and to shape economic policy. The establishment of the Joint Budget Committee two years ago represented an important step toward creating greater institutional capacity within Parliament to address budgetary issues. However, Parliament still lacks any real authority on fiscal matters.

If Parliament, NEDLAC and other forums for public debate on economic issues remain paper tigers, unable to exert effective influence on macroeconomic and fiscal policy, then the National Treasury will continue to be the ultimate arbiters of all decisions affecting the raising of revenue or the spending of public funds. "Tips for Trevor" is a PR clever concept, but it is hardly a reliable way for social groups to enforce their rights. If it were, we could dispense with Parliament and simply invite people to submit "Tips for Thabo".

Revenue issues and tax policy

The lower than anticipated revenue did not prevent the Treasury from again giving tax concessions. Whilst these tax concessions are significantly lower when compared to previous years – and almost exclusively to those who pay personal income tax – the People's Budget Campaign maintains that the bulk of these concessions should not have been given at all.

The majority of the population is outside the tax net and hence cannot realise any direct benefit from such cuts. The failure of Treasury to address our on-going concerns about regressive elements of the current tax policy regime remains unacceptable and calls for a serious review, particularly in terms of the its impact on the lives of the poor.

These persistent and problematic tax concessions amounting to R76.8 billion since 1994, (including this year's R 4 billion) represents a significant loss to revenue, and has historically also benefited mainly high-income earners. Revenue from VAT in 2002/03 netted R70.15 billion and R81 billion in 2003/04, a year on year increase of 15.5% As shown in the table below, the estimated VAT burden on households by income level has a greater negative impact on lower-income households.

Estimated VAT burden on households

Annual household income	VAT paid, as a % of annual income	Total VAT paid in rands
R 18 000	10%	1 799
R 30 000	10%	2 910
R 75 000	8%	6 141
R 140 000	7%	10 241
Source: National Treasury – as quoted in People's Budget Proposal p.34		

Furthermore, there is no consideration of the People's Budget call for the reform of VAT. Only minor adjustments have been made in recent years, such as the zero-rating of paraffin two years ago (a move which has not been adequately policed to ensure that benefits are passed on to consumers).

As explained in detail in the 2005/06 People's Budget Proposal, VAT is a highly regressive form of taxation, which weighs more heavily on the poor than the rich. The introduction of multiple VAT rates would offset the regressive nature of VAT. Many countries have two or more VAT rates. 86 countries have either a zero-rate on basic goods or special low rates for basic foodstuffs. Especially in light of the huge increase in food prices, transportation and medical costs, which disproportionately affects the poor, relief from this quarter of fiscal policy has now become a necessity. This year, we have also called for a "people's tax cut" of 1% in VAT for consideration in 2005/06. We hope to see progress on this front in the next budget.

Corporate tax

The 2003/04 budget estimate of R65.8 billion for company tax and R8 billion for secondary tax had to be revised downward by R5.2 billion and R2.0 billion respectively for 2003/04 (2004 Budget Review p.76).

This is indicative of the ongoing low effective corporate taxation rates and is of sufficient concern to the Treasury to be raised in the Budget. These lower than anticipated incomes are attributed to claims of 'lower than expected profits' in export industries. This is particularly problematic in light of the fact that South

Africa is the fifth most under-taxed country when compared to 50 other developing countries. [People's Budget Proposal 2004/05 p.25;Van Niekerk, 2002]

Additionally, the recent claims by certain mining companies that they would be unable to meet their tax requirements drew a sharp response from SARS. These developments highlight the need to examine the concept of a minimum effective rate of taxation on companies, which was introduced in the USA.

Excise taxes

Specific excise taxes, on alcohol and tobacco products are increased annually as expected. Yet significant revenue (R230 million decrease) continues to be is lost by scrapping ad valorem duties on items such as computers. Whilst the latter trend is government's ongoing attempt to relax import/export regulations, one of the tenets of GEAR, it remains counter-cyclical and regressive. This especially so in light of increases in the fuel levy (R909 million increase) that would have a knock on effect on the cost of transport and key consumables of the poor.

Tax:GDP ratio

The Tax:GDP ratio remains below 25%. Indeed, fixing this ratio below 25% seems to be one of the central principles of National Treasury planning. We believe that this is an unnecessary, self-imposed restriction that prevents the acquisition of much needed revenue. Tax effort analysis has shown that South Africans are undertaxed, relative to their counterparts in both the developing and the developed world. Allowing a modest increase in the Tax:GDP ratio to 29% would generate roughly R64 billion in additional revenue.

Given SARS' laudable record of improving compliance, there should be limited concern that a modest increase in the tax:GDP ratio would result in diminished total revenue as a result of substantially higher rates of tax evasion generally associated with tax increases.

We need to study the implications of proposals to broaden equity ownership by employees. This intervention needs to be considered in the context of initiatives to promote collective ownership that include proposals around co-operatives, as per the GDS Agreements. If this is to be a genuine empowerment tool, it should not be substituted for a living wage.

Furthermore, the announcement by the Minister in his Budget speech that 'tax retirement provision is of great importance' is noted. The National Treasury's intention to develop policy proposals with stakeholders in 'the savings industry' on savings and pension fund tax reform in 2004 is welcome.[1]

[1] It should be recognised that when the taxation of pension funds was introduced, it was agreed with the then Deputy Minister of Finance at NEDLAC that this was conditional on the top-up

Inflation targeting and interest rates

The modification to the inflation-targeting regime announced in November 2003 has the continued target range of 3-6%. In terms of macroeconomic forecasts, CPIX inflation is expected to average 4.8% this year, and 5.6% and 5.0% respectively for 2005 and 2006.

Whilst the current low inflation regime may benefit some people, it provides scant, real relief for the majority of South Africans, given that its realisation has depended on a contractionary monetary policy, which has negative impact on development. However, chasing inflation targets ruthlessly, without a deep analysis and evidence-based prediction of its consequences, has been shown to harm economic growth and have perverse consequences.

Inflation targeting is not an absolute and accurate measure in South Africa; taking into account the above 30% narrow definition unemployment rate and stubbornly low investment patterns. International experience has shown that inflation targeting is not good for the economies that are undergoing transition like South Africa. Joseph Stiglitz, a prominent economist, pointed out that "…monetary policy that is too loose risks inflation, if it is too tight, it can cause unnecessary unemployment, with all the suffering that follows" Hence, tight monetary policy targets, as with GEAR, can undermine economic growth and employment.

Low inflation figures have often been used by employers to justify unacceptably low increases to the salaries of lower income employees and maintain massive wage gaps. It is offensive to call for low inflation with the view to narrowly limit wage improvement in a transitional economy like South Africa with such huge income disparities and inequality.

A pertinent example where the calculation of inflation is used to justify small increases, are government grants. A recipient of a pension and disability grant or child support grant would of course note the increases of R40 and R10 respectively. It is somewhat of an academic exercise as to whether these increases are in fact slightly above or below inflation. The reality is that other factors, such as the purchasing power of the Rand, increases in food, transport or medical prices are not considered in the calculation of these increases…merely aggregate inflation.

High interest rates in South Africa continue to exclude many people from using credit in a developmental and productive manner. Following the increases of 4 percentage points during 2002, the Reserve Bank reduced the repo rate by 5.5 percentage points during 2003. This provided relief for middle and higher income

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system being implemented to compensate low-income earners for their financial losses. Failure to implement pensions top-up agreement for low-income earners, despite repeated calls by labour, is unacceptable. It can be immediately addressed even before the comprehensive overhaul of retirement fund taxation takes place. COSATU will reiterate the call to fulfill this agreement at these deliberations.

earners, in terms of contributing to ‘robust consumer spending’ and ‘moderate household debt levels’, to name a few benefits. High real interest rates were encountered, however, as the differential between inflation and the nominal interest rates remained inadequately high.

Yet, lower income earners, those who reside in the so-called ‘second economy’, are unable to access credit through banks, pay high interest from credit loan agencies that are legally entitled to charge much higher interest rates. Furthermore, the poor benefit less from lower inflation, evidenced by a lack of concomitant decreases in food prices, transportation costs and medical care costs, which remain key expenditure priorities for low-income earners.

Deficit and debt

The partial relaxation of the extremely tight fiscal targets of the late 1990s is welcomed as a step in the right direction. This enables resources to be used for social spending. This is partly evident in the increase of deficit:GDP ratio to 3,1% this year. Previously, the People’s Budget Campaign calculated that the deficit could be allowed to increase still further to about 5% without endangering macroeconomic stability. Doing so would provide a further R16 billion for social investment.

Debt service costs are expected to consume R50 billion, or more than 13% of total national spending, in 2004/05. Interest payments have consistently outpaced borrowing (deficits) over the past decade. In other words, had the first democratic government come to power without the R240 billion debt burden inherited from the apartheid regime, or had this been substantially reduced, it would not have had to borrow on a large scale to finance national spending over the last ten years. It would also have had significantly more money available to invest in social development. We are also concerned that South Africa’s debt is becoming increasingly foreign-owned. The composition of the national debt has changed from 96,3% domestic in 1994/95 to 83,7% in 2004/05. We believe that loans raised abroad to pay for the largely foreign currency-denominated arms deal has been a major factor contributing to this shift.

Borrowing, debt cost and gross debt: 1994-2004:

Year	Deficit (millions)	Interest (millions)	Gross debt (millions)	Domestic debt (as % of total)
1994/95	25 132	24 233	240 151	96,3%
1995/96	25 365	29 337	279 488	96,1%
1996/97	28 971	33 160	308 239	96,3%
1997/98	26 558	38 820	336 111	95,7%
1998/99	17 411	42 669	363 227	95,5%
1999/00	16 588	44 290	381 502	93,2%
2000/01	18 342	46 321	399 461	92,0%

2001/02	14 642	47 581	432 494	81,0%
2002/03	13 021	46 808	426 795	82,6%
2003/04	31 385	47 326	456 546	84,4%
Totals	**217 415**	**400 545**		

Government Employees' Pension Fund

The People's Budget Campaign remains firm in its call for the restructuring of the Government Employee Pension Fund (GEPF). It is disappointing that there have been no positive developments on this leg of the developmental fiscal package.

In order to release resources for social spending, the call for a shift towards a Pay-As-You-Go-System, without negatively impacting on the security of Pension Funds, would allow for a drop in employer contributions; and a reduction of the level of funding by R 3 billion a year. Linked to this, the recent developments to corporatise the Public Investment Commission (PIC) is a move away from ensuring government control and ownership of the GEPF. However, further scrutiny is required to fully understand the implications of this development.

Allocating financial resources – the division of revenue

This year sees the continuation of the gradual shift toward allocating a greater share of national revenue to the provincial and local spheres of government, a trend that is expected to continue throughout the next three years.

Division of revenue between spheres of government, 2001/2 –2006/7

R million	**2001/02 Outcome**	**2003/04 Revised**	**2004/05**	**2005/06**	**2006/07**
National Departments	87 705	110 494	120 597	131 047	139 677
Provinces	121 099	161 476	181 130	199 704	216 344
Equitable Share	107 460	144 743	159 971	173 852	186 392
Conditional grants	13 638	16 733	21 158	25 853	29 953
Local Government	6 520	12 390	14 245	15 916	17 091
Equitable Share	3 184	6 350	7 678	8 643	9 365
Conditional grants	3 336	6 039	6 568	7 272	7 726
Total Allocations	**215 324**	**284 359**	**315 972**	**346 667**	**373 112**
Percentage increase	14.8%	16.2%	11.1%	9.7%	7.6%
Contingency reserve	-	-	2 500	4 000	8 000
Percentage shares					
National Departments	40.7%	38.9%	38.2%	37.8%	37.4%
Provinces	56.2%	56.8%	57.3%	57.6%	58.0%
Local Government	3.0%	4.4%	4.5%	4.6%	4.6%

Source: 2004 Budget Review, p.129

The division of revenue, whilst growing in nominal terms, remains at fixed ratios over the MTEF period. These continued ratios are problematic since establishment of local government as an autonomous, but co-operative sphere of governance would require significant assistance from national government to effect and implement new functions and mandates. This lack of resource discretion is a clear indication from government that there is the expectation on local government to collect revenue independently. It could be argued that these unfunded mandates are unreasonable and perhaps unconstitutional.

Provincial allocations and grants

The expansionary nature of the budget is evident in projections for provincial spending, which is expected to increase substantially over the medium term.

Social services will comprise 81-82% of consolidated provincial spending over this next three years, while other functions (including housing) will be in the range of 17.2 – 18.4%.

When the National Health Bill, Social Assistance Bill and Social Security Agency Bill are enacted, it will have an impact on future obligations on the provincial and local spheres of government. These impacts, according to government will 'fully be taken into account for the 2005 MTEF, once responsible sectors have presented specific proposals.' The table below sets out the total spending (i.e. equitable share plus other grants and transfers), and deflates this by projected inflation.

Equitable share allocation and other grants to provinces

	Outcome	**Revised Estimate**	**Medium-Term Estimates (projected)**		
	2002/03	***2003/04***	***2004/05***	***2005/06***	***2006/07***
Provinces	136 925	161 476	181 130	199 704	216 344
% increase	11.3	17.9	12.2	10.3	8.3
Inflation (CPIX)	9.8	5.4	5.2	5.5	4.9
Real Increase	1.5	12.5	7.0	4.8	3.4

Source: Budget Review 2004, p. 151 for provinces. Inflation rates on p. 53 Budget Review (2004)

We are somewhat concerned by the variations in spending patterns across provinces, especially in terms of capital spending. Research completed for the People's Budget Campaign found that the Gauteng Provincial Government (GPG) is responsible for the vast majority of capital spending, with other provinces lagging behind. Whilst we commend the GPG for their increased focus on capital spending, we remain concerned that this trend may reinforce inequity between provinces. The solution is thus not to curtail spending in Gauteng, but rather to increase capacity in the other provinces.

Capital expenditure ratio by province, 1999/00-2005/06: % of total spending

% of total spending	1999/00 actual	2000/01 actual	2001/02 actual	2002/03 estimate	2003/04 estimate	2004/05 estimate	2005/06 estimate
E. Cape	3,5	5,2	5,9	9,4	11,2	8,9	8,7
Free State	3,5	5,7	8,5	8,7	7,9	8,9	8,6
Gauteng	10,6	8,6	11,2	11,5	18,6	18,7	20,6
KZN	7,0	8,6	11,8	10,2	12,0	11,8	11,6
Limpopo	4,7	7,6	8,2	7,9	8,3	7,6	7,9
Mpumalanga	7,8	8,1	10,2	8,6	9,2	9,2	9,6
N. Cape	7,0	7,2	9,2	8,7	9,5	9,2	9,1
North West	5,9	7,3	7,0	8,1	7,7	8,2	8,1
W. Cape	6,6	8,1	9,2	9,6	8,7	8,5	8,5
Total	**6,4**	**7,5**	**9,2**	**9,5**	**11,3**	**10,9**	**11,2**

Source: Intergovernmental Fiscal Review 2003, Table 2.9 p.24.

From the table above, there has on average, been an almost doubling in the percentage capital spending, although the trends vary significantly amongst the provinces. For example, Gauteng's ratio is by far the highest, Western Cape's ratio has reached a plateau and the more rural provinces have reached a steady ratio.

Municipal allocation and grants

Local government finances are an important aspect of government financing. Furthermore, it is constitutionally recognised as an autonomous, but co-operative sphere of governance. Legislatively, this is a necessary shift away from being a tier, bound by national directives and planning. The tables below shows the overall growth in local government spending, and includes equitable share and all other national transfers. It also desegregates local government allocations.

Overall growth in local government allocations

R millions	Outcome	Revised Estimate	Medium-Term Estimates		
	2002/03	2003/04	2004/05	2005/06	2006/07
Local Government	8 706	12 390	14 245	15 916	17 091
% increase	33.6	42.3	15.0	11.7	7.4
Inflation (CPIX)	9.8	5.4	5.2	5.5	4.9
Real Increase	23.8	36.9	9.8	6.2	2.5

Source: p 164 (Local government allocations) and p. 53 CPIX projections. (Budget Review 2004)

Whilst there has been significant increases in national funding to local government since 2000, the growing allocation of resources to conditional grants is a source of concern. The obvious advantage of conditional grants is that it allows national government to direct funds into particular programmes and capital projects, and to monitor spending more accurately. The disadvantage is that the differences in revenue potential and capacity between municipalities, forces poorer and mostly local governments (mainly Category B municipalities) to depend on the lion share of their income from national government.

These allocations therefore have little or no room for debate, participation and negotiation of how these sources should be used. Cash strapped municipalities are more bound to prepare budgets and align their IDP's to the national priorities, instead of the other way around. Controversial also, is that conditional grants are tied to public private partnerships.

Simply increasing the equitable share would however be a quick fix solution. Instead what is needed is a more appropriate mix between equitable share and other sources of funding after thorough participation and joint decision-making processes have occurred, as required by legislation such as the Municipal Systems Act.

As per the concerns raised under provincial allocations, the ratio of capital spending, is an important indicator to measure the extent to which infrastructure being rolled out in order to improve the rendering of services, especially free basic services. However, it should not be viewed as the only indicator. Moreover, a preoccupation with this indicator, at the cost of operational costs, training and development of provincial and local government staff should be opposed.

We also remain concerned that capital spending allocations are linked to public private partnerships.

These concerns are underscored by the ongoing phenomenon that growth of local government budgets is largely determined at the National Treasury. In addition, budgets often have not grown as fast as inflation. While metropolitan local government in general has capacity to generate own revenue, many district and local councils fail to raise their own resources adequately. The extent of municipal debt and the impact of electricity restructuring on local government revenue have been acknowledged by the Treasury as a serious challenge.

Municipal borrowings are also closely tied to investors wanting to benefit from concessions contained in public private partnerships. Whilst municipal borrowing is a necessity, this has been managed in a manner that could fuel the privatisation of municipal assets and further corporatisation of the State – ultimately these costs are now to be borne by the already cash-strapped people. Furthermore, there appears to be no direct intervention in addressing the critical indebtedness of many municipalities.

Expenditure

The table below summarises the shifts in spending over the past decade, comparing 1996/1997 figures to the estimates for the 2004/2005 financial year and beyond.

Consolidated government spending by functional classification (% of total):

% of overall spending	**Audited 1996/97**	**Budget Estimate 2004/05**	**Budget Estimate 2006/07**
General Government*	11.7	6.2	6.1
Protection Services	14.6	16.4	15.7
Social Services	46.2	50.9	50.8
Economic Services	10.0	12.8	13.0
Interest	17.7	13.1	12.6
Contingency Reserve	-	0.6	1.7

Source: Information for 1996/97 from Budget Review (2000). Information for other years from Budget Review (2004). There is no data for the contingency reserve in the 1996/97

* General government includes central government administration such as Parliament, the Presidency, Home Affairs, and Foreign Affairs.

The data indicates a broadly redistributive thrust in spending, with increases in spending on community and social services, which encompass health, welfare and education. Moreover, spending on interest is in a downward trend going down from 17,7% of total spending to 12,6% of projected spending in 2006/07. The major trend is thus a redirection of spending away from interest spending and general government towards social services.

The significant decrease in General government can be attributed to, among other, that projects are now relocated within provinces or other clusters.

The debate on shifts in spending by functional allocation is distorted by ongoing adherence to tight tax:GDP ratios and the self-imposed limited fiscal envelope. Within this framework, for example, increased allocations to social services squeezes out other equally important expenditure, only because of the artificially tight parameters that are being maintained.

Spending patterns must be consistent with policy priorities. The People's Budget Campaign agrees with the government's assessment, contained in the Ten Year Review, that unemployment represents the one of the biggest continuing challenges to South Africa's young democracy. Tackling unemployment, together with the scourges of poverty, inequality and the HIV/AIDS pandemic, must be the primary focal points of developmental spending.

We therefore welcome the allocation of resources for the expanded public works programme (EPWP). The EPWP can make a valuable short-term contribution to addressing the alarmingly high levels of unemployment, which have left more than 8 million people without jobs, based on the expanded definition. A labour-intensive, public works approach is also the most responsible strategy to address South Africa's public infrastructure needs in the foreseeable future. Correctly implemented, it can also be an important mechanism to overcome the skills deficit that often inhibits people's efforts to find jobs.

However, we are concerned that only R15 billion has been earmarked for the programme over the next five years, with particularly low spending in the social services. At this level of spending, the EPWP can only hope to have a marginal impact on our 41% expanded unemployment rate. Furthermore, the jobs created are likely to be extremely short-term, with limited capacity to impart additional skills.

Capital expenditure in local government

The ratio of capital spending is an important indicator to measure the extent to which infrastructure is being rolled out in order to improve the rendering of services, especially free basic services. However, it should not be viewed as the only indicator. Moreover, a preoccupation with this indicator, at the cost of operational costs, training and development of provincial and local government staff should be avoided. We also remain concerned that capital spending allocations are linked to public private partnerships.

Social security

Even in the most optimistic scenarios, however, public works programmes are unlikely to produce a substantial and sustainable decline in overall levels of unemployment. Likewise, they do not constitute an effective weapon against widespread income poverty. To do this, South Africa must move rapidly to put in place a comprehensive system of social security that includes mechanisms to address the various, interlocking dimensions of poverty identified in the Taylor Committee Report – a valuable document which the government has not yet responded to in any systematic manner.

The Minister himself acknowledged the need for a comprehensive social safety net when he drew attention to a recent study in KwaZulu-Natal that illustrated the extreme vulnerability of many households in that province. Like the Ten Year Review, the narrative associated with the budget vote for the Department of Social Development acknowledges – even celebrates – the dramatic impact that social grants have had in “pushing back the frontiers of poverty” and reducing vulnerability throughout the country. We applaud the Department’s affirmation of the need to develop a comprehensive social relief policy framework as a matter of urgency.

In this context, we welcome the substantial real growth envisaged in the Social Development budget. Consolidated spending on social welfare functions is expected to rise from R51.5 billion in 2003/04 to R60 billion in 2004/05 and R68 billion in 2005/06. This represents nominal growth of 16,4% and 13,5%, respectively, or real growth of roughly 11,0% on 2003/04 and 8,3% on 2004/05 (using CPIX as a deflator). This is substantial by any calculation and largely reflects the inputs for extending the Child Support Grant.

The value of individual social grants is expected to remain stable in real terms, with the increases of R40 in old age pensions and R10 in the child support grant just offsetting anticipated inflation. The real increase will come in the expansion of the social safety net through the extension of the Child Support Grant to all poor children under the age of 14. We commend the government for this move, even if we have reservations about the way in which this extension has been structured and communicated, the retention of means testing and the failure to extend the grant to 14-18 year olds. The budget envisions that close to 10 million individuals will be eligible for social grants by 2006.

However, a patchwork of means-tested social grants can never hope to reach the poorest households, including the millions who currently live in households with no access to social assistance. As the Taylor Committee found, the administrative obstacles associated with means-tested grants effectively prevent the very poor from accessing grants. We continue to believe that the simplest, most comprehensive and cost-effective strategy to address income poverty would be to introduce a Basic Income Grant.

Clearly we are not alone in this belief. We are encouraged by the fact that the Minister received a sufficient number of "tips" from the public calling for the introduction of a BIG that he felt compelled to respond to this call in his Budget Speech. In 2003, the BIG Coalition, supported by the People's Budget Campaign, provided credible evidence that the net cost of a BIG would be affordable, even within the current macroeconomic framework.

We support the government's strategy, as articulated by the Minister, namely: the adoption of a balanced approach to the extension of social security through targeted income support, the creation of new work opportunities and investment in education, training and health services. However, Minister Manuel appears to think that a universal grant cannot be targeted. To the contrary, as the Taylor Committee report makes clear, a universal grant that is recovered in part from upper income households can target the poor more effectively than current means-tested grants. More importantly, a BIG can act as a powerful stimulus to local economies by putting money into the pockets of the poor, boosting consumption and demand for locally-produced goods, supporting growth in productive employment and giving poor households the means to access other government services or take the types of risks necessary to find formal employment or to engage in entrepreneurial activities. Consequently, a BIG is not a "welfarist" approach to combating income poverty. Instead, it is a developmental intervention that would enable poor households to use their own resources and creativity to achieve sustainable livelihoods.

In this context, we note the government's commitment to streamlining the delivery of social grants through the introduction of a National Social Security Agency (NSSA) and the full implementation of the Home Affairs National Identification System (HANIS). The NSSA aims to allow greater uniformity in the administration of grants. Since 1994, this task has been assigned to provincial governments, which have applied social assistance regulations in different ways and have adopted varied, often incompatible, delivery systems. The HANIS initiative envisions the introduction of a new national identity card, which would take advantage of recent technological developments to facilitate the delivery of social grants in ways that would eliminate the need for grant beneficiaries to queue for hours in uncomfortable and undignified circumstances to collect their grants. Furthermore, a “smart” national identity card could enable efficient and convenient delivery of a universal grant nationwide.

Unemployment Insurance Fund

We note with cautious optimism the unprecedented revenue generated for the UIF, not only in 2004/05 but also throughout the medium-term estimates. Much has been done to overcome the persistent deficits recorded by this Fund prior to 2001. By any measure, projected surpluses of R3.3 billion by 2007 are noteworthy and a sign of stability. However, this must be viewed within the context of escalating unemployment and low benefits. If surpluses are being generated, whilst at the same time failing to provide the necessary short-term income security net for unemployed workers, then the UIF is failing to meet its primary objective. Within this context the drop in unemployment benefit claims require intense scrutiny. There is a need for further information disaggregating the payment of claims from the Fund, in order to assess whether the UIF is effectively meeting its objectives.

The Department of Labour was to have completed a comprehensive actuarial review of the Fund with the possibility of implementing such reforms as State underwriting of the Fund, the extension of cover to public servants, increase maternity benefits, and low levels and frequency of benefits. The outcome of this review should be made public as a matter of urgency, allowing for possible reforms to be implemented in terms of the 2005 budget.

Land

Surprisingly, the land reform budget bucks the expansionary trend, as funding for Land Reform grants (redistribution) will diminish by R2.2 million in 2004/05 to just over R308 million. The allocation for land restitution grants continues to rise, however, from R702 million last year to R775 million in the coming year, a nominal increase of 10.5% (or a real increase of 5.8%).

Once again, the budget for land reform remains completely inadequate to meet the government’s target of redistributing 30% of agricultural land by 2015. This would require the transfer of nearly 2 million hectares a year -- roughly the same amount of land that has been transferred under the land reform and land restitution programmes during the past eight years. Although the Department congratulates itself for exceeding all of the land reform targets set in the 2002 budget, the year on year targets appear to be far too low to achieve the government's overall goal.

Budget allocations for land grants and land redistributed, 2003-2005

	2003/04		2004/05	
	Budget ('000)	Hectares	Budget ('000)	Hectares*
Land reform grants	310 860	245 484	308 028	239 010
Land restitution grants	701 826	276 591	775 236	**

Source: 2004 Estimates of National Expenditure, pp. 837-841. * target ** targets for land restitution set in terms of numbers of claims processed, rather than hectares redistributed

Housing and infrastructure

The Budget Review reaffirms that "Access to low cost housing and secure accommodation is an integral part of Government's commitment to improving quality of life." (p.124) Consolidated spending on housing in 2004/05 will be R6.3 billion. This represents a 12,2% nominal increase. However, spending on housing still represents less than 2% of total expenditure.

Of this amount, R4.47 billion is earmarked for housing subsidies. At the increased subsidy rate of R25 100, this will finance fewer than 180 000 grants. In light of the existing urban housing backlog of 1,4 million units in 2001 and the annual increase in the housing backlog, estimated at 200 000 units, it seems highly unlikely that the Department will meet its stated goal of "adequate housing for all South Africans within 20 years" at current levels of funding. (ENE, p.795) In fact, the housing budget should be closer to the RDP and National Housing Goal targets of 5% of total spending if there is to be any hope of achieving this objective.

Furthermore, as the Department notes with some bewilderment, "housing delivery has slowed during the last 30 months." The Estimates of National Expenditure report rollovers in Housing Development of R3.75 billion in the past four years. (ENE, 813) The People's Budget identifies a number of factors contributing to this high rate of underspending, including the requirement that most households earning less than R1500 a month contribute nearly R2500 of their own money in order to be eligible for subsidised housing. Single women with dependants, pensioners or disabled people who earn less than R800 a month are excepted.

The Prevention of Illegal Eviction and Unlawful Occupation of Land Amendment Bill (PIE) Bill, tabled hastily after the recent shelving of the Community Reinvestment Bill, needs careful monitoring and evaluation. The banks were effectively dealt with lightly by government re the controversial redlining of areas for funding. Financial sector summit agreements need to be implemented with rigour and not allow the private sector to perpetuate the ongoing trend of treating poor people prejudicially with regards to housing finance. We are strongly of the view that the Community Reinvestment Bill needs to be taken forward.

Government remains vague about affordable rental housing and densification of the cities and plans to address apartheid geography. This is a matter of great concern.

Free basic services

The provision of free basic services represents a critical intervention to improve the living standards of poor households. In practice though, local government has implemented this legal requirement in a piecemeal fashion.

Local governments have encountered a range of obstacles to implementation of the policy. Many of the problems experienced in rural and poor municipalities are linked to a lack of capacity, and the infrastructure to deliver these services effectively. The Municipal Infrastructure Grant is therefore welcomed as a tool to effect increasing this capacity.

The Free Basic Services (FBS) and Free Basic Electricity (FBE) grants for 2004/05 amount to R2 billion, with R3.3 billion allocated in 2006/7. (p. 274 Budget Review). However, there are continuing concerns that the grant does not always reach indigent communities as it is often swallowed up in the revenue of the municipality, or used to defray outstanding debt, as has been the habit of some municipalities.

Health

We applaud the allocation of R12.4 billion over the next three years to finance the strengthening of HIV/AIDS programmes. Of this amount, R4.1 billion will be distributed via conditional provincial grants through the Departments of Health, Education and Social Development. Additional funding will be allocated through equitable shares to the provinces.

HIV/AIDS-related Conditional Grants, 2004/05 – 2006/07:

R millions	2004/05	2005/06	2006/07
Health Conditional Grant	782	1 135	1 567
of which ARV roll-out	*300*	*600*	*1 000*
HIV/AIDS Lifeskills Conditional Grant	129	136	144
HIV/AIDS Community and Home Based Care Conditional Grant	70	74	79
Total	981	1 345	1 790

However, we are concerned that only R1,9 billion of this amount has been specifically earmarked for conditional grants associated with the roll out of the national treatment plan approved by Cabinet. Government must move more quickly to make anti-retroviral treatment widely available through the public health system. Every delay takes an enormous toll in human terms.

Other than the positive developments listed above, the status of the Department of Health was described by the Minister of Health as being in a 'shambles'. It is plagued by a range of serious problems that include chronic underfunding, management and personnel problems; equipment and access to medicines. Clearly there is the need to address these problems as a matter of urgency.

We also regret that there is no progress towards the implementation of a national health insurance scheme that would incorporate all health resources into the public sector, provide comprehensive health coverage to all South Africans, and promote cross-subsidisation of services. Indeed, government's decision to opt for a Social Health Insurance scheme, as opposed to a National Health Insurance Plan, is already manifesting signs of conflict.

The National Health Bill currently being considered by Parliament has backtracked significantly and lost many of the progressive elements of health reform. The certificate of need, in principle a mechanism to ensure a fair distribution of health facilities, remains problematic since it has to contend with the interests of the private sector.

Education

The People's Budget Campaign has called for education spending to increase 2% in real terms. Education spending receives a significant increase in the current financial year. However, the medium term estimates show a reduction in the percentage increase in comparison to previous years.

The 2004/05 Budget reflects a strong emphasis on human resource development – with priorities identified such as learner support material (LSM) and the primary school nutrition programme. There are also commendable developments such as the 8,4% increase in provincial education budgets.

However, teachers at public schools complain of fatigue and a high work-load, often under stressful conditions. Concern has been expressed with regards to the high attrition rates of educators in Gauteng and the Western Cape (as revealed in a government study undertaken in 2001) – in provinces with high economic activity and job opportunities. The rate of attrition, it was found, amounts to 15 000 educators a year, 3 times higher than the education systems' ability to train 5000 educators per year. The Department is undertaking an 'educator supply and demand study.' (Intergovernmental Fiscal Review 2003, p.64)

Urgent clarification is needed with regards to the allocation and distribution of personnel and resources to poor areas, undertakings by the Minister regarding the abolition of school fees; and improvements to teacher:pupil ratios and timeous access to equipment and books.

The table below shows that a slow down in spending on education is on the cards. The investment in the current and previous financial year will however need to be boosted across the medium term if changes in the quality of education are to be sustainable. Whilst there have been welcome increases in the last two years, we are concerned that real spending on education may fall below the inflation plus 2% recommendation that we have proposed.

R million	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Total	**51 256**	**55 506.3**	**61 986.6**	**69 824.2**	**75 862.2**	**81 086.4**	**86 073.8**
% increase		8.29	11.67	12.64	8.65	6.89	6.15
CPIX		6.6	9.8	5.4	5.2	5.5	4.9
Real Increase		1.69	1.87	7.24	3.45	1.39	1.25

Source: Budget Review (2004) page 208 and 209, Inflation rates from Budget Review 2003 (for 2001/02) and Budget Review 2004

Two key areas of spending require further comment. First, increased spending on the Primary School Nutrition Programme from R 838,2 million in 2004/05 and R 918,2 million. This represents a percentage increase of 9,54%. In previous years the People's Budget Campaign has noted that experience on the ground indicates that this programme still requires a clear policy framework and a better monitoring and evaluation programme.

Second, despite the training of 4 500 early childhood development practitioners, the budget allocations for early childhood development still lags behind the massive needs in this sector. Estimates suggests that 9 out of 10 children do not still have access to ECD.

Defence

We welcome the continued stabilization of the defence budget after the disproportionate increases of the earlier years, due to the strategic defence procurement programme. The strength of the rand over the past two years has substantially diminished the anticipated overall cost of the arms deal, trimming it from R53 billion to R48 billion. This must, however, be set against the initially advertised price tag on the package: R30 billion. Furthermore, maintenance of this trend would require that the current strength of the currency be sustained until the schedule of payments is completed in 2010/11 – something that is clearly unsustainable.

The People's Budget has consistently questioned South Africa's need for the high-tech weaponry involved in the deal, arguing instead for the redeployment of these funds to advance social development. The South African government will soon need to decide whether or not to decline the third, optional tranche of the arms deal. By abandoning the purchase of 19 more JAS-Gripen fighter jets, the government could save more than R8 billion rands, which could be better used to enhance domestic security through improved policing and criminal justice reforms. We will pursue our call to government to decline the third tranche of the deal.

We look forward to discussing these proposals further with government and parliamentary officials following the 2004 elections.

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