

Introduction

Public spending is a major instrument for eradicating poverty and supporting economic development. The proposals presented here seek to bring about economic growth that benefits the poor. Fundamentally, they outline a sustainable and accelerated programme for redistribution of incomes and assets, as well as increased skills development. At the same time, we include proposals for spending resources efficiently and effectively. At the centre of our proposals is the recognition that eradicating poverty requires government to both *spend more* and *spend well*.

This document has two central aims:

1. To stimulate discussion and debate on how public spending can eradicate poverty and support employment-creating growth.
2. To enable constructive engagement around the budget between government and some of the main organisations of civil society.

The People's Budget Campaign is a coalition between the South African Council of Churches (SACC), the South African Non-Governmental Coalition (SANGOCO) and the Congress of South African Trade Unions (COSATU). Over the last two years, we have, through a participatory research process as well as collaboration with experts, developed proposals on the budget. On that basis, we have engaged with the government through advocacy work and campaigns, as well as carrying out educational work with our members. This is our third budget framework, which reflects the hard work and creativity of our affiliates and members.

1.1 Aims and structure

This report focuses on the need to link budgets to a long-term strategy for development, specific programmes to eradicate poverty in ways that will stimulate growth, and measures to address capacity constraints in government. The first section outlines the developmental challenge. Section Two looks at the overall fiscal policy and argues that it could be more expansionary in order to support important developmental programmes. Section Three proposes strategies for financing development, and the following section suggests ways to build capacity. Section Five summarises our proposals for budget reform. The last section discusses some strategies to enhance public participation in the national budget process.

1.2 The research process

The report draws on research commissioned from experts as well as the expertise and insights of the members of the People's Budget Coalition. Copies of background papers will be released in the form of a book in 2003. They are available in draft from Naledi.

The major limitation to this process of policy analysis arose from the failure of government budget documents to identify the beneficiaries of most programmes by income level, gender or race, as well as the lack of reliable time series data on key poverty indicators.

2 The developmental challenge

Poverty, huge income inequalities and rising unemployment remain the central challenges facing South Africans. The structure of the economy¹ and the longer-term impact of our colonial legacy mean we cannot expect to eliminate these legacies of apartheid, even nine years after the transition to democracy. The question is rather whether current strategies significantly restructure society in ways that will reach the long-term goals of reducing inequality, creating quality jobs and eradicating poverty.

This section explores developmental trends since 1994 and identifies lessons for a more accelerated poverty eradication strategy. To that end, it reviews trends in poverty, inequality and employment; assesses economic performance; and summarises key developmental strategies.

2.1 Poverty, inequality and employment

It is clear that incomes have fallen for poor South Africans. The main reason appears to be the massive rise in unemployment, from 16% in 1995 – the first available data – to almost 30% today. This fall in household incomes has, to some extent, been offset by increased access to basic services, such as health, education, electricity and water. Moreover, the extension of the old-age pension to blacks since 1994 has provided an important form of income support, despite soaring unemployment. Still, the data suggest the need to improve programmes to stimulate employment and relieve poverty.

The lack of reliable data on poverty, inequality and unemployment makes it difficult to assess progress since the end of apartheid in very precise terms. In this context, the official statistics agency, Statistics South Africa, has tended to modify definitions and questions over the years, making it impossible to compare trends over time.² Furthermore, some key indicators – notably income distribution – are only available at relatively long intervals.

2.1.1 What has happened to income inequalities?

Statistics South Africa's recent report, *Earnings and Spending in South Africa*, provides a disturbing picture, with poverty still closely aligned to race, gender and province. It indicates falling incomes for the poor in particular, after adjusting for inflation.

Table 1. Average household incomes and expenditure, 1995 and 2000

Year	1995 (inflation adjusted)	2000
Household income	R51 000	R45 000
Individual income	R12 135	R11 755
Household expenditure	R51 000	R40 000

Source: Statistics South Africa, *Earnings and Spending in South Africa*. Pretoria: 2002

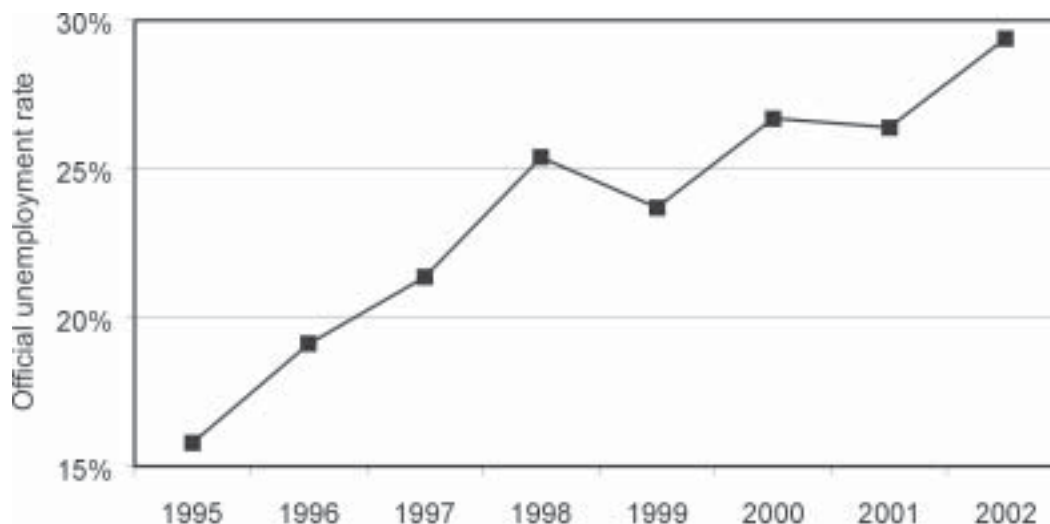
Key findings from the report include:

- **The poor became poorer between 1995 and 2000.** The share of the poorest 50% of households in all household income dropped from 11,3% to 9,%; the share of the poorest 20% of households fell from 1,9% to 1,6% of the national income. In contrast, the share of the richest 20% of households remained basically unchanged at 65% of national income.
- **The racial character of income and expenditure remains unchanged.** In both 1995 and 2000, African-headed households had the lowest average annual income and expenditure in the country. Moreover, where African household incomes were, on average, a quarter as high as those of whites in 1995, they had slipped to a sixth by 2000.
- **Gender and race still correlate closely to poverty.** In both 1995 and 2000, African, female-headed households were the poorest, and white, male-headed households the most affluent.
- **Provincial disparities remain.** In 2000, the Eastern Cape and Limpopo Province had the most people living in poverty.

2.1.2 Unemployment

Unemployment remains stubbornly high, and has risen rapidly in the past decade. The official unemployment rate³ increased from 16% in 1995 to 29% in 2002. The figures are much higher in terms of the expanded unemployment rate, which includes those workers who are too discouraged to actively seek work.

Graph 1. The official unemployment rate, 1995-2002.



While overall unemployment has grown, the quality of work has declined, leading to falling incomes. Formal employment has dropped, with particularly large job losses in mining, agriculture, the public sector and, after 1997 when tariffs were cut, in manufacturing. As a result, the data suggest a drop in average wages between 1995 and 2002. (See Makgetla and van Meelis, 2002)

Within the overall figures, there are large differences based on race, gender, location and age. Thus, unemployment was almost non-existent for whites, but between 40% and 50% for African women and youth under 30 years old.

Graph 2 indicates the extent of the youth unemployment in South Africa. It shows that unemployment levels are highest among the youth, with 58% of those aged 15 to 24 facing unemployment. The unemployment rate counts as unemployed only those who are not in school and who are actively seeking work. High unemployment among the youth reflects the virtually stagnant job market, which leads to a 'queuing' effect, where young people must wait for a vacancy.

Table 3 below shows that there are important race and gender differentials in unemployment. The starkest difference is between white men (4,9% unemployed) and African women (39,8%). But within each race group, unemployment for women is significantly higher than for men.

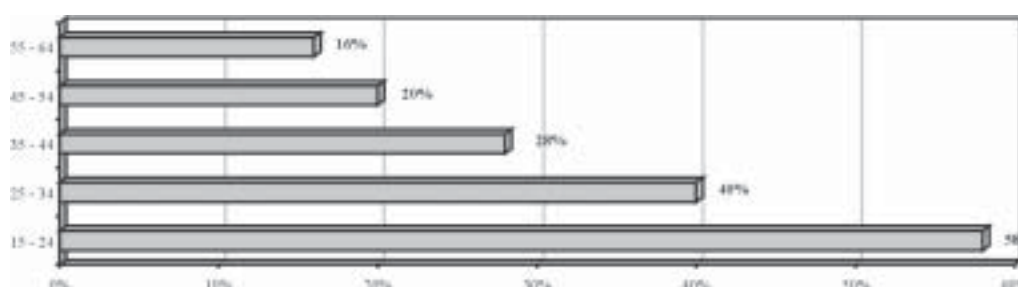
Table 2: The official unemployment rate by race and gender, September 2001

	African	Coloured	Indian	White	Total
Female	39,8	23,3	23,6	7,4	33,3
Male	32,3	20,5	14,8	4,9	26,1
Total	35,9	21,8	18,4	6,0	29,5

Source: Statistics South Africa, Labour Force Survey, February 2002

Despite government programmes to promote affirmative action, women have been the losers on the employment front. Between 1994 and 1997, about 160 000 new jobs were created for males, while approximately 140 000 jobs for female workers were lost. (Horton and Watkinson, 2002)

Graph 2 : Unemployment by age group



2.1.3 Poverty

The available data on poverty indicate that between 45% and 55% of all South Africans live in poverty, or between 20 million and 28 million people.

Poverty leads to hunger. In 1999, 11% of households with children under seven went hungry due to lack of money to buy food. The total percentage of households reporting hunger in 1999 was 21,9%. (Committee of Inquiry, 2002)

Table 3: South Africa's human development index, 1975-2000

Year	1975	1980	1985	1990	1995	2000
HDI	0.649	0.663	0.683	0.714	0.724	0.695

Source: UNDP, 2002: 155

At an international level, the UNDP's 2002 *Human Development Report* provides both a longer-term perspective and a basis for international comparisons. It shows that South Africa is still among the worst performers in terms of human development, especially given its relatively strong economy. The UNDP's Human Development Index takes into account life expectancy, educational levels and GDP per person. By this measure, South Africa's human development rank is 56 places lower than its ranking in terms of GDP per person. This is one of the worst discrepancies in the world between human development and economic productivity.

The UNDP's 2002 report gives each country's HDI for 1975 to 2000 in five-year intervals. Table 4 below

shows that, for South Africa, the HDI increases from 0,65 in 1975 to 0,72 in 1995, after which it declines again to 0,695. In large part, this decline reflects shorter life expectancy because of HIV/AIDS.

2.1.4 Economic growth

South Africa is characterised by relatively weak economic growth. As the following table shows, we have lagged behind most middle-income countries in our overall growth rate. At the same time, as indicated above, growth has been associated with at best stagnant total employment and falling formal employment.

2.2 Conceptual framework

The data on poverty, inequality and unemployment provide a background to our understanding of the developmental role of the budget. Here we outline our broad approach.

South Africa faces a classic poverty trap. In this situation, massive inequalities and the associated poverty prevent growth and development, which in turn deepens poverty. Specifically, poverty lowers the productivity of the labour force by making it harder for people to acquire skills and by undermining social cohesion. Since it reduces household incomes, it limits domestic markets. For this reason, the RDP argued that growth must be combined with redistribution.

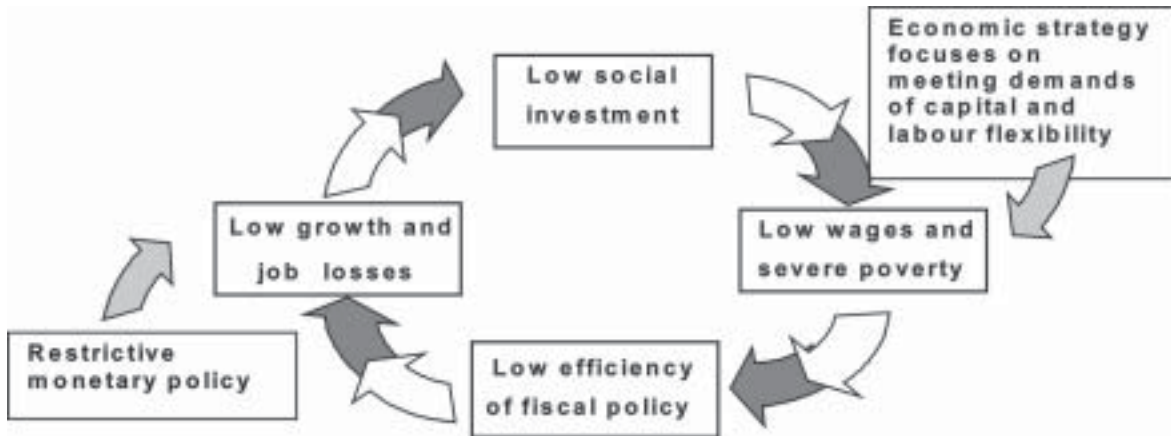
The following diagram portrays the vicious cycle that underlies the poverty trap, where poverty reinforces low growth, which in turn makes poverty worse.

Table 4. Economic performance of selected countries, 1995-2000

	South Africa	All middle income countries ^a	Of which:					
			Korea	Malaysia	Chile	Hungary	Turkey	Brazil
Income per capita in 2000 \$PPP ^b	9160	3660	17300	4540	9100	11990	7030	7300
Average ratio, investment ^c to GDP	16.5	25.0	32.0	39.5	29.9	21.2	25.1	20.5
Average annual growth in:								
• GDP	2.5	3.9	4.8	4.7	4.5	4.0	3.8	2.3
• Exports	5.2	8.9	16.8	10.2	8.3	17.1	10.8	6.1
Exports as % of GDP, 2000 ^d	26.3	32.7	51.9	125.5	43.0	58.5	29.8	9.3

Source: Data kindly provided by Dr Simon Roberts of Wits University. Calculated from World Bank Global Development Indicators, via TIPS. Notes: a. Middle income countries are developing or transitional countries with a relatively high income per capita. b. Income per capita is for 2000. c. Growth fixed capital formation d. Exports are measured in gross output terms, while GDP is based on value-added, hence Export:GDP ratios can exceed 100%, as for Malaysia.

Box 1 : South Africa's poverty trap



After the transition to democracy in 1994, the government responded to this vicious cycle with four strategies that, at least in part, contradicted each other:

- a robust effort to redirect government spending toward historically deprived communities;
- the Growth, Employment and Redistribution Strategy (GEAR);
- an industrial strategy focused primarily on improving competitiveness and especially exports; and
- a labour policy designed to shift from the oppressive colonial relationships of apartheid to a modern labour market.

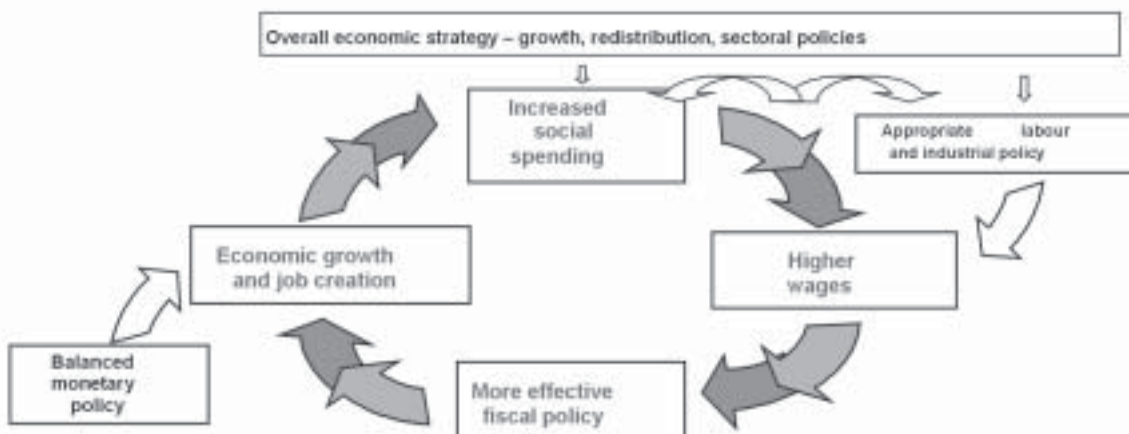
GEAR reinforced the vicious cycle of poverty by supporting an economic strategy that did little to support greater equality. Because its proposals for restructuring the economy remained weak, it effectively maintained South Africa's historic growth trajectory. That growth trajectory effectively

emphasises mineral production and refining for export – which generates few jobs, strengthens big business, and reinforces the underdevelopment of the rural areas. Meanwhile, tight monetary policies were enforced through measures to increase interest rates, discouraging domestic investment.

Since 2000, government has slightly relaxed GEAR. In particular, where the late 1990s saw cuts in budgets in real terms, which aggravated poverty and inequality, since 2000 we have seen real growth in total spending at a rate of between 2% and 4% a year. While this represents a welcome improvement, the level of government spending remains too low to break out of the poverty trap. Moreover, we still do not have a strategy to create employment on the scale needed. As a result, government spending has not contributed as much as it should to improving conditions for our people.

The diagram below depicts a more developmental strategy that could break the vicious cycle of poverty,

Box 2: An alternative macro-economic strategy



building on the reinforcing nature of the component macro-economic policies. This strategy bolsters the effectiveness of fiscal policy, which will have a greater effect promoting economic growth and job creation if households have higher living standards and greater access to resources and skills. Higher rates of economic growth also expand the fiscal resource base, supporting even greater levels of social delivery, accelerating the positive cycle.

In this document, we outline how government economic policy can move the country more quickly and decisively out of the poverty trap. Our proposals aim to:

- enhance an economic transformation programme that strengthens the poor, above all by improving their access to productive assets and skills, including land, infrastructure and education;
- improve social protection, so that the poor and unemployed have a decent standard of living;
- reclaim and protect basic services, such as basic

education and water, from the vagaries of the market;

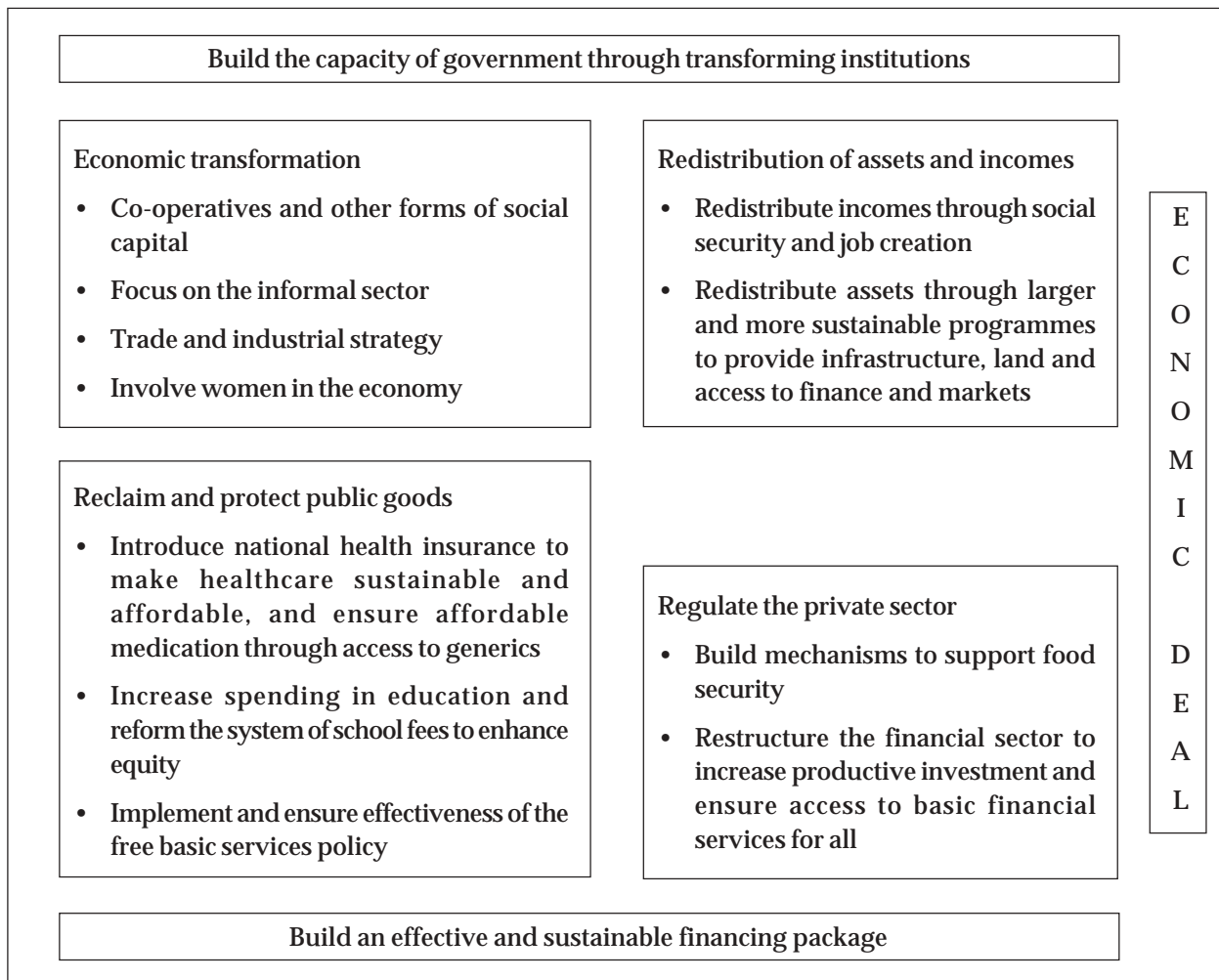
- introduce regulatory frameworks to guide private markets towards developmental goals.

These ends are underpinned by an investment strategy and an institutional building strategy, and require a high level of agreement between social partners on economic policy. This approach is graphically represented in Box 3.

The rationale for adopting this approach is four-fold.

- **Poverty is about power as much as it is about resources.** Poverty reflects the power relations in our society, which are based on market and property relations. Without fundamentally altering the balance of power between the poor and the rich, our country will never be able to reach the goal of eradicating poverty. The government must step in to empower the poor economically and socially, both by improving social protection and by redirecting the economy to create employment. This does not mean entirely replacing the market, but rather regulating it

Box 3: Conceptual framework to make economic policy more redistributive



to overcome the huge imbalances left by apartheid. Above all, it means taking measures to give the poor greater access to jobs, productive assets and skills, and ensuring greater investment in industries that will meet the needs of the poor and create employment in the process. Key programmes here are education, skills development, land reform and support for small and micro enterprise, which would include provision of better infrastructure.

- **Making the poor winners.** The available evidence, quoted above, shows that the poor have not been economic winners in the new South Africa, despite our enormous social and political gains. We need to do more to ensure that the poor have access to basic services and infrastructure, that they can earn a decent living,

and that the state provides social grants so that no one falls into destitution.

- **Building developmental institutions.** Placing the poor at the centre of economic policy will require institutions to fundamentally reposition themselves towards democratisation of the economy. We will later describe a programme to build institutional capacity.
- **Building a national consensus on policy.** The foundation for reorientation of economic strategy lies in building a consensus on national policy in South Africa. The proposal for a Growth and Development Summit is a central process to achieving this aim. In addition, the budget process should be reformed to facilitate public participation in determining spending priorities.

3 An expansionary budget

Government's efforts at poverty eradication over the last eight years have provided us with important lessons on how to allocate and spend resources. The overriding lesson is that government needs to expand its budget and its implementation capacity. This view was reflected in the resolutions of the ANC's 51st National Conference.

Ultimately, government cannot restructure the economy toward growth or meet the needs of the poor unless it has sufficient resources. By extension, it is critical that we expand the budget. The available evidence suggests that:

1. government has the capacity to use additional funds appropriately and effectively;
2. the resulting increase in borrowing and taxation would not damage the economy.

We first explore how greater spending can benefit the poor. We then consider the scope for increasing taxes and borrowing, and whether government capacity makes increased spending impossible.

3.1 Greater spending and development

Key interventions to improve conditions for the poor and stimulate economic development include the following.

1. **Introduce a comprehensive social protection package.** More must be done to combat poverty on a variety of fronts. The government-appointed Committee of Inquiry into a Comprehensive Social Security System has called for the phasing in of a comprehensive social protection package to address various interlocking aspects of poverty related to income, assets, skills and services. Interventions are needed to ensure that people have better access to income, land, health care, education, and basic services and infrastructure.
2. **Creating jobs.** In its economic policy, government has focused its greatest efforts on boosting exports. Meanwhile, the sectors that could create jobs – private and public services, production of basic necessities for the poor, and manufacturing based on our agriculture and mining – lack strong support. Programmes to assist micro enterprise are very limited:

government has explicitly focused on small and medium formal producers. We need a strategy to ensure job creation through community services and public works, accelerated programmes for skills development, programmes to build up the incomes and productive assets of the poor and measures to enhance investment in employment-creating sectors.

In summary, an effective development strategy to benefit the poor will require:

- strong prioritisation of job creation as a national goal; and
- better coordination of social protection programmes and economic policies to achieve it.

In the context of measures to strengthen government's capacity, there is no question that a stronger development strategy will both improve living standards for the poor and stimulate economic growth. However that strategy will require higher spending on the new programmes that we discuss below.

3.2 The scope for higher spending

While we welcome the increase in government spending in the past few years, we have to acknowledge that the cuts of the 1990s aggravated the backlogs left by apartheid. Beyond the increased pressure, especially on health and policing, we have seen declining public facilities, cuts in government investment, and slow economic growth overall.

Even as we have seen restraint on spending, government has continuously cut taxes. Since 1996, total tax cuts have exceeded R50 billion, with the rich benefiting disproportionately. Government still argues, in line with GEAR, that taxes should not absorb more than 25% of the GDP, and that tax cuts will stimulate investment and consumption, ultimately growing the economy. Yet the past six years of large tax cuts have not yielded visible benefits either in terms of higher savings or economic growth. In particular, investment remains far below the level needed for substantial expansion. In fact, many analysts argue that private investment remains low because it tends to track state investment, which dropped rapidly when the budget was cut in the late 1990s.

Box 4 : ANC Resolution on Fiscal Policy, December 2002

<p>Noting</p> <ol style="list-style-type: none"> 1. That the democratic government has enjoyed great success in improving fiscal management, reducing government deficits and tax rates leading to lower interest cost for government. While this led to some declines in spending in the late 1990s, the strategy now permits a substantial improvement in government spending on developmental needs. 2. That the most impoverished rural areas, located in the former homelands, still lag behind in terms of most government services and infrastructure, while local governments in these regions face serious shortfalls in resourcing. <p>Resolve</p> <ol style="list-style-type: none"> 1. That fiscal policy must support growth, employment creation and development by ensuring that government expenditure continues to grow in a robust but sustainable 	<p>fashion. Like all policies, it must be subject to regular review in terms of its impact on our overall objectives.</p> <ol style="list-style-type: none"> 2. To ensure that departments and local municipalities do more to redirect and coordinate spending towards historically undeserved communities. 3. To ensure that government at all levels must ensure that special funds, such as poverty relief funds, are actually disbursed and spent effectively and efficiently. 4. To ensure that the capacity of government at all levels to spend effectively is increased. 5. To ensure that provinces develop coherent packages to improve spending on government services in the most impoverished areas and, with the National Treasury, enhance support for local governments in these areas.
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In addition to ending the policy of annual tax cuts, government could redirect its spending to benefit the poor more. Key proposals, which we explore in greater depth in the section on financing development, include restricting military spending, restructuring health care and financing the public-service pension fund more efficiently.

3.3 Does the state have capacity to spend more?

The National Treasury has argued that government simply does not have the capacity to spend more. To back up this contention, it typically points to substantial roll-overs in some budgets. The fact is that, as discussed in the next section, these roll-overs are inevitably concentrated on a very small number of departments. More broadly, there are a number of key delivery systems in place – for instance, for social pensions and health – where additional spending could rapidly raise living standards for the poor.

Nevertheless, there is no doubt that it is important to

build government’s capacity to serve poor and disadvantaged communities. Government itself has pointed to the need to improve resourcing to achieve this aim, including improvements in staffing in the large social services – health, education and policing – as well as enhancing financial management within government. In the next section, we discuss ways to improve the state’s capacity at greater length.

3.4 Conclusions

In short, the evidence demonstrates that government budgets could grow even faster than the National Treasury currently projects. This would permit increased spending on key developmental programmes. It would require an increase in taxes as a percentage of GDP, although probably not an increase in nominal tax rates. But experience so far suggests that, if used effectively to combat poverty and support employment creation, in the long run the effective tax rate could again decline as the economy grows while fewer households need on-going government assistance.

4 Building capacity for delivery

Building government's ability to spend more efficiently and effectively is central to eradicating poverty. After all, allocating funds to expand programmes is only the beginning. The ability to utilise the funds strategically and realise developmental goals is the harder, more long-term process. An important aspect of building capacity to spend is to define the problems we face in delivery more accurately. 'Capacity' has become a catchall phrase for very different problems.

Among the key obstacles to efficient government expenditure are:

1. **Inadequate staffing and skills.** Government has often embarked on ambitious programmes without ensuring adequate staffing and technology. From 1996, the public sector experienced substantial job losses. Between 1995 and 2002, the public service lost close to 120 000 jobs, and the big parastatals over 40 000. Government recently agreed to increase the number of nurses and police, indicating that certain areas of the public service are indeed understaffed. A problem remains the loss of professionals as underfunding, especially in health, leads to declining and increasingly stressful working conditions.
2. **Corruption.** Everywhere in the world, corruption is a risk when public servants make decisions about resources without having to justify them in public and without clear criteria. Too often, government makes clarion calls on its employees to avoid bribes – then does nothing to address the systemic weaknesses that make corruption possible. In particular:
 - a. Where public servants must make decisions affecting substantial resources, they are always going to face attempts to corrupt them, as in the recent case surrounding the privatisation of forests. Critically, these decisions must be made publicly, with published reasons and according to well defined criteria. Moreover, high-level public servants – like politicians – should have to report publicly on their assets and incomes on a regular basis.
 - b. Government officials who provide services to the poor may also be tempted to exact bribes because they know the people they
3. **Systemic weaknesses.** A host of systemic weaknesses plague government expenditure. They include:
 - a. The new policy emphasis on public-private partnerships has been the main cause of large roll-overs, as departments cannot always find appropriate private partners.
 - b. Spending controls have been emphasised to such a degree in recent years that departmental managers fear being the cause inefficient fund expenditure more than they fear a failure to meet the needs of the public. As the very slow and inadequate response to the increase in food prices in 2002 demonstrated, this excess of caution can lead to a complete failure to initiate necessary programmes.
 - c. Many programmes still suffer from a lack of clear objectives and mechanisms to monitor spending against them. This problem emerges particularly strongly where government agencies subcontract functions to private players, and do not monitor their use of the funds.
 - d. In many cases, conditional grants from the national government to provinces are reportedly approved too late in the budget year to permit full expenditure.
 - e. Delays also result from cumbersome tender procedures – something which the implementation of the new Public Finance Management Act and its regulations should help solve in the near future.
4. **Chasing numbers.** In providing infrastructure in particular, government has tended to measure success in numerical terms, irrespective of quality or sustainability. In housing, this has led to the tendency to locate houses far from industrial sites and city centres. This reinforces apartheid residential patterns and makes it harder for residents to earn the incomes they need to maintain their homes and

services. Similarly, between 1994 and 1999, government showed impressive results in water, at the expense of sanitation and long-term sustainability. Since 1999, reforms in these programmes have maintained high levels of delivery while substantially improving sustainability. (See Box 5)

Government has already taken some important steps to build the capacity to serve the poor. They include:

- **Strengthening financial management.** The introduction and implementation of legislation to improve financial management systems and capacity are a step in the right direction. Both the Public Finance and Management Act (PFMA) and the Municipal Financial

Management Bill will provide a solid base for increasing transparency and accountability in the public service. For a truly developmental public service to emerge, however, it is important that future reforms and policies be explicitly and unambiguously focused on ensuring improved services for the poor.

- **Attacking corruption.** It is clear that several departments have taken strong action on corruption. The development of the Scorpions is an important element in this process. Senior public servants have had to register their assets. These efforts should be reinforced by measures to ensure open decisionmaking at all levels and to facilitate the reporting of corruption, especially by relatively unskilled people.

Box 5: Making water and sanitation sustainable

The delivery of water has always been a priority for government. A massive roll-out of water extension programmes has seen, according to government estimates, over six million people receive access to water since 1994. The numbers are impressive by any measure.

Civil society organisations have, however, questioned the sustainability of these projects. The existing programmes to extend water to people have had severe implementation problems. The 1999 cholera outbreak illustrated the extent of this problem. In rural KwaZulu-Natal, many residents could not pay the R51 fee needed to ensure continued supply of water. These communities returned to polluted river systems, which made them more susceptible to cholera. The implementation failure resulted from the insistence on high user fees for the poor, in cases where household incomes often fall below R200 per household per month.

In part as a result of pressure from civil society, government has now adopted a policy of providing

free basic water to all people. This approach offers hope for more sustainable water delivery systems. It provides for a basic level of water for all, which will improve health and vastly reduce the cost of treatment for diseases like cholera. Moreover, if the costs are increased for richer households, who now waste huge amounts of water, the system will encourage conservation.

A concern remains that the amount of free water provided is too little to support development, and that the cost increase is pushed onto the relatively poor rather than limited to the rich. That can undermine the desired effects of redistribution and conservation.

In addition, sustainable water delivery requires a greater effort in the area of sanitation, which has indeed become a greater priority for the Department of Water Affairs in recent years. At the beginning of 2001, estimates suggested that some three million households, mostly in rural areas and informal settlements, did not have sanitation.

Source: Hassen E.K. (2002)

5 Poverty eradication

This section outlines some of the major initiatives that the People's Budget proposes in order to alleviate poverty and initiate more balanced growth. The main proposals aim:

- to strengthen the social security system;
- to accelerate land redistribution;
- to establish a national health insurance system;
- to increase and improve housing and infrastructure;
- to implement a treatment and prevention plan for HIV/AIDS;
- to enhance food security.

This report does not discuss education and skills development, which were covered in detail in our earlier documents.

Poverty and inequality pose the greatest threats to national stability, security and economic development. About half of South Africans live in poverty, and our income and asset inequality are among the highest in the world. Government has articulated a strong commitment to eradicating poverty, reducing gender and economic inequalities, and introducing a comprehensive system of social security.

The Constitution requires government to provide appropriate social assistance to all who are not able to support themselves and their dependants. The Constitutional Court further elaborated this obligation in its *Grootboom* decision (2000).⁴ This established a number of principles for evaluating the 'reasonableness' of measures adopted by the state to give effect to the socio-economic rights enumerated in the Constitution, namely:

- The relevant programme must be a coordinated, comprehensive programme, which is capable of facilitating the realisation of the right in question.
- The programme must include measures to provide immediate relief to those in desperate need and living in intolerable conditions or crisis situations. In other words, the State may not neglect immediate needs in favour of longer-term strategies.
- The legislation, policies and programmes adopted must not only be reasonably

formulated, they must also be reasonably implemented.

- Access to the right must be progressively extended both to a larger number and to a wider range of people. Legal, administrative, operational and financial hurdles should be examined and, where possible, lowered over time.
- Assessments of reasonableness must take into account the **resources available** to the State to realise socio-economic rights.

In 2000, government appointed an expert Committee of Inquiry into a Comprehensive System of Social Security for South Africa to explore appropriate and affordable ways to meet these commitments. The Committee of Inquiry (known as the Taylor Committee, after its Chair, Prof. Vivienne Taylor) submitted its report to Cabinet in March 2002.

The Taylor Committee noted that, as a developing economy coping with the structural legacies of apartheid, South Africa is unlikely to be able to create stable and meaningful employment opportunities to all economically active adults in the foreseeable future. A narrow employment-centred concept of social security is therefore insufficient to meet the challenges of poverty and inequality. The Committee argued instead for a more comprehensive approach to social security, one that the United Nations Commission on Social Development has described as 'social protection'. Comprehensive social protection requires the establishment of a 'social safety net' to ensure that all can live with dignity and do not fall below a certain minimum standard of living. However, according to the UN Commission, "The ultimate purpose of social protection is to increase capabilities and opportunities and, thereby, human development." (Committee of Inquiry 2002, 40) It aims not simply to provide temporary relief for people who have fallen on hard times, but rather to equip people with a range of resources so that they can become happy, healthy and productive members of society.

The Taylor Committee recommended the implementation of an integrated package of measures to achieve comprehensive social protection in the South African context. The key components of this package appear in Box 6.

Box 6: Comprehensive social protection package and components

	Application	Key components
Income poverty	Universal	<ul style="list-style-type: none"> • Basic Income Grant • Child Support Grant • Maintained state Old Age Grant
Capability poverty	Universal/ Eligibility criteria	<ul style="list-style-type: none"> • Free and adequate publicly-provided healthcare • Free primary and secondary education • Free water and sanitation (lifeline) • Free electricity (lifeline) • Accessible and affordable public transport • Access to affordable and adequate housing • Access to jobs and skills training
Asset poverty	Universal/ Eligibility criteria	<ul style="list-style-type: none"> • Access to productive and income-generating assets such as land and credit • Access to social assets such as community infrastructure
Special needs	Eligibility criteria	<ul style="list-style-type: none"> • Reformed disability grant, foster care grant, child dependence grant
Social insurance	Eligibility	<ul style="list-style-type: none"> • Cover for old age, survivors, disability, unemployment, and health needs

SOURCE: Committee of Inquiry 2002, 42.

The People’s Budget strongly endorses the balanced and comprehensive approach to poverty eradication and social protection set out in the Taylor Committee’s report. In subsequent sections, we propose additional spending in a number of areas – health care, education, housing, land reform, and free basic services – designed to address aspects of capability and asset poverty in particular.

5.1 Social security

This section focuses on the Taylor Committee’s main proposal to combat income poverty: the introduction of a Basic Income Grant, phased in on the basis of an urgent and substantial expansion in the Child Support Grant.

The Taylor Committee found that social assistance grants – and the state old age pension in particular – are powerful mechanisms to combat poverty and income inequality: “[O]ver a quarter of household income in the second and third deciles [i.e., the second and third poorest tenths of the population] came from state old age pensions. Indeed, the presence of an old age pensioner in a household was often the main reason for lifting households out of abject poverty” (Committee of Inquiry 2002, 24). As these grants are financed by taxation, they also effect a massive redistribution of income from the richest 20% of the population to the poorer portions of the population (excluding the poorest 10%, for reasons discussed below).

In spite of the effectiveness of public transfers, the patchwork of social grants inherited from the apartheid era is unable to meet the challenge of stamping out extreme poverty, due in part to enormous gaps in coverage. Poor children over the age of seven and poor adults under the age of 60/63 have virtually no access to social grants. More than 11 million people, or up to 60% of the poor, are not covered by the current social security system. As the Committee observed: “Half of the poor live in households that receive no social security benefits at all, and the rest remain poor in spite of the benefits they receive” (Committee of Inquiry 2002, 59). The poorest 10% of households – those living in destitution – are completely excluded from the social security system by barriers such as means testing, complicated application procedures, uncertainty about their eligibility for available grants, lack of funds for transport and required documentation and a variety of other obstacles.⁵ At present, social grants reduce the poverty gap – the difference between actual income and the poverty line – by about 23%. Even with full distribution of existing grants, the poverty gap would only be diminished by 37% (Committee of Inquiry 2002, 59).

While calling for a balanced and comprehensive approach to social protection, the Taylor Committee emphasised the importance of measures to address income poverty, seeing them as the keystone of the entire social protection framework. They argued that initiatives to combat income poverty were faster and

easier to implement than programmes to address asset and capability poverty, as the latter require more investment in institutions and infrastructure. They also noted that people experiencing other forms of poverty are invariably facing income poverty as well. They also heard evidence that income poverty often prevents poor households from taking advantage of other types of anti-poverty initiatives, such as public healthcare, primary education and even free basic services.

Consequently, the Taylor Committee called for the introduction of a Basic Income Grant (BIG) as a key intervention to reduce income poverty. The primary characteristics of a BIG are that it would:

- be set initially at no less than R100 per month;
- be paid to every person legally resident in South Africa, regardless of age or income;
- supplement existing grants to households so that no one would receive less social assistance than he or she does now; and
- be financed primarily through the tax system.

The BIG Coalition, a broad alliance of civil society organisations supporting the BIG proposal, have called further for the grant to be inflation indexed and delivered primarily through public institutions.

A BIG would alleviate poverty, provide all households with a minimum level of income to enable them to better meet their basic needs, stimulate equitable economic development, promote family and community stability, and affirm and support the inherent dignity of all people. Specifically, it would:

- **Target the poor more effectively.** By eliminating means tests and complicated application processes, a BIG would reach even those destitute households effectively excluded from the current social assistance programme. Targeting would be achieved by paying the grant to everyone, then recovering it from wealthier people through the income tax system. The richest households would also pay a solidarity tax to subsidise the cost of providing the grant to poorer households. Research conducted for the Taylor Committee found that a BIG could close the poverty gap by nearly 74%. With full take-up, the number of poor South Africans without access to social assistance would be nil, and destitution would be virtually eradicated.
- **Be cost-effective.** As the grant is universal, there would be no need for a costly (and potentially corrupt) bureaucracy to investigate and adjudicate applications. More money would

go directly to beneficiaries, rather than being absorbed by administrative expenses. Such transfers are the most direct and effective way to reduce poverty.

- **Be developmental.** The means-tested ‘dole’ schemes common in industrialised nations penalise people who try to improve their incomes by terminating their benefits. In contrast, a universal BIG of R100 a month would prevent people from falling into destitution, but it would not be sufficient to discourage people from looking for ways to earn additional income. To the contrary, research demonstrates that success in job seeking is strongly correlated to income: as income rises, people tend to look for work more vigorously and are more likely to find it. Even a small, stable income enables poor households to take the sort of risks inherent in job seeking and entrepreneurship.
- **Stimulate economic growth.** Cash transfers into households increase and stabilise demand, consumption and savings. Spending is likely to be concentrated on basic, locally-produced and labour-intensive commodities, thus benefiting local markets and stimulating job creation. Increased consumption is likely to have particular impact on rural areas where it has the potential to kick-start the economy.
- **Combat the ‘poverty tax’.** Under the present system, it is typically the working poor, not the rich, who are ultimately responsible for helping the very poor to survive. The need to provide assistance to unemployed family members or friends acts as an effective ‘tax’ on the wages of the working poor. The BIG reduces these demands, allowing workers to devote a larger proportion of their wages to productivity-enhancing consumption and social investment (in health, improved housing, skills development, children’s education, etc.).
- **Improve the efficiency of social investment.** UN studies have shown that poverty undermines social investment. Inadequate child nutrition, for example, creates long-term health problems, which are associated with higher medical costs, poorer educational performance, lower labour productivity, increased absenteeism, etc. This places an extra burden on women who are typically responsible for health care and education in the family. By strengthening the capacity of households to meet basic health and education needs, the BIG enhances the benefits of additional state investment in these public goods.

- **Enhance responses to the HIV/AIDS pandemic.** The current social assistance system is ill-equipped to deal with the HIV/AIDS pandemic. The support given is insufficient to absorb the additional burden that affected households have to carry. Those most affected by HIV/AIDS – working-age adults – have very little access to social grants. The BIG fills this gap and enables HIV-affected households to afford better nutrition and health care.
- **Contribute to equity and social cohesion.** If it is financed through a progressive system of taxation, the BIG would be strongly redistributive, helping to address the economic inequalities that are a legacy of the apartheid era. Evidence from other developing countries demonstrates that such inequality is a significant obstacle to economic growth and investment. The BIG could even act as a form of general reparations, along the lines proposed by the Truth and Reconciliation Commission.

The Taylor Committee called for the BIG to be phased in over several years. The first phase would rationalise and dramatically extend the existing system of grants, giving priority to “the most vulnerable, namely children up to the age of 18” (Committee of Inquiry 2002, 64). In this phase the Committee proposed, *inter alia*, extending the Child Support Grant (CSG) to **all** children under 18. The expanded CSG would effectively serve as a stepping stone to a universal income support grant, which the Committee says should be introduced in the second phase, beginning from 2005.⁶

The People’s Budget acknowledges that effective implementation of a BIG requires substantial planning and preparation. We would support a phase approach to implementation including, in particular, the immediate extension of the CSG to all children on a universal basis, provided that this is accompanied by a clear commitment to the introduction of a BIG. Such a commitment should be reflected in a viable timetable for action and clear interim targets to facilitate assessment of progress. The implementation of the extended CSG will generate valuable research and operational data to inform effective introduction of the BIG.

A number of important practical considerations related to the introduction of a BIG require further discussion and planning. Two of the most contested debates have been about the delivery and financing of a BIG.

Effective delivery requires a comprehensive database of eligible recipients and simple, flexible payment procedures to ensure access by those in the most

remote and marginalised areas. The new Home Affairs National Identification System (HANIS) currently being introduced is likely to play a pivotal role in BIG delivery. HANIS will replace the present barcoded ID book with a ‘smart’ Identity Card. This card will have an electronic chip built into it that can store personal data, including information about one’s eligibility for social grants and basic services. The card will bear the holder’s thumbprint to facilitate biometric identification (identification based on unique physical traits) and minimise the potential for fraudulent use.

Smart card technology can be used to deliver social grants in a number of ways. For people living in urban areas, the cards could be used to draw cash at ATMs. For those in more rural areas, the possibility of having remote points of access at local spaza shops will mean local access with far less travelling and queuing. Post Bank public information terminals and the Department of Public Service and Administration’s planned multi-purpose community centres could also play an important role in extending rural infrastructure for efficient grant delivery.

The redesign of the grant delivery system currently underway creates a unique opportunity to introduce new technology with the capacity to administer and deliver a Basic Income Grant. The Department of Social Development has already begun to require contracting paymasters to use technology compatible with HANIS, and the Cabinet has decided that pensions will be the first application for which the new ID cards will be used. It is therefore imperative that government expedite the introduction of a ‘smart’ ID card and ensure that the new card is adequately equipped to handle the delivery of a BIG.

The People’s Budget proposes that a consultative process be set up to allow for detailed interaction on such practical considerations. This is consistent with the resolution adopted by the 51st Conference of the African National Congress, calling for continued engagement with “progressive forces campaigning for the introduction of the Basic Income Grant”. Given the short to medium term nature of the process, it is probably advisable to set up a standing committee involving civil society and government, which can assist in steering the process through its various phases.

The other major objection to a BIG is that it will be too expensive to implement and sustain. At one level the concern is spurious – South Africa cannot afford **not** to have a universal system of social transfers. Failure to take bold action to alleviate poverty now may have staggering social, political and economic costs in the future.

More importantly, the Taylor Committee concluded that its proposed comprehensive social protection package, inclusive of a universal income support grant, is easily affordable, even within current macro-economic constraints. "No significant changes in the proportion of GDP allocated to social security are required if these scenarios are implemented. In particular, the implementation of a universal system of social assistance grants in key areas becomes both feasible and affordable" (Committee of Inquiry 2002, 149).

Research undertaken by the Economic Policy Research Institute estimates the gross cost of the BIG at R43,8 billion. If the R100 grant is recovered from middle and upper income earners through the income tax system, this would yield an average recuperation of R16,7 billion per year. A further R3,3 billion is likely to be generated in additional VAT. This would leave a net cost of R23,9 billion to be financed by the state (Samson et al. 2002, 27).

Above all, the sustainability of the grant must be assessed in a dynamic context. As the grant provides the basis for accelerated economic growth in the medium term, the fiscal burden reduces over time relative to the budget and the economy as a whole. In that sense, the BIG represents a critical measure for a development strategy.

5.2 Accelerate land redistribution and agrarian reform

From a budgetary perspective, agrarian reform has become one of the most neglected aspects of social delivery. While other social programmes have benefited from slightly relaxed fiscal discipline since 2000, the resources allocated to land reform and agricultural support are shrinking in real terms. The funds allocated for land redistribution are completely inadequate to achieve the targets set by government, while a restructuring of the redistribution programme

has made it potentially more difficult for poor families to acquire land. Meanwhile, poorly funded and inappropriately staffed agricultural development programmes offer only limited assistance to farmers, further undermining the programme's chances of success.

a. Land redistribution

South Africa's democratic government initially set a land redistribution target of 30% of agricultural land in 5 years in terms of the Reconstruction and Development Programme (RDP). With the introduction of GEAR and the related Market Assisted Agrarian Reform programme, these targets have been revised. The willing-buyer willing-seller approach to land acquisition, the strength of current property rights in the Constitution and the lack of prioritisation of land reform by government meant that, by the end of 2002, only a little more than 1% of agricultural land had been redistributed. Furthermore, the timeline for redistribution has been prolonged substantially – government now aims to redistribute 30% of agricultural land by 2016.

Meanwhile, changes have also occurred at a programme level. In 2000, the Department of Land Affairs (DLA) introduced the Land Redistribution for Agricultural Development (LRAD) programme as its primary vehicle for land redistribution. In the current year, LRAD is expected to transfer 193 295 hectares (ha) by April 2003.

Prior to LRAD's introduction, only households with monthly incomes of less than R1500 were eligible for state land acquisition grants. Now potential beneficiaries must contribute at least R5000 (in sweat or kind) to obtain a grant. This requirement is likely to prevent the most needy households from obtaining grants (although there is not yet sufficient data to confirm this speculation).

It is doubtful whether even the much-reduced land

Table 5. Expenditure on land reform under the MTEF, 2001-2005

R'000	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	Program as % of total 2002/2003	Nominal Growth over period	Real ⁷ growth over period
Total	972 688	964 207	1 059 190	1 140 535	100	17,3%	-2,2%
Restitution	255 342	322 607	354 206	389 759	35,6%	52,6%	27,3%
Land Reform	448 772	371 165	367 271	394 839	41,0%	-12,0%	-26,6%

Source: 2002 Estimates of National Expenditure, 674.

redistribution target is realistic given the relatively low priority assigned to agrarian reform in overall government planning and budgeting. Table 5 shows that while the DLA's allocations for restitution in 2002/2003 grow by 27,3% in real terms, its budget for 'Land Reform' (which includes both land redistribution and tenure reform components) declines by more than 25% over the medium term. In real terms, then, there will be significantly less money available for the redistribution and tenure reform programme over the next three years.

South Africa has approximately 86,2 million ha of agricultural land in total, so 30% would be about 26 million ha. In order to achieve the target of 26 million ha, an average of 1,73 million ha would have to be transferred each year. While the LRAD delivery target of 193 295 ha for 2002/2003 may be realistic in terms of past performance, it falls far short of the 1,73 million ha necessary to be on track to meet the 15 year target. At the current rate, it will take 130 years to redistribute 30% of the land.

If government is to come anywhere near meeting its target, it will need not only a fundamental reallocation of resources but also a completely different approach to land reform. In its September 2001 Strategic Plan, the DLA calculates cost projections based on an average land price of R1 000⁸ per hectare. The DLA would therefore need a land acquisition budget of R1,73 billion a year (plus inflation) to meet its target, even without additional staff and programme costs. In contrast, Table 6 shows the funds allocated for land acquisition through land restitution and land reform grants during the next two years.

Land reform is currently pursued on a project-by-project basis, according to the 'willing buyer, willing seller' principle. Prospective land reform beneficiaries design their projects individually or as a group, then approach current landowners to negotiate prices and finalise the sale. The delivery of 1,73 million ha a year will require a fundamental shift to a supply driven programme, planned on a district basis and coordinated either by the state itself or by state-appointed agencies.

Table 6: Funds budgeted for land acquisition grants

Programme	2002/3	2003/4
Restitution grants	242 951	265 441
Land reform grants	251 463	209 247
Total	494 414	474 688

Source: 2002 Estimates of National Expenditure, 683-685.

b. Development support

Most land redistributed under the land reform programme is used for agriculture. If this land is to be used productively, land reform beneficiaries also need extension support and access to agricultural resources. Agricultural support to land reform beneficiaries comes from two main sources – the national Department of Agriculture (DoA) and the nine provincial departments.

The total DoA budget for 2002/2003 amounts to R916,7 million. This budget shows a decline of 11% over the medium term expenditure period. While there are other programmes (such as agricultural risk management) that the Department draws on to provide support to land reform beneficiaries, a Farmer Support and Development (FSD) programme is the only programme that applies directly to land reform beneficiaries. This programme comprises a mere 4,4% of the total budget for 2002/2003 – R40,4 million.

The FSD programme has two areas of focus:

- Farmer Settlement, which aims to settle 100 "commercially viable" farmers a year in each province over the medium term; and
- Financial Services and Co-operatives, which seeks to increase the number of viable farmers and rural agricultural co-operatives by improving previously disadvantaged farmers' access to resources and services.

It is difficult to see how the DoA can be expected to achieve these objectives with such limited resources. Furthermore, the state has minimised subsidies for infrastructure and production needs, reduced participation in marketing and is phasing out subsidised interest rates. As a result, those who do manage to secure land under the land reform programme must then try to earn a livelihood from it with minimal support. This is particularly applies to the poor who are able to obtain limited land through the current LRAD programme. If the current, restricted land reform programme is going to establish and sustain successful farmers, the level of cutbacks must be reassessed and targeted support should be provided.

The main source of support for land reform beneficiaries and small-scale farmers, however, comes from the provincial departments responsible for agriculture. Table 7 shows the budgets of the provincial agriculture departments, which add up to roughly R3 billion⁹ – a substantial amount of money.

Most of the provincial departments of agriculture intend to provide support to land reform beneficiaries,

Table 7. Provincial agriculture departments' budgets

Provincial Departments	2001/2002 R000	2002/2003 R000	2003/2004 R000	2004/2005 R000	Nominal growth rate over period	Real growth rate over the period
Eastern Cape	567 667	518 996	525 926	574 063	1,13%	-15,65%
KwaZulu Natal	709 548	709 928	750 330	797 989	12,46%	-6,19%
Gauteng ¹⁰	149 616	227 536	176 477	196 812	31,54%	9,72%
Northern Province	581 453	707 438	598 004	746 593	28,40%	7,10%
Western Cape	100 950	108 322	121 902	134 165	32,90%	10,85%
Northern Cape	52 786	67 537	76 454	80 493	52,49%	27,19%
Free State	131 395	155 350	165 050	173 100	31,74%	9,88%
Total	R 2 293 415	R 2 495 107	R 2 414 143	R 2 703 215	17,87%	-1,69%

Source: Provincial Budgets of Agriculture 2002/2003

particularly LRAD beneficiaries, as part of their programme for the period under review. So it is important to examine the human and capital resources dedicated to agricultural support services that complement land reform. However, since provinces do not have uniform budgets and programme structures, it is difficult to tally the financial information from different provinces to obtain a comprehensive national picture.

Of the seven departments for which figures are available, Limpopo, Northern Cape and Free State provide *no* funds for land transfers to small-scale farmers under the LRAD programme. The other four provinces (Eastern Cape, KwaZulu Natal, Western Cape and Gauteng) appear to have allocated a total of approximately R26 million to transfers that may be related to supporting farmers. Considering the total budget of the seven agricultural departments and the needs of current and future farmers, this is miniscule.

Where, then, do the provincial funds go? A large proportion of the budgets of KwaZulu-Natal, Eastern Cape and Limpopo provinces are allocated to salaries, as the example of Limpopo illustrates. Limpopo has the highest number of agriculture department staff. Currently there are 9151, with 8991 dedicated to the support services and settlement programmes. In contrast, the national Department of Land Affairs has just 512 positions. There are no clear targets for the number of farms to be settled over the medium term or what these employees will do.

For agrarian reform to be successful, a fundamental acceleration of redistribution and assistance to enable beneficiaries to use the land productively, at whatever level of production, is vital.

5.3 Universal health insurance system

South Africa spends 8,5% of its GDP on health, yet the outcomes – measured for instance by child, infant and maternal mortality and life expectancy – are worse than other middle-income developing countries. The reasons lie partially in inequalities in the health system and partially in the lack of basic infrastructure to ensure clean water and sanitation for many of our people. The HIV pandemic has aggravated the problem. To remedy this situation, the People's Budget proposes a National Health Insurance (NHI) scheme.

The co-existence of private and public health care limits the efficiency of health spending in South Africa. The private sector provides the best care in the world for those who can afford it, while the majority continues to rely on inadequate public services. Private health care serves less than 20% of the population, but absorbs two-thirds of total health spending. In contrast, the public health sector serves the majority of our people, but remains under-resourced, resulting in poor quality care.

Private medical schemes cover only about seven million South Africans, of whom only 9% are Africans. The annual revenue of private medical schemes comes to more than R29 billion a year, roughly the same as the total public health budget. Meanwhile, the public health system faces rising demand and falling budgets. After 1994, government opened facilities to all races, provided free health care to mothers and young children, and expanded primary health care. These measures should

ultimately reduce costs for curative care. Initially, however, there were more referrals to hospitals, with a consequent increase in costs there as well.

In the same period, health budgets shrank in real terms. Between 1996/7 and 1999/2000, provincial health budgets rose 4% a year, with inflation running at 7 to 8% a year. In other words, in real terms health budgets dropped by more than 3% a year, or roughly 10% in three years. At the same time, the population was growing at over 2% a year. In per capita terms then, the health budget dropped by 16% over the period. Of the new health care facilities constructed in the past six years, 46% did not have an adequate supply of clean water and electricity. Many clinics are opened without necessary staff or resources.

The two-tier system promotes wastage and inefficient distribution of resources, inflates health costs, and defeats the commitment to health care for all. On the one hand, private health care has seen extraordinarily rapid increases in tariffs, largely due to excessive profits and administration costs, with increased instability among medical-aid schemes. On the other hand, the private health care system actively weakens the public health care system by shifting the cost of caring for patients with serious illnesses, including HIV, onto the public sector, and by setting up a parallel system of (expensive) private hospitals that diverts potential paying patients from public hospitals.

Over the past year, a number of developments have further diminished the private health industry's capacity to meet the needs of the general public, particularly the less well-off.

- Rising administration costs and excessive profits have led the 175 medical aid companies to raise rates dramatically,¹¹ forcing many lower-income people out of medical aid schemes and back into the state health care system. As a result, the private health system is increasingly becoming the preserve of the wealthy.
- Employer contributions to medical aid schemes are failing to keep pace with these sharp increases, increasing the burden on employees. Furthermore, subscriptions are rising at a faster rate than benefits, resulting in a real decline in benefits.
- Hospital choice has been restricted in a number of schemes, particularly those with middle- to lower income subscribers. Fewer and fewer elderly and chronically ill people are being admitted to schemes – despite reforms meant to prevent their exclusion – and the number of young and healthy subscribers is increasing.

- Legislative reforms designed to regulate the private health sector has been used to justify increased costs. The People's Budget campaign has welcomed these regulations. We now call on government to ensure that the private health sector does not use these to further entrench discrimination in the private health care sector.

In response to this situation, the People's Budget proposes the establishment of an NHI and the abolition of a two-tier system through the incorporation of all health resources into a unitary public system. A new NHI Authority would allocate the health budget to hospitals and practitioners. It would be funded by the existing budget plus a progressive dedicated levy equal to existing private health costs.

The levy would be on high incomes – both salaries and other – and would effectively replace the current cost of health insurance and medical schemes. Since it would replace employee-employer insurance premiums and out-of-pocket expenditures, it should not increase the cost of health care to the South African currently accessing medical aid or to society as a whole.

In the long term, by reducing administration and procurement expenses, the cost of health care should ultimately decline. Instead of confused and often unjust dictates of insurance companies, a greatly expanded programme of technological assessment and cost-effectiveness would guide decisions about covered services, as well as about the allocation of funds for capital spending, drug formularies and other issues.

Each hospital would receive an annual global budget to cover all running expenses. For patients not using hospitals, the diversity of existing practice arrangements necessitates a pluralistic approach. To minimise disruption, the NHI would include three payment options for doctors and other practitioners: fee-for-service payments, salaried positions in the institutions receiving global budgets, and salaried positions within group practices receiving per capita (capitation) payments.

The NHI would not increase the burden of health costs on society in the short run, and should reduce the burden per person in the longer term. This has great importance for controlling the cost of living and of production. It would, however, lead to an apparent increase in the budget, equal to the amount now spent on private health care.

There are key differences between our proposal and the SHI system currently under consideration by government (see Box 7).

Box 7 : Main differences between National Health Insurance and Social Health Insurance

National Health Insurance	Social Health Insurance
All residents are automatically members of the scheme, so that the costs of treatment are spread over the whole population. Public-sector funding would suffice for all South Africans.	Private schemes continue but are compelled to take on more risks, increasing their costs and presumably the cost to members. The private sector would remain in place.
Funding through payroll levy tax and progressive taxation.	Current proposals suggest that <i>all</i> formal sector employees be compelled to join private health schemes. This would place an unaffordable burden on lower-income workers. Only the very poor would be exempt from payment into a dedicated national health fund.
Establishes a single provider of health care in the country for hospital and primary care.	Private health system will remain in place, leaving a dual system of health care delivery. Members of private schemes would have privileged access to public facilities.
One single, but decentralised, administrative system.	Different administrative systems and administrators; problems of rising costs, brokerage and re-insurance are not dealt with.

The current government proposals, although called a form of National or Social Health Insurance, in fact merely seek to raise contributions to both the public and private sector, including from working people who simply cannot afford it. These proposals are acceptable only if they ensure that increased payments are limited to rich households, while poor households do not face heavier costs for health. In any case, by maintaining a private sector in health, the government's proposals will ensure the continued system of inequalities, administrative inefficiency, and misallocation of health resources.

The People's Budget does not propose a 'big bang' approach to the introduction of an NHI, but rather a phased transition from the present situation. We therefore call for the establishment of a joint task team to identify and resolve outstanding issues and develop transitional mechanisms that can minimise disruption in the process of moving from one complex system to another.

5.4 Housing and infrastructure

South Africa faces a severe housing shortage. Millions of South Africans do not have access to adequate shelter or basic services, and as Table 8 indicates, this backlog is not decreasing. This situation adds substantially to the burden of household labour, which is almost invariably borne by women and, to some extent, children.

The Housing Subsidy Scheme and the Consolidated

Municipal Infrastructure Programme are the main government subsidy programmes for funding housing development and related infrastructure. The housing budget for 2002/2003 is R4,245 billion and the budget for the Consolidated Municipal Infrastructure Programme is R1,770 billion. Government expenditure on housing is currently only 1,5% of total government expenditure, compared to the National Housing Goal of increasing expenditure on housing to 5% of total expenditure, as indicated in Table 9. The annual housing delivery rate is less than the estimated annual growth in the housing backlog.

Table 8 : Housing backlog, 1995 and 2001

Province	Backlog 1995	Backlog 2001
Eastern Cape	149 397	361 271
Free State	77 221	123 200
Gauteng	561 873	518 897
KwaZulu-Natal	300 423	402 803
Mpumalanga	24 286	211 620
Northern Cape	23 533	48 576
Northern Province	54 326	426 605
North West	85 912	411 221
Western Cape	171 505	280 000
South Africa	1 448 476	2 784 193

Source: Department of Housing: 1995, 2001

Table 9: National housing expenditure, 1997 to 2005

Year	Total housing expenditure (R mns)	% of total government expenditure
1997/98	4 520	2,4%
2000/01	3 329	1,4%
2002/03 (budgeted)	4 245	1,5%
2004/05 (MTEF)	4 899	1,5%

Source: National Treasury, 2001, 2002

Reasons for a declining housing and infrastructure delivery rate and an inability to spend allocated funds include:

- the reliance on large-scale, greenfields projects, which often take a long time to get off the ground;
- the requirement that beneficiaries contribute R2479 in cash or labour;
- the extension of National Home Builders Registration Council building standards to all contractor-built subsidized houses;
- a lack of appropriate and affordable housing credit;
- poor coordination around planning permission and land acquisition.

While housing is provided for at a relatively low cost, most families must pay for water, electricity and refuse removal. User charges have soared dramatically as local and provincial authorities struggle to cope with budget constraints. These charges are effectively a regressive tax, as the poor pay a far higher share of their total income. The introduction of free basic services may have improved the situation since 2000, when the most recent survey data became available. In many cases, however, it appears that the new system provides only very limited free amounts, while raising the cost to all except the entirely destitute.

According to Statistics South Africa's income and expenditure survey for 2000, 45% of urban households earning under R1000 a month paid for their electricity. On average, they paid 10% of their monthly income. For urban families earning under R500 a month – a tenth of the total – electricity bills averaged 16% of income. Meanwhile, electricity accounted for just 2% of incomes for households getting over R8000 a month.

Water payments were even more inequitable. About a third of households earning up to R1000 a month paid for water – and used 8% of their income for the privilege. Those earning under R500 a month paid 14%. In contrast, the highest-income households paid just under 1% of their incomes.

In an effort to ensure payment, local governments and service providers have cut off households from services at an alarming rate. A government survey indicated that in the last three months of 2001, approximately 1,2 million households were affected by electricity cut-offs and more than 500 000 by water cut-offs. Telkom has disconnected almost 75% of the lines it installed in the past five years, largely because people cannot afford the service. Furthermore, an estimated 5% to 20% of the recipients of RDP houses end up selling them because they cannot afford to maintain the higher level of services, at an estimated cost of over R100 a month on average.

Yet for all the hardship these fees cause, poor households contributed very little to the fiscus. As a whole, households earning under R1000 a month paid less than 10% of urban water and electricity payments. In contrast, the richest 15% of urban households contributed over a third of water and electricity payments. A relatively small increase in fees from the rich, then, would easily make services affordable for the poor.

Finally, housing and infrastructure programmes remain poorly integrated with the broader development strategy. The RDP expected expenditure on housing to contribute to employment creation by improving workers' living conditions and access to work, providing a basis for home production, relieving the burden of housework on women, and providing demand for construction workers and materials. In the event, the construction of very small houses far from city centres means that the impact on employment has fallen short of expectations. In addition, the low levels of electricity and water provided, as well as the high cost, has largely prevented the hoped-for increase in productivity. Thus, while the share of houses using electricity for lighting has increased substantially, there has been virtually no change in the share of households that use electricity for heat and cooking.

The People's Budget proposes the following improvements in the housing and infrastructure budgets.

- Reverse the decline in allocations for housing and infrastructure.
- Subsidy amounts and eligibility criteria must be regularly reviewed in line with changing

conditions in order to ensure that a range of adequate housing options can be provided to those in need.

- The capacity of local authorities to provide adequate and affordable services must be built through targeted programmes.
- Funding for community facilities and other development initiatives must be linked to the housing subsidy so as to ensure sustainable, integrated development. Integrated development should include houses near access to job opportunities. Income security should also be considered to enable beneficiaries to pay for services and maintain ownership of the asset.
- Access to appropriate and affordable housing credit must be promoted.
- A clear framework must be developed to ensure universal and affordable access to basic services, based on cross subsidisation to poor households from the rich and, where appropriate, industry. The system of free basic services should be improved by raising the free amount and ensuring that the cost is borne by the rich, and the incidence of user fees must be monitored consistently.

5.5 Improving the status of women

Several minor interventions would significantly impact on the status of women in our society. Such interventions include:

- Funding for investigators to follow up cases of maintenance defaulters. This is provided for in the new Act, but has not been implemented.
- More government labour inspectors, so as to be able to ensure that the minimum wage determinations for domestic and agricultural workers are implemented.
- Training to Home Affairs officials so that they are aware of the Recognition of Customary Marriages Act, and implement it according to what the law states rather than their own 'custom'. In particular, they must follow the law in not insisting that both partners need to agree before a marriage is registered.

These are areas where relevant legislation exists, but where implementation is limited. These are the starting points for utilising public spending to directly improve the status of women. The People's Budget Campaign will continue with research and advocacy in this area, and hopes to supplement these

existing proposals with a wider set of integrated proposals during the current financial year.

5.6 Integrated treatment and prevention plan for HIV/AIDS

The failure of the budget to provide adequately for treatment and prevention of HIV/AIDS is a major shortcoming. Although it is true that the costs of treating people for HIV and opportunistic diseases while providing a massive education and prevention campaign will be high, failure to spend adequately will impose even higher human and economic costs on society.

The People's Budget endorses the Treatment and Prevention Plan proposed by the Community and Labour constituencies at NEDLAC. It consists of the following key interventions.

- 1. Expanding Voluntary Counselling and Testing Services.** Currently, Voluntary Counselling and Testing (VCT) is done only in designated sites. More healthcare workers must be trained and more counsellors must be recruited to expand the VCT programme.
- 2. Increased condom distribution.** The government says 200 million condoms are distributed in SA each year. This means that each sexually active person has access to only 20 condoms per year. Condoms must be available at all public places, schools and community centres, not only at clinics.
- 3. A National Mother-To-Child Treatment Programme.** Currently, 70 000 children contact HIV each year in SA. With affordable drugs and easy regimens, at least half of those infections can be prevented. The courts have ordered government to accelerate treatment in state hospitals, but progress remains slow, notably in Mpumalanga.
- 4. Implement Post Exposure Prophylaxis services.** There are drugs available which can prevent the transmission of HIV/AIDS, particularly in the case of rape victims, and healthcare workers who have been exposed to infected blood. Post Exposure Prophylaxis (PEP) involves the provision of these medicines.
- 5. Prevent and treat opportunistic infections:** Many people still die from avoidable and treatable diseases, as treatments for opportunistic infections are not available from clinics. TB is the biggest killer of people with HIV/AIDS in South Africa. The current TB programmes need to be changed to respond to

the way TB shows up in people with HIV. Certain drugs, like Cotrimoxazole, can prevent infections in people with HIV, and it is standard practice to administer this drug to people in the later stages of HIV/AIDS.

- 6. Provide anti-retrovirals:** Anti-retrovirals can prolong the lives of people with HIV by decades. Introducing them requires:
- improvements in staffing to oversee treatment;
 - development of standard treatment protocols for the public sector;
 - implementation of a programme to hold down the cost of anti-retrovirals, including a shift to the use of generics and enhanced local production.

An HIV/AIDS Treatment Plan with proper resources is an investment in a better health care system for all. Such an investment will involve employing new staff at clinics and hospitals and improving benefits for nurses, doctors, cleaners, clerks, counsellors, pharmacists and workers in the health care sector, especially in rural areas.¹²

This approach to meeting the challenge of HIV/AIDS draws on experiences in countries like Brazil, Thailand, Senegal and Uganda, which have developed effective responses to HIV/AIDS. For TAC, the Centre for Actuarial Research (CARE) studied the projected costs and benefits of the treatment and prevention plan by 2015. It has found that, compared to programmes that do not improve treatment, VCT and prevention, the number of AIDS orphans would be reduced by over half, to around one million, due to the substantial reduction in deaths due to HIV.

5.7 Food security

Soaring food prices in 2002 led to an escalation in inflation as well as extraordinary hardships for the majority of South Africans. This situation is indicative of a longer-term challenge facing South Africa.

The basic cause of food insecurity today remains the rapid shift to an unregulated market in agriculture in the mid-1990s, without adequate measure to control concentration in wholesale and retail trade. This situation was aggravated by the commercialisation of Transnet and limited funding for rural roads, which combined to raise transport costs for rural areas. At the same time, government's efforts to improve social protection go some way toward improving food security.

The fragmentation of programmes affecting food security led the National Department of Agriculture

to propose that the activities of different government departments should be integrated. The first draft Food Security Bill (NDA, 2002) attempts to achieve a greater degree of integration between government departments on the issue of food security through:

- reporting of food security related activities by all relevant departments to a lead department (understood to be Agriculture and Land Affairs);
- establishing a food security project proposal, evaluation and disbursement system using funds in the Agricultural Debt Management Account.¹³

Despite this initiative, research conducted for the People's Budget Campaign (Watkinson 2002) indicated that:

- South Africa's free market approach to food production and distribution will be a dramatic failure in a time of drought. The current system provides the mechanisms for government and the private sector to displace their risks onto the urban and rural poor.
- Existing food security initiatives, while providing useful lessons, will not be large enough to address the short and medium term consequences of drought.

More specifically, the research finds that:

- While VAT zero-rating of basic foodstuffs is appropriate and necessary, businesses often do not pass the relief on to consumers, and the basket of goods covered no longer reflects consumption patterns.
- Trade and tariff policy has an important impact on domestic food prices by delivering real increases in protection to producers at the same time as encouraging a large-scale shift to food exports. These policies should be fundamentally changed to ensure affordable access to basic foods.
- Although support for sustainable production by resource-poor farmers has increased, government support for food production continues to be heavily biased in favour of large-scale commercial farming. The current approach to land and agricultural development appears to be driven by reliance on the private sector, and will probably further entrench this pattern.
- Deregulation has led to a decrease in the state's capacity to control food quality and ensure that food standards are met by the private sector.
- The School Food Programme suffers from an

inadequate budget and a lack of a coherent framework. Despite government's claims to the contrary, teachers in several provinces claim that it has been closed down or radically reduced in scope in recent years.

6. Social pensions are not keeping pace with food price inflation. The extra increase in social pensions to combat food price increases in 2002 was welcome, but did not entirely compensate pensions for the full escalation in food prices.

Finally, there is considerable evidence that very high maize prices do reflect normal market forces, but instead, indicate hoarding by wholesalers. This, in turn, reflects the high levels of concentration in maize

trading. Given the very low elasticity of demand for this basic necessity, these conditions have led to unacceptable speculation and profiteering. Government should intervene urgently to prevent this type of behaviour, which leads to huge human and social costs. Possible measures include:

- introduction of fees or windfall profit taxes where unfair use of market power is found;
- government stockpiling of maize to counteract speculation in future;
- measures to support increased production of maize both within South Africa and in neighbouring countries.

6 Financing strategy

Introducing such an extensive set of integrated initiatives to eradicate poverty requires significant injection of developmental finance. The financing package proposed consists of:

- maximising tax capability in South Africa;
- resetting macro-economic parameters;
- redirecting spending on arms procurement;
- restructuring VAT;
- restructuring the GEPP.

The People's Budget proposals on the VAT and GEPP are covered in detail in our earlier documents. Here we focus on maximising tax capability, relaxing macro-economic parameters and the arms package.

6.1 Maximising tax capability

The South African government has been committed to maintaining an average tax level of approximately 25% of Gross Domestic Product (GDP) since the 1995/96 fiscal year (GEAR 1996, 9). Tax revenue as a percentage of GDP has remained relatively stable for the period 1992/93 to 2000/2001 at between 23,8% and 23,7%.

Given relatively high levels of revenue collection, the tax target leads to persistent cuts in taxes. The Medium Term Budget Policy Statement (MTBPS) states:

The robust revenue trend will allow for further tax relief measures in the year ahead, which in turn strengthens the economic growth outlook. A moderate reduction in the personal income tax burden on lower and middle-income earners will be implemented. (MTBPS 2002, 41)

The relationship between tax cuts and improved economic growth is at best a loose relationship. Simply stated, there is little evidence to suggest that tax cuts stimulate economic growth in South Africa. As noted above, the very large tax cuts of the past five years have not had a major impact on savings or on economic growth. Instead of cutting taxes, excess revenue raised should be utilised for social protection for the poor.

Studies carried out for the People's Budget indicate that South Africa remains under-taxed by about 7% compared to other developing countries, an amount equivalent to R70 billion a year. According to the latest international comparisons, looking at 50 developing countries:

... [I]t is important to note that South Africa's expected tax rate (measured as the expected value of the tax to GDP ratio conditional on the explanatory variables) is equal to 31,7%, which is 7,8 percentage points of GDP higher than the actual average tax rate of 23,9%. South Africa ranks as the fifth most under-taxed country in the sample, based on this tax effort analysis. (Van Niekerk 2002)

In short, the current ceiling on tax revenue is too rigid and restrictive. Rather than giving back excess revenue – mostly through income tax, which effectively advantages the rich – government should use the taxes to meet South Africa's pressing developmental needs.

6.2 Resetting macro-economic parameters

There is an emerging consensus that relaxing macro-economic parameters is crucial to South Africa meeting its developmental challenges. Raising additional resources for social spending is the foundation for realising the programmes discussed earlier. This section looks at two crucial macro-economic indicators – the tax:GDP ratio and the deficit:GDP ratio. Through economic simulations, an argument is developed for raising both tax and the deficit relative to GDP. The People's Budget Campaign has called for higher tax:GDP ratios and deficit:GDP ratios to raise funding for development.

Table 10 sets out the projection for total revenue and total expenditure over the period of the Medium-Term Budget Policy Statement.

The table indicates several positive factors, including:

- improved nominal revenue collection is envisaged over the medium-term;
- expenditure is projected to increase overall, and real non-interest expenditure is projected to grow modestly over the medium-term.

These are encouraging signs, particularly given the sharp declines in spending between 1996 and 2000. It continues the gradual shift to a more expansionary policy that was initiated in 2000.

Even so, the current increase is insufficient to overcome the impact of years of budget cuts between

Table 10 : Main budget framework 2001/2 - 2005/6¹⁴

R Million	Outcome	Estimate	Medium-term estimates		
	2001/02	2002/03	2003/04	2004/05	2005/06
Total revenue (R mns)	248 262	273 281	302 102	330 338	358 323
% of GDP	24,8%	24,3%	24,4%	24,4%	24,4%
% increase	15,2%	10,1%	10,5%	9,3%	8,5%
Total expenditure (R mns)	262 674	291 753	329 418	358 424	388 100
% of GDP	26,3%	26,0%	26,6%	26,5%	26,5%
% increase (non-interest expenditure)	14,6%	13,7%	13,7%	9,3%	8,7%
Real growth (non-interest expenditure)	7,5%	3,4%	6,7%	3,8%	3,7%

Source: MTBPS (2002), 32 and own calculations

Table 11: More expansionary budget proposals, 2001-2005¹⁵

	2001/2	2002/3	2003/4	2004/5
Revenue: % of GDP	24,5%	25,7%	26,4%	26,9%
Expenditure % of GDP	26,8%	29,7%	29,8%	29,8%
Deficit % of GDP	2,3%	3,9%	3,4%	2,9%
Real GDP growth rate	2,7%	4,5%	5,1%	5,3%
Additional social investment		R 25,0b	R35,2b	R46,7b

Source: Modelled for the People's Budget Campaign by EPRI

1996 and 2000. At the current rate of gradual expansion, we will only return to the 1996 levels of spending by about 2005.

Compared to the People's Budget proposals for 2003/4, the MTBPS is far below budget framework levels that will substantially begin to reflect eradication of poverty and substantive growth. Table 11 presents a moderate expansion to the budget, and serves to illustrate the possibilities of increasing spending through the fiscus.

The increased base for revenue collection indicates that there is fiscal space for a more expansionary budget. However, a variety of strategies can be used to improve the overall revenue available for spending, including reducing tax cuts or, more boldly, scrapping tax cuts over the medium-term. Adopting a more relaxed approach to revenue:GDP and expenditure:GDP ratios would also facilitate the implementation of a more genuinely expansionary budget.

6.3 Redirecting spending on arms procurement

The US\$4.8 billion strategic arms procurement programme, approved by Cabinet in 1999, is the single largest investment package approved by the democratic government. Currently predicted to cost R52.7 billion over the next ten years, the purchases effectively shift spending from the social wage to defence. Yet the arms procurement package is the least developmental of all spending.

No one can accurately forecast the ultimate cost of the arms deal. When Cabinet was initially considering the largely dollar-denominated package in 1998, its cost estimates were based on a predicted annual depreciation in the rand of 5 per cent. This would have resulted in an exchange rate of R7,76 to the US dollar in 2006. In the event, more rapid devaluation compelled the Treasury to revise the cost estimates ever upward: from R30.3 billion at the end of 1999 to R43.8 billion in 2001 and R52.7 billion last year (see table 12). The rand's recent recovery, if

Box 8 : Swords for ploughshares – Brazil postpones spending on arms

On taking office in January 2003, Brazil's new president, Luiz Inácio Lula da Silva (commonly known as "Lula"), postponed a US\$750m defence programme by a year to finance emergency social spending.

José Viegas, the new Defence Minister, said the purchase of 12 fighter aircraft would be delayed and funds diverted to hunger eradication projects. Aircraft manufacturers from the US, Sweden, Russia and France had been hoping for more than a year to clinch the arms contract.

Lula's "swords for ploughshares" announcement

underscores his government's pledge to begin aggressive social welfare programmes to reduce Brazil's income inequalities.

"Without income distribution, a revolution in education and a battle against famine, there won't be sustainable and lasting economic growth," said José Dirceu, Lula's Chief of Staff.

Brazil's initiative shows that there is nothing inevitable about spending on arms. The People's Budget Campaign is encouraged by Lula's bold move and urges the South African government to do the same.

Source: Collet R, 2003

sustained, may curb the growth of our weapons bill – although the foreign loans raised to finance much of the deal's cost ensure that it will remain vulnerable to unfavourable exchange rate movements for some time to come.

But exchange rate movements are only one of a number of factors that are likely to affect the final bill. Other variables include:

- **Inflation:** The arms contracts contain escalation clauses that allow price adjustments to offset the effects of inflation, either in South Africa or the relevant supplier country.
- **Interest rates:** Rising interest rates could increase the cost of servicing the debt incurred to finance the weapons purchases.
- **Hidden costs:** To be fully functional the weapons purchased require additional equipment, excluded from the original package in order to satisfy the Cabinet's cost criteria. In December 2001, the Auditor General put the cost of these additional purchases at roughly R2 billion.

Given government's commitment to restrictive macro-economic parameters, the growing cost of the weapons package threatens to "crowd out" spending on social services and infrastructure. Shortly before the defence contracts were signed, government anticipated that defence spending would increase by an average of 3,5% per year in the three years from 1998/99 to 2001/02. (1999 Budget Review) In fact, defence spending rose from R10,6 billion in 1998/99 to R16,1 billion in 2001/02 – an average annual increase of 14,9%. Over this same period, the consolidated spending on welfare grew by an average of 10,3% per year, health by 8,7% per year, and education by only 7,9% per year. (2002 Budget Review, 136 & 148)

The government has made a welcome decision to relax its austere deficit target slightly, but more of the additional funds generated should be available for social investment. The MTBPS lists the government's official spending priorities over the next three years as: infrastructure, the criminal justice system, social services, provision for HIV/AIDS and employment creation. Defence does not feature, yet its budget has been growing faster than any of these. Government

Table 12: 2001 and 2002 estimates of strategic defence spending by year

R million	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
2001 Est	2 849	4 220	5 078	5 828	5 533	5 793
2002 Est	2 639	4 047	6 331	7 199	7 194	7 704
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
2001 Est	4 712	3 635	2 863	1 194	1 041	1 027
2002 Est	5 960	4 491	3 502	1 314	1 182	1 160
Total 2001 Est	43 776			Total 2002 Est	52 723	

SOURCE: Budget Reviews (2001) and (2002)

allocated R4.6 billion to poverty relief and job creation schemes between 2001/02 and 2003/04. During this same period, it plans to spend R17.6 billion – nearly four times as much – on weapons.

Moderate defence spending to protect the nation's borders and natural resources is justifiable. However, in the South Africa where poverty, inequality and unemployment are endemic and there is no obvious military threat, current commitments, such as peacekeeping and natural resource protection, could be met with more modest investment.

Although outright cancellation of the contracts could expose South Africa to penalties, legal action and other damage, government has missed opportunities to reduce the overall cost of the deal. The procurement contracts call for the weapons to be supplied in three stages or 'tranches'. Government had the option to

decline to purchase the latter two tranches, provided they did so by certain deadlines.

Regrettably, the first of these deadlines passed in March 2002. However, South Africa has until 2004 to decline its option on the third tranche – 19 fighter jets with a price tag of more than US\$850 million. Although the manufacturer has discounted the cost of the fighters in this latter tranche to discourage South Africa from opting out¹⁶, government could still save roughly R8 billion (and possibly much more, depending on cost escalations and financing charges) by declining this tranche.

The People's Budget therefore calls for the immediate rejection of the remaining options and the redirection of the saved funds to social programmes. In addition, any future procurement plans should be subject to extensive public debate and more vigorous parliamentary oversight.

7 Building participation – a call for partnership

The transformation of the economy and democratic control over the allocation of Public Resources depends to a great extent on the reform of the budget process. Seven years after the new democratic constitution was adopted, parliament – the primary mechanism for public engagement with policy development – still has no effective power to amend government spending proposals, despite the Constitutional requirement that powers to amend money bills be extended to parliament ‘within a reasonable period’.

Limits on the power of parliament to amend the budget limits civil society’s interaction in a variety of ways.

- Parliament is one of the best avenues for civil society to engage on policy matters as it affects the budget, yet this space is limited as parliament has no effective oversight powers and no amendment powers.
- Without amendment powers and the capacity to interrogate budget proposals, parliament exerts only an advisory influence over public spending patterns. Civil society organisations, who make difficult decisions concerning the deployment of scarce human and financial resources, find it difficult to justify the commitment of both financial and human resources to a process which can offer no guarantee of change. At best it is an attempt to articulate new thinking and ideas in the hope that the Treasury will be interested enough to take some of these ideas and incorporate them into future policy statements.

The People’s Budget Campaign has identified a number of principles to inform a common approach to budget reform. These include:

- Section 77 of the Constitution must be implemented fully and expediently so that Parliament is empowered to amend the budget;
- Parliament must be given substantial and meaningful amendment powers – rather than being confined to tinkering with the details – so that it can exercise its democratic mandate as

an instrument of popular sovereignty;

- Parliament must have adequate and appropriate research and analysis capacity to enable it to use its powers effectively;
- NEDLAC and civil society organisations must have structured opportunities to make substantive input on the budget, particularly around expenditure;
- opportunities for input, both public and parliamentary, must be introduced throughout the budget cycle. They should not be confined to the final stages when substantial changes become difficult to incorporate without causing serious disruptions.

The introduction of legislation on budget reform has the potential to lend momentum to our efforts to create a true People’s Budget, to deepen democracy and to consolidate a partnership between parliament and civil society. It is our recommendation that parliament must fulfil its constitutional obligation to introduce amendment to money bills legislation before the next MTBPS statement in October 2003.

The 2003/4 People’s Budget contained detailed recommendations regarding the scope and content of parliamentary amendment powers, the enhancement of parliamentary capacity to engage budget issues, and the creation of new opportunities for broader public participation in decisions about the allocation of public resources. We continue to stand by these proposals. Rather than reproduce them here, we refer interested parties to last year’s People’s Budget document.

Once again our proposals are submitted a year before the budget is announced. We hope to strengthen our education, advocacy, research and mobilisation in the run-up to the budget for next year. During this period, we call upon parliament, our constituency, government and other progressive organisations to work with us in building civil society capacity to engage and contest economic policy issues. It is our collective future, and we will continue to engage on these issues, in the best tradition of our history as mass based organisations.

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End notes

- 1 The economy is characterised by a heavy reliance on mining with relatively weak local distribution of benefits; highly concentrated ownership, also evident in agriculture; rising unemployment, in part because of downsizing of the public sector and the opening of the economy and tariff cuts from 1994; and large inequalities in skills.
- 2 See Neva Seidman Makgetla and Tanya van Meelis, “Unpacking Unemployment,” presentation to DPRU Conference, 2002. Available on the website of the DPRU, University of Cape Town.
- 3 The official unemployment rate includes as unemployed only workers who are still actively looking for paid work. It excludes those who are too discouraged to continue to seek employment.
- 4 Government of the Republic of South Africa and Others v Grootboom and Others 2000 (11) BCLR 1169 (CC), para 23 (per Yacoob J).
- 5 At the time the Taylor Committee reported, 75% of poor children under the age of 7 did not receive the Child Support Grant. This figure has been dramatically reduced by a concerted public education drive undertaken by the Department of Social Development during the past year. However, estimates suggest that around a third of eligible children are still not receiving the grant.
- 6 The Taylor Committee prefers the term ‘solidarity grant’.
- 7 The study used GDP deflators based on the GDP inflation projections provided in the Budget Review 2002, Table 2.5, Pg 44. Thus real values are obtained by deflating nominal values by the price index.
- 8 This is a questionable assumption given that land in some areas of the Western Cape costs in the order of R150 000 per hectare.
- 9 If North West and Mpumalanga are included. The data for those provinces was not available in time for this research.
- 10 It is important to note that this budget includes a substantial amount allocated to Conservation and Environment – constituting about 50% of the total.
- 11 Currently, medical aid schemes are proposing a 30% rate rise.
- 12 This section draws extensively from material sourced from the Treatment Action Campaign (TAC).
- 13 In January 2002 the official in charge of drafting the Bill put the figure in the account at R1.2 billion. In June this year, the South African Human Rights Commission held a workshop where a second draft of the Food Security Bill was discussed. The Bill is officially embargoed.
- 14 This table only covers the main budget, and does not include spending on social security funds and foreign technical assistance
- 15 The People’s Budget Campaign will be updating its models and will provide more detailed information on this during the current financial year.
- 16 The unit costs for the aircraft were “front loaded”, meaning that the price on units in the first tranche were inflated and the those in later tranches discounted, supposedly due to the lower marginal production costs of additional units. If the government declines the option on the third tranche, it will end up paying a total premium of about US\$161 million on the nine Gripens in the first tranche (average cost US\$71.2 million each), as compared to the overall average unit cost of the 28 jets in both the first and third tranches (US\$53.3 million).