



## **The People's Budget Campaign**

# **Detailed Response to the 2006 National Budget**

**March 2006**

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# People's Budget Detailed Response to 2006 Budget

The People's Budget Campaign has released a press statement as a response to the budget. This document provides a more detailed response to the budget, based on a workshop between representatives from COSATU, SACC and SANGOCO.

## 1 Introduction

The Reconstruction and Development Programme which set out the programme for the South Africa reminded us

Our history has been a bitter one dominated by colonialism, racism, apartheid, sexism and repressive labour policies. The result is that poverty and degradation exist side by side with modern cities and a developed mining, industrial and commercial infrastructure. Our income distribution is racially distorted and ranks as one of the most unequal in the world - lavish wealth and abject poverty characterise our society. (Clause 1.2.1)

Twelve years after democracy, President Thabo Mbeki called this an Age of Hope. The President both remarked on the significant gains that we have made in meeting the challenges of reconstruction and development, but also explicitly that:

I must also take advantage of this occasion to explain that ASGISA is not intended to cover all elements of a comprehensive development plan. Rather it consists of a limited set of interventions that are intended to serve as catalysts to accelerated and shared growth and development. Otherwise we will continue to engage the nation and all social partners to address other elements of a comprehensive development plan to improve on our current programmes, and deal with other issues, such as the comprehensive industrial policy, keeping in mind the objective to halve poverty and unemployment by 2014.

In the spirit of the developing a comprehensive development plan the People's Budget Campaign has tabled, since 2001, detailed and costed proposals to reach the goal of eradicating poverty in one generation. Indeed, we remain optimistic not only that government will engage our proposals, but much more importantly that we will move collectively towards the implementation of a comprehensive development plan. It is in this spirit, that the People's Budget Campaign released its proposals for the 2006/7

budget year in February 2005, thus allowing South Africa to interrogate our proposals, and engage us in debate. Our proposals for the 2006/ 7 budget also provide a framework through which we assess the budget tabled by Minister Trevor Manuel in his 2006 budget speech. At the centre of our assessment is whether the budget translates our optimism into the practical and deliberate steps needed to achieve a future free of poverty.

To this end, our response focuses on:

- Budget and the developmental challenge
- Macroeconomic variables and growth of the budget
- Division of Revenue
- Strategic Areas for the Campaign
- Tax Proposals
- Budget Reform
- Conclusion

## **2 Budget and the Developmental Challenge**

This section first summarises the developmental challenge, points out the need for a national poverty line and assesses whether poverty has decreased in the last decade. Next, the document sets out the big choices that have been made in terms of budget overruns. Finally, this section summarises the missed opportunities given the budget overruns in South Africa.

### ***2.1 Development Indicators***

Minister Trevor Manuel, explicitly states “to budget is to choose”. Indeed budgets are about choices, but in turn the choices have implications for socio-economic justice and distribution of resources, amongst other effects. Simply stated, government budgets have beneficiaries and losers. Despite the admirable attempts to meet the interests of different sections of our society by the National Treasury, this characteristic of budgets is a widely accepted fact. The People's Budget Campaign has thus argued that a significantly redistributive stance by government would not only give expression to the concept of a pro-poor budget, but would also stimulate sustainable, accelerated and shared economic growth. Moreover, it would help to address the gross and persistent material inequalities that are the legacies of past exploitation.

Thus we call for an explicitly redistributive budget for three related reasons:

1. Inequality in our society remains morally unacceptable and, in perpetuating a barrier for poor people's participation in the economy, erodes the democratic values and gains the nation has made over the past twelve years. Moreover, there

- is compelling evidence that reducing levels of inequality supports more robust economic growth<sup>1</sup>.
2. The developmental challenge – which we discuss further below – is growing, not diminishing; despite significant increases in access to services. The primary challenge is thus ensuring that government spending addresses the rise in unemployment, inequality and poverty that we have witnessed.
  3. Shared economic growth, an aim we fully share with government, will require the utilisation of the budget in ways that create assets<sup>2</sup> for the poor, and build the social and political power of the poor, in a system where the President Mbeki correctly notes “The years of freedom have been very good for business”

Many would argue that the budget already plays such a redistributive role. They point to the fact that since 2000 the budget has been growing in real terms (i.e. after taking into account inflation), and that government has reprioritised resources. Both claims are valid. Indeed, we have welcomed increases in the budget, and witnessed the democratic government redirect resources to the poor. However, these arguments concern the inputs into the budget process.

Viewed from the perspective of outcomes in our society, a very different picture emerges. It is a picture, of growing unemployment, inequality and relative poverty. The People's Budget Campaign recognises that arguing that poverty, unemployment and inequality have increased (or at least not decreased significantly) is politically sensitive. However, our review of independent studies leads us to conclude that economic inequality and unemployment both appear to have grown over the last ten years. This is an unsurprising position, given that between 1994 and 2004 unemployment has doubled, inequality has increased, and life expectancy has decreased<sup>3</sup>. Box 1 summarises several of the recent analyses of poverty in South Africa.

**Box 1: Has poverty increased in South Africa**

This box summarise some studies that have measured poverty in South Africa.

These papers – amongst others – find that poverty has either increased or remains stable.

- **Human Development Report 2003:** The report argues that that there has been an increase in the number of people living under US \$ 1 per day, from 9.4% (1995) to 10.5 % (2002). The same report indicates that there has been a slight decline in the number of people living under US \$ 2 per day, from 24.2% (1995) to 23.8% (2002).

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<sup>1</sup> This argument has a long history in poverty eradication strategies. This includes the 2006 World Development Report and the 2003 Human Development Report for South Africa.

<sup>2</sup> The concept of asset building or redistribution has become synonymous in South Africa with the work of Hernando do Soto, a celebrated free market economist. However, asset building has a long and strong tradition in development economics from a left perspective. Authors such as Adelman, Bowles and Gintis, Sherredan, Carter, May and others have developed significantly more interesting and practical proposals for asset building, than the ‘silver bullet’ argued by do Soto.

<sup>3</sup> These are discussed fully in the 2006/7 People's Budget Campaign proposals. The proposals are available at <http://www.sangoco.org.za>, <http://www.naledi.org.za> and at <http://www.sacc-ct.org.za>

Interestingly, the official South African estimates of poverty<sup>4</sup> are higher than those in the Human Development Report. Using national estimates of poverty and inequality in South Africa, in 2000, 11% of people were living on less than US\$1 a day and 34% were living on less than US\$ 2 a day.

- **Human Sciences Research Council:** New estimates of poverty show that the *proportion* of people living in poverty in South Africa has not changed significantly between 1996 and 2001. However, those households living in poverty have sunk *deeper* into poverty and the gap between rich and poor has *widened*. Approximately 57% of individuals in South Africa were living below the poverty income line in 2001, unchanged from 1996. Given population growth, this also implies an increase in the numbers of poor people living in poverty.
- **DBSA Development Report 2005:** All these measures support the argument that poverty has increased in South Africa in terms of proportion of people living in poverty, the extent of poverty, as well as inequality.
- **Charles Simkins 2005:** Simkins' comparison of four poverty measures between the 1995 and 2000 Income and Expenditure Surveys show a clear increase. Comparisons of poverty measures between 1996 and 2001 census data showed a mixed picture. On balance, it is likely that poverty worsened.
- **Charles Meth and Rosa Dias** found that – the state's best efforts notwithstanding – the number of people falling below a parsimonious poverty line has increased between 1999 and 2002, probably by at least 2 million.

Two sources argue that poverty has decreased:

- **South African Advertising Research Foundation:** Based on Living Standards Measure (LSM) there is a trend line indicating that there has been a decline in the number of poor South Africans.
- **Bureau for Economic Research, University of Stellenbosch:** The authors utilise multiple methods, and argue that between 2000-2004, there has been a decline in poverty. Even here there is an increase in the **number** of people living in poverty under one of the models developed.

Both sets of arguments – those arguing that poverty has increased and those claiming that it has decreased – point out that poverty remains a significant challenge. Minister Manuel in the 2005/6 Budget Speech explicitly indicated that a poverty line would be constructed. We eagerly await this, as it will allow for comparison of data.

## 2.2 A time of plenty?

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<sup>4</sup> See South African governments report to the United Nations on Millennium Development Goals

Minister Manuel is once again in the enviable position of having collected more revenue than was projected in the budget. The Treasury's perpetual underestimation of taxes is an important concern for the PBC for three reasons:

- It opens the space for tax cuts, while our institutions (schools, hospitals, police stations) all experience significant increasing demands on them;
- It places departments in an untenable position. Treasury officials throughout the year ask government departments to budget on the basis of their estimates, but these estimates are smaller than necessary. This means that potential projects are shelved, and even when it becomes apparent that resources are available, it is not possible to revive them in the limited time available.
- It skews the budget towards projects which do not assist shared economic growth, as we will show in this section.

This analysis focuses only on the R 41 billion overrun in revenue collection. The PBC discusses other important aspects of the budget in subsequent sections. The intention in focussing on the tax overrun is to indicate that money raised later in the fiscal year can be deployed effectively for anti-poverty programmes.

The Minister thus had to allocate an additional R 41 billion revenue windfall, which he did in the following way:

- 19,1 billion in tax relief
- 15, 3 billion rand in additional spending
- 6,6 billion to reduce the deficit

Overall this reflects a conservative approach to dealing with the additional revenue. Alternative scenarios that could have a bigger developmental impact include:

- Increasing allocations to asset building programmes, like housing and land
- Reduced or no tax relief and the redirection of these resources to infrastructure spending
- Utilising additional funds for venture capital initiatives to support Small, Medium and Micro Enterprises (SMME's)

In summary, the overrun in revenue presented an opportunity for a bolder redistributive budget that would facilitate the economic participation of the poor. Instead, the primary deployment of the surplus is to support continued tax cuts.

**Box 2: The Minister's enviable problem and a suggestion**

For a few years now, Minister Manuel has had a significant annual revenue overrun. He has usually decided to make some additional funding available for programmes while using the 'extra revenue' to provide tax cuts. This has to be described as an enviable

problem. Amazingly, we have been able to cut taxes, reduce the deficit, and increase spending simultaneously.

It may seem that South Africa has no problem with funding programmes, only with spending allocated resources. However, institutions like schools, hospitals, police stations and other public institutions experience significant resource constraints, even while we are cutting the budget. Similarly, local governments have significant difficulties implementing their Integrated Development Plans.

There thus seems to be a significant mismatch between experiences on the ground, and the view in National Government. Parliament should recommend that each department conducts a rigorous evaluation of service delivery institutions and finds ways to quantify and submit proposals to the Minister. For instance, a school may need an overhead projector, or a police station a photocopier. If these are known allocations, they could be easily disbursed, potentially resulting in significant improvements. Some objectives, like increasing the numbers of Maths and Science teachers, could benefit from a once off endowment to a University that could be utilised over five years to encourage and fund students. In short, the additional resources can be spent in ways that are practical, credible, catalysing and sustainable.

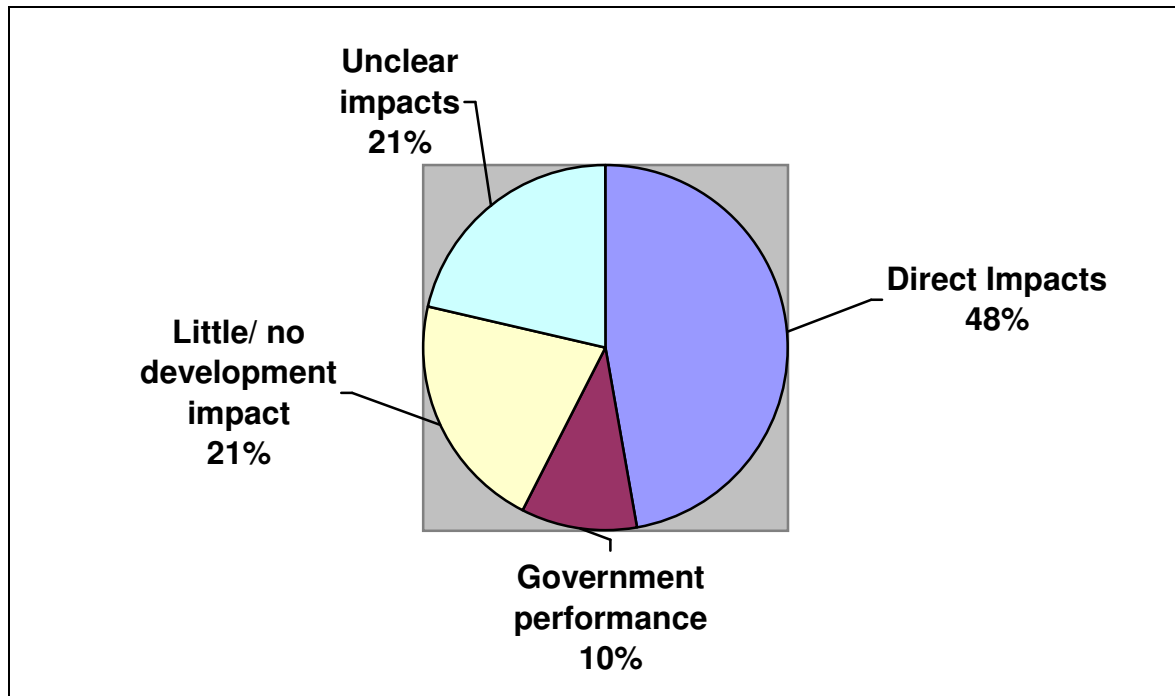
The other problem is the continued underestimation of revenue. Apparently, this has a lot to do with the reporting cycles for companies, especially VAT receipts. As such, treasury only receives the information on actual receipts in January of each year, three months before the financial year end. There are, however, ways to improve the forecasting without changing the system. One way would be to commission the development of a forecasting model that could use data generated earlier in the year to provide more robust estimates.

Having noted our disagreements to utilising overruns to fund tax cuts, we focus next, on the actual allocations (i.e. the 15 billion additional spending). Looking more closely at which sectors benefit from additional allocations, we have divided additional MTEF allocations into four categories. These are:

- Projects and activities that have a clear and demonstrable impact on the poor.
- Projects or programmes that, in the view of the PBC, will have little or no positive developmental impact.
- Projects with uncertain developmental impact, usually because the underlying policy principles or the implementation plans have not yet been adequately elaborated or reviewed.
- Initiatives primarily aimed at improving public service administration.

Based on this categorisation, we have reviewed the categories allocated in the Explanatory memorandum to the Division of Revenue (Budget Review, page 215). See Annex One for the allocation of line items into these categories. Our analysis is summarised in the Graph 1 below:

**Graph 1: PBC analysis of additional MTEF allocations**



The analysis shows that 58% of additional spending (Direct impacts plus improving government performance) are allocations that we would definitely welcome, as they contribute to development and reconstruction in our society. The allocations that will have little or no positive impact (i.e. Gautrain, PBMR and government accommodation) account for just over a quarter of spending. This is extremely worrying. Whilst there may be sound administrative reasons for improving government accommodation, both the Gautrain and PBMR are likely to have negative effects on development, and hence they have no place in an anti-poverty strategy. The allocations which we have marked as unclear include Industrial Development Zones, as well as Research and Development. In both instances, there is potential for a positive developmental impact, depending on the details. Our scan of the Estimates of Expenditure and Budget Review do not provide us with sufficient details to make a determination in this regard.

The central message, though, is that a higher percentage of the additional revenues earmarked for spending could go directly to reducing poverty and inequality and creating quality jobs. Although the largest share of additional spending will go to projects that can diminish poverty, can we justify spending R 3.24 billion on the Gautrain when the municipal equitable share and Project Consolidate only receive an additional R 563 million in the 2006/7 budget.

### **2.2.1 Summary**

Based on this analysis, we would argue that:

- In the broad allocation between taxes, spending and deficit, government has adopted a cautious and conservative stance
- The actual additional allocations are only redistributive in certain respects, but in the context of high levels of poverty and unemployment and growing income and wealth inequality, more could and should be done to combat poverty.

Minister Manuel has thus missed an opportunity to make South Africa’s fiscal policy more strongly redistributive.

### 3 Fiscal policy and budget growth

The previous section correctly argues that “to budget is to make choices”. We disagree with Minister Manuel on the some of the broad choices and would argue for a significantly more redistributive fiscal stance. In this section, we begin to explain in greater detail our proposals, highlighting the areas of agreement and disagreement between the PBC and the National Treasury.

Table 1 presents the main budget framework

**Table 1: Main Budget Framework (2005 to 2009)**

R Billions	2005/6	2006/7	2007/8	2008/9
Total expenditure	419	472.7	519.2	571.3
Less				
Debt service costs	51.2	52	53.3	55.7
Contingency reserve	-	2.5	5.0	8.0
Total allocations	367.8	418.2	460.8	507.6
Percentage increase	14.5	13.7	10.2	10.1

Budget Review, page 13

On the assumption that inflation remains between 3 and 6 %, the main budget framework presents a moderately expansionary stance by government in terms of increased expenditure across the MTEF.

There is however sufficient space for an even more expansionary stance that could link growth and equity in more substantial ways. In its recommendations to the Minister, the PBC proposed scenarios that would significantly increase the revenues available, which if spent efficaciously would translate into a virtuous cycle of job creation and shared economic growth. In particular, we called for the increase of the tax:GDP ratio, and as an

option the deficit: GDP ratio. Table 2 shows the intentions of government on these two important ratios.

**Table 2: Tax and deficit as a percentage of GDP**

Government Scenario				
% of GDP	2005/6	2006/7	2007/8	2008/9
Revenue	26.4	26	26.1	26.1
Deficit	0.5	1.5	1.4	1.2
Expenditure	26.9	27.6	27.5	27.3

There is a welcome trend observable in these numbers with respect to a significant increase in the Tax: GDP ratio, which rises by 1.8% in comparisons to projections in the 2005/6 budget. The upward revision of the tax: GDP ratio is in the right direction, and indicates that government has moved beyond the 25% target set by GEAR. Moreover, the broad direction of the policy – with some quibbles on the details – is in line with the Balanced Moderate Expansion Scenario presented by the PBC in its proposals for the 2006/7 financial year. This scenario calls for an increase in the expenditure primarily through an increase in the Tax:GDP ratio. Thus we welcome the direction undertaken, but would maintain that a Tax:GDP ratio of 28,5% would be a better option.

The deficit has been revised downward, and will remain below 2% over the MTEF, a level which is extremely low given our country's development challenge. South Africa does not run the risk of a debt trap, and the PBC argues for a moderate increase in the deficit. Moreover, our proposals offer a way to reduce debt costs through:

- Interest rate reductions
- Issuing low interest bonds
- Managing the apartheid debt by ring fencing it and negotiating more advantageous repayment terms.

Consequently, the potential of a higher deficit to fund infrastructure investment should be an important policy discussion in South Africa. Current infrastructure investment in rail, roads and electricity are already accounted for in terms of government plans. The missing component in our infrastructure strategy is investment that supports the development of the second economy. For instance, linking farms to road and rail networks, or building beneficiation centres near existing mines could provide an important boost to rural and poor areas in South Africa. Moreover, such investments would require much less capital than more ambitious programmes designed to reduce the cost of business and improve logistics.

### **3.1 More on budget choices**

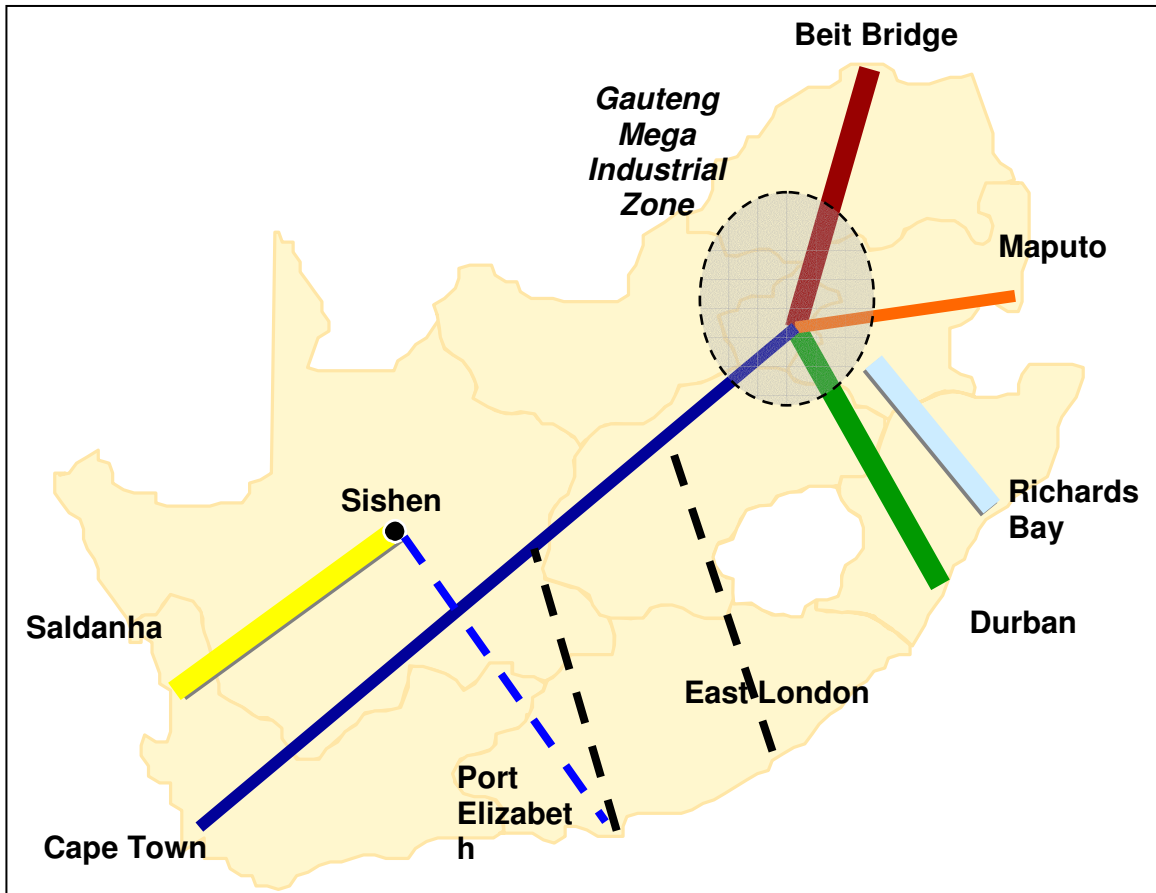
Before going on to an assessment of the strategic line items, we must return to the theme of making choices. This section provides an illustrative list of choices which we dispute together with proposals on how we can make changes.

- **GAUTRAIN vs. affordable public transport :** Government has budgeted R 7.1 billion over the next three years for the GAUTRAIN. However, poor communities and working people are unlikely to reap the transportation benefits offered by the GAUTRAIN both because few people will be able to afford to use it and because its route fails to take cognisance of apartheid spatial planning. In comparison, public transport for all municipalities will receive R 3,5 billion over the medium term. (Budget Review, 800.) The GAUTRAIN – a single project – thus has about twice the combined budget of all other municipal infrastructure projects aimed at improving public transport.
- **Venture capital for Pebble Bed Modular Reactor versus venture capital for young people:** The PBMR has been justifiably criticised for its costliness and its potential impact on the environment. The PBC however wishes to buttress the argument from a different standpoint. The allocations to the PBMR cast government in the role of a venture capitalist. In effect, the allocations from the fiscus represent almost 'double funding' from government, as the Industrial Development Corporation is already a partner in the project. The Estimates of Expenditure (page 185) indicates that since 2004/5 financial year, government has committed R 1,7 billion to the scheme (including an allocation of R 580 million in the 2006/7 financial year). One of the partners, Exelon has withdrawn from the joint venture, possibly indicating that it is not viable. Government could instead using this R 580 million as venture capital for young people to start business, especially enterprises focusing on the creation of alternative and sustainable energy sources. Assuming that government invests R1 million per venture, South Africa could see the creation of 290 viable businesses (on the assumption that 50% of businesses would fail). The return on investment in terms of job creation, and economic growth would have substantially more developmental impact than the PMBR. This approach would also contribute to the emergence of a more robust programme for developing renewable forms of energy. Moreover, Eskom given its balance sheet can raise the money for the PBMR venture on capital markets.
- **Road accident fund and Arrive Alive Campaign:** The decision to increase the petrol price to fund the Road Accident Fund is motivated by admirable objectives including covering outstanding claims and building up the credibility of the RAF. However, this treats the symptoms of high numbers of road accidents and fatalities in South Africa. A different approach would be to introduce a fuel levy of about 1 cent per litre to fund the activities of Arrive Alive. This would provide the resources needed for the campaign, as well as cash injection to support emergency services.
- **Infrastructure for exports and infrastructure for development:** The PBC has long called for significant increase in spending on railways, roads and electricity. The underinvestment during the GEAR years was significant, as demonstrated by a decline in Gross Capital Fixed Formation from 1997 to 2000. We thus welcome

the injections needed for maintenance and improvements in services. We however believe that the infrastructure proposals, especially for rail, are too focussed on supporting the export of raw materials.

- **Electricity infrastructure:** The PBC recognises the importance of building new generation capacity, although we believe this must be coupled with better strategies for demand-side management. Our concern with infrastructure investment is that it will primarily benefit the larger customers with little impact on job creation. The infrastructure investment plans run in tandem with a pricing policy that creates 'special customers'. These customers are large users of electricity who will benefit both from lower pricing and a choice of supply. One of the key beneficiaries of such a system is aluminium smelters. South Africa does not have bauxite ore (the raw material for aluminium), yet several large aluminium smelters have been set up. The reason is the preferential prices these companies receive for electricity. These smelters are both energy intensive and capital intensive. They are, however, not labour intensive nor do they enhance human capital. The expansion of electricity infrastructure thus needs to be linked to efforts to support SMMEs in manufacturing if huge investments are to link up with efforts to job creation. The RDP supports this view with an explicit commitment to reducing electricity costs for SMMEs.
- **Transport infrastructure:** Diagram 1 shows the expansion plans of Transnet. The expansion plans indicate a strong emphasis on reducing costs for exports, moving raw materials such as iron ore, gold and coal. The danger is that such an expansion plan promotes a growth path that would not lead to shared growth, since multinational companies enjoy disproportional benefits from infrastructure investment. Plans to build opportunities for beneficiation along these routes and to link farm communities to railways are mostly absent from infrastructure investment proposals. Consequently, the challenge is to ensure that infrastructure investment patterns do not reinforce 'enclave capitalism', but rather broaden economic participation. This is a central area that the ASGISA should look at.

**Diagram 1: TRANSNET Investment Plans**



In summary, these budget choices reflect an orientation in government that does not maximise investment options to:

- Build economic participation by the poor, especially young people, by playing a role as a venture capitalist
- Provide affordable public transport that does not reinforce apartheid spatial patterns by providing expensive transport on one major route, at the expense of municipalities
- Significantly integrate rural areas and the second economy into the mainstream economy instead of reinforcing enclave capitalism and
- Maximise prevention measures in order to stop road accidents.

Moreover, we provide proposals – that we will research in greater detail – on how allocations in the budget could be more redistributive.

## 4 Division of revenue

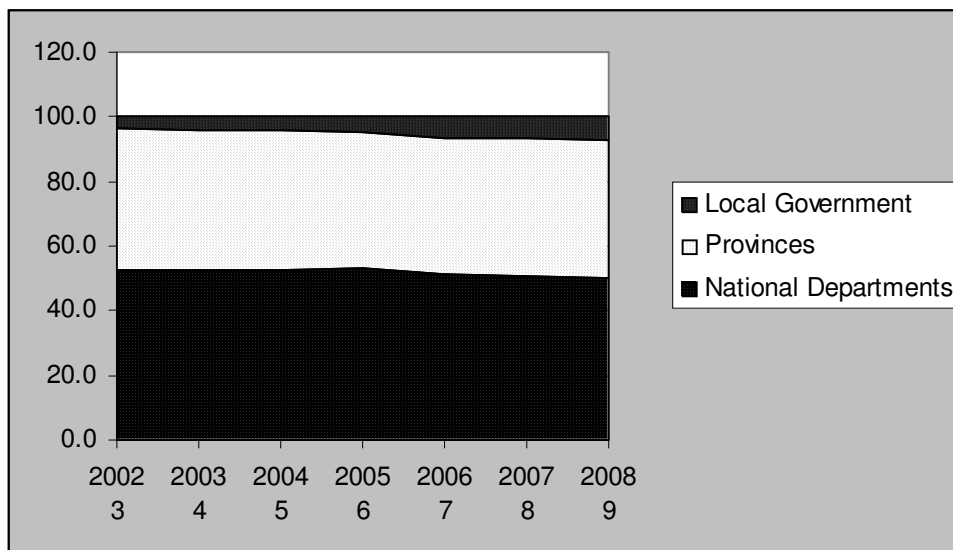
Table 3 provides the overall division of revenue between national, provincial and local government.

**Table 3: Division of revenue**

	Audited Outcome			Revised Estimate	Medium-Term Estimates			% increase 2005/6 to 2006/7	% increase 2006/7 to 2008/9
	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2008/9		
National Departments	129297	148142	168018	196429	214964	233996	254495	9.4	18.4
Provincial Departments	107317	122673	137836	154528	176679	196351	217481	14.3	23.1
Local Government	8102	11581	13837	16859	26532	30503	35575	<b>57.4</b>	<b>34.1</b>
<b>Total</b>	<b>244716</b>	<b>282396</b>	<b>319691</b>	<b>367816</b>	<b>418175</b>	<b>460850</b>	<b>507551</b>		
Percentage Shares									
National Departments	52.8	52.5	52.6	53.4	51.4	50.8	50.1		
Provinces	43.9	43.4	43.1	42.0	42.3	42.6	42.8		
Local Government	3.3	4.1	4.3	4.6	6.3	6.6	7.0		

The overall picture for the MTEF is that National Government will account for between 50 to 51% of expenditure, with provinces accounting for around 42%. Local government rises over the MTEF as a share of expenditure, but also has the highest percentage increase in comparison to the 2005/6 financial year, and over the MTEF. (Shaded areas of Table 3 ) The changes in the division of revenue are captured in the graph below.

**Graph 2: Division of Revenue (2002/3 to 2008/9)**



The trends are encouraging as local government's share increases over the MTEF, thus supporting the enhancement of service delivery and its improvements in this most crucial sphere of service provision. This is however inadequate, and off a very low base. Overall, the reduction of the share of spending at national level - and the increased share at local government level - is to be welcomed as an important first step. The PBC argues that local government should have a greater share of nationally raised revenue.

However, the distribution between equitable share and conditional grants for both provincial and local government requires further debate. Table 4 shows the percentage breakdown between equitable share and conditional grant.

**Table 4: Equitable share and conditional grants for provinces and local government**

	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2008/9	% increase 2005/6 to 2006/7	% increase 2006/7 to 2008/9
<b>Provinces</b>									
Equitable Share	93895	107538	120885	135292	150753	167701	187100	11.4	24.1
Conditional Grants	13422	15135	16951	19237	25926	28649	30382	34.8	17.2
<b>Total</b>	<b>107317</b>	<b>122673</b>	<b>137836</b>	<b>154529</b>	<b>176679</b>	<b>196350</b>	<b>217482</b>	<b>14.3</b>	<b>23.1</b>
<b>Percentages</b>									
Equitable Share	87.5	87.7	87.7	87.6	85.3	85.4	86.0		
Conditional Grants	12.5	12.3	12.3	12.4	14.7	14.6	14.0		
	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
<b>Local Government</b>									
Equitable Share (including RSC levy replacement)	4187	6350	7678	9643	18058	20078	22775	87.3	26.1
Conditional Grants	3916	5231	6159	7215	8474	10428	12801	17.4	51.1
<b>Total</b>	<b>8103</b>	<b>11581</b>	<b>13837</b>	<b>16858</b>	<b>26532</b>	<b>30506</b>	<b>35576</b>	<b>57.4</b>	<b>34.1</b>
<b>Percentages</b>									
Equitable Share	51.7	54.8	55.5	57.2	68.1	65.8	64.0		
Conditional Grants	48.3	45.2	44.5	42.8	31.9	34.2	36.0		
	100	100	100	100	100	100	100		
Equitable excluding RSC levy replacement					7000	8000	9000		
				9643	11058	12078	13775	14.7	24.6

At face value, the 87% increase in the local government equitable between for 2006/7 and 2005/6 appears significant. However, once the RSC levy replacement is deducted, the increase comes to 14.7%. (The reason for deducting the RSC levy amount is that this is revenue that local government would have collected over and above their equitable share.)

Conditional grants increase significantly, both in rand terms and as a percentage of local government funding. This is a worrying trend, as poorer local governments have great difficulty raising revenues and following processes related to conditional grants. The estimates however show that as a percentage of national allocations, conditional grants fell from 42.8% in 2005/6 to 36% in 2008/9. This indicator is moving in the right direction, although an 80:20 split between equitable share and conditional grants is probably more healthier for consolidating local government in the long term.

The PBC argues that this ratio must become the focal point of a critical policy debate over the next few years. On the one hand, conditional grants provide a sharper instrument to direct spending in areas that support national priorities, and are less likely to be swallowed into municipal budgets to cover running expenses. On the other hand, many local governments have significant financial problems and do not have the capacity to apply for conditional grants. The PBC will contribute to this debate in its submission for the 2007/8 budget. This will include an assessment of rules and regulations governing conditional grants that are seen as onerous.

## **5 Strategic Areas for the PBC**

The PBC does not provide a line-by-line analysis of the budget, but rather concentrates on key areas that we believe are significant to crushing poverty, creating quality jobs and improving the human condition in South Africa. In the previous sections, we have explored our macroeconomic stance, and in this area we focus on strategic areas for which the Campaign has developed proposals. The areas are:

- Local government
- Land reform
- Housing
- Education
- Social Security
- HIV/Aids

In each of these areas, the discussion focuses on:

- A comparison between PBC proposals and government allocations;
- Specific line items (as opposed to overall budget votes) that allow us to look more closely at distributional consequences.

### **5.1 Local government**

The previous section discussed the equitable share and conditional grants for local government. In this section, we focus on key areas within the Provincial and Local Government budget vote, highlighting the following:

1. Improvement in local government service delivery

## 2. National support for local government

One of the key mechanisms for delivery at the local level is the Municipal Infrastructure Grant (MIG), which is the biggest allocation to municipalities from national government. The MIG was set up to merge funding for the following programmes in a phased manner commencing in 2004/05:

- Consolidated Municipal Infrastructure Programme, which supports internal bulk, connector infrastructure and community facilities to poor households;
- Water Service Capital Fund, which support bulk, connector and internal infrastructure for water services at a basic level;
- Community-based Expanded Public Works Programme, which supports the creation of community assets in rural, historically disadvantaged communities;
- Local Economic Development Fund, which supports planning, and implementation of job creation and poverty alleviation;
- Sport and Recreation Programme, which sustains sport and recreation facilities within disadvantaged communities; and
- Electrification, which seeks to address the electrification backlog of permanently occupied residential dwellings that are situated in historically under-supplied areas. Electricity has however not yet been integrated into the MIG, due to the restructuring of the Electricity Distribution Industry.

Several important considerations arise in terms of this specific budget vote. First, transfers from the Department of Provincial and Local Government to provinces and local government have grown by roughly R351 million. These allocations signal encouraging potential improvements in the delivery capacity of local government. Since the MIG was set up in terms of Schedule 4 of the Division of Revenue Act, national government involvement is limited to enforcing compliance and monitoring performance. In a sense, this is much better than previous systems where local governments had to hurdle massive bureaucratic processes to receive funding.

Second, it is important to note that specifically in relation to free basic services, it is local government that sets tariff patterns. In this regard, the ANC makes an important policy principle, that tariffs must be based on the principle that 'the more one uses, the more one pays'. However, whilst local governments have adopted free basic services, the principle of rising block increases has not come into affect. Table 5 shows the Johannesburg water tariffs for water in 2005/6

**Table 5: Johannesburg water tariffs**

K/l	Price	% change
0-6	0	-
7 to 10	3.9	-
11 to 15	4.8	23.1
16 to 20	6.45	34.4
21 to 40	7.75	20.2
40 plus	9.15	18.1

The table shows that the percentage increase between tariffs is smaller for each ascending block. A better system would be to increase the tariffs in percentage terms so as to implement fully the vision of escalating block tariffs.

However, the MIG shows significant increases over the MTEF, as does the Municipal Systems Improvement programme as shown in Table 6.

**Table 6: Key local government allocations from DPLG vote**

	2002/ 3	2003/ 4	2004/ 5	2005/ 6	2006/ 7	2007/ 8	2008/ 9	% Incre ase 2005/ 6 to 2006/ 7	% Increa se 2006/ 7to 2008/ 9
Municipal Systems Improvement Programme	9383 1	1509 93	1822 43	2000 00	2000 00	2000 00	2000 00	9.7	0.0
Municipal Infrastructure Grant	1865 199	2442 170	4439 942	5436 161	6265 300	7148 564	8053 090	15.3	48.1

The table indicates that infrastructure spending through the MIG grant will see a significant increase of 48.1 % over the MTEF. This will provide substantially more resources for local government infrastructure, and could potentially have a dramatic impact on backlogs. Moreover, the underlying logic of keeping the allocations for municipal systems improvements constant over the MTEF reflects a commitment to a sustained programme capable of building local government performance. Although we support this approach, the PBC would also argue that constant needs assessment for capacity improvements might require increases over the baseline.

## 5.2 Land

The section on land first discusses the restitution budget vote before turning to the land reform (redistribution and security of tenure) budget vote.

### 5.2.1 Land restitution

The budgets for restitution show significant and welcome real increases throughout the medium term. Table 7 shows the proposed increases in rand and percentage terms. In fact, the budget appears to accommodate the PBC's call to significantly increase the restitution budget.

**Table 7: Land restitution budget**

	Audited Outcome			Revised Estimate	Medium-Term Estimates		
	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2008/9
Restitution	394265	839116	1182780	1905678	3369132	3837607	2500000
Rand Increase/ Decrease		444851.0	343664.0	722898.0	1463454.0	468475.0	1337607.0
% Increase		112.8	41.0	61.1	76.8	13.9	-34.9

However, we are saddened by the fact that government has missed the target of settling land claims by 2005. The PBC developed a framework to settle land claims by 2010 and costed these at approximately 10 billion rands. Over the MTEF period (i.e. 2006/7 – 2008/9), government budgets R 9,7 billion. This is an important step in the right direction.

A further disappointment has been significant under spending on the estimated restitution budget for the 2005/6 financial year. Table 8 shows the difference between the adjusted appropriation and the revised estimate. The estimates indicate that government under spent on restitution by R 800 000, or about 30% of the budgeted amount. This is worrying, given the need for a rapid completion of restitution process.

**Table 8: Under spending on restitution**

Adjusted Appropriation	2705678
Revised Estimate	1905678
Difference	800000
Percentage under spending	29.56745

## 5.2.2 Land Redistribution

The land reform line item (which includes land redistribution and security of tenure) similarly provides for significant increases. Table 9 looks specifically at the line item for land reform grants. Land reform grants underwrite projects and programme planning, land acquisition and settlement.

**Table 9: Land reform grant**

	Audited Outcome			Revised Estimate	Medium-Term Estimates		
	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2008/9
Land reform grants	310860	347059	327006	514306	665357	1009548	2616313
Rand Increase/ Decrease		36199.0	-20053.0	187300.0	151051.0	344191.0	1606765.0
% Increase		11.6	-5.8	57.3	29.4	51.7	159.2

At face value, the increases look impressive, showing strong and consistent growth in the land redistribution budget. However, the People’s Budget Campaign has indicated that meeting the target of redistributing a further 27% of agricultural land (in addition to the 3% redistributed during the past decade) would cost R 15,4 billion. To achieve this target would require a budget of around R 1,5 billion per year.

On this basis, then, the budget is largely inadequate. Table 10 compares the PBC proposals which cost government’s modest commitment to redistribute 30% of agricultural land by 2015. Using this measure, it is only in the only in the outer year (2008/9) that the budget reaches a level sufficient to achieve government’s target. Although the PBC welcomes the announced plans to abandon the ‘willing buyer-willing seller’ principle, we recognise that even if government exercises its option to expropriate land, the budgeted funds are likely to be insufficient to achieve land redistribution goals.

**Table 10: Under funding of land redistribution**

R Thousands	Audited Outcome			Revised Estimate	Medium-Term Estimates		
	2002/3	2003/4	2004/5		2005/6	2006/7	2007/8
Land reform grants	310860	347059	327006	514306	665357	1009548	2616313
Rand Increase/ Decrease		36199.0	-20053.0	187300.0	151051.0	344191.0	1606765.0
% Increase		11.6	-5.8	57.3	29.4	51.7	159.2
Under funding in terms of target				985694	834643	490452	-1116313

Furthermore, the performance by the Department of Land Affairs in the 2004/5 financial year is again disappointing with actual amounts spent on land grants declining in comparison to 2003/4 financial year.

### **5.3 Housing**

The People’s Budget Campaign has called for housing to be allocated 5% of total expenditure. Total spending on housing for the 2006/7 budget amounts to only to 2% of total expenditure. This occurs in the context where the Department of Housing reminds us:

Despite the delivery of 1 831 000 new subsidised houses between 1994 and March 2005, with a further 57 065 sites serviced and 52 548 houses built between April and September 2005, the housing backlog continues to grow (Estimates of Expenditure, page 642)

Thus our call for housing expenditure to be increased to 5% of expenditure – which is a policy proposal in the Housing White Paper – is thus aimed at addressing the twin

imperatives of rapid delivery and sustainable human settlements. Table 11 illustrates that to reach the 5% target will require a 143% increase in the housing budget.

**Table 11: PBC proposals for housing versus budgeted amounts (2006/7)**

	2006/7 Government Estimate	5% Of Expenditure	% Increase
Housing Total	9051.7	22034.935	143.4342
% of total	2.1	5	
Total non-interest spending	440698.7	440698.7	

It is also significant that the housing share of the budget is between 1.9% and 2.1% of total expenditure since the 2002/3 financial year. The MTEF projects housing to be 2.3% of total spending over the MTEF.

Importantly, we believe that a significant portion of these resources can be raised through a combination of (a) eliminating tax cuts, (b) reprioritising resources from other areas and (c) improving densification strategies in major urban areas.

The housing budget thus remains inadequate to deal with the housing backlog in South Africa. Moreover, as the Minister of Housing has reminded us, building on the peripheries of towns and cities means that our investments in housing are likely to result in longer run costs to our society and to the fiscus. The Estimates of Expenditure section on housing, however, indicates that important steps are being taken to build sustainable communities, and budgets need to reinforce the implementation of these policy shifts.

Viewed more narrowly, the MTEF increases the housing budget during the MTEF period as shown in Table 12. The table shows the line item for integrated housing and settlement grants – the largest programme the housing budget. The budget reflects the transfers from national government to provincial government for capital spending on housing, including subsidies.

**Table 12: Integrated housing and settlement grants**

	Audited Outcome			Adjusted Appropriation 2005/6	Medium Term Expenditure estimates		
	2002/3	2003/4	2004./5		2006/7	2007/8	2008/9
Integrated Housing and human settlement grants	3800674	4246239	4473597	4843480	6349949	7937946	8721382
Rand Increase/ Decrease		445565.0	227358.0	369883.0	1506469.0	1587997.0	783436.0
% Increase		11.7	5.4	8.3	31.1	25.0	9.9

The increases are significant in both rand and percentage terms over the medium term. However, as indicated above, the increases viewed in the context of growing housing need will be insufficient to build sustainable human settlements.

With respect to capacity to spend, the Estimates of Expenditure notes encouragingly:

The rollover amounts have been reduced from R 560 million (13%) in 2003/4 to R 375 million (8%) in 2004/5 as a result of interventions by the department to unblock stalled housing projects. Northern Cape and Mpumalanga even had to slow their spending on housing delivery to avoid overspending on their budgets during 2005/6. (Estimates of Expenditure, page 656)

Improvements in spending capacity are very welcome, and provide the basis for even more robust allocations to housing delivery.

## 5.4 Social Security

The social security vote has become one of the most contested votes. The PBC has called for:

- Introduction of a Basic Income Grant
- As a step towards a BIG, the extension of the Child Support Grant to 18 years of age

Minister Manuel has not heeded either of these calls. We have however made significant progress in costing the proposals, and have tabled these calculations.

During the budget speech, the Minister also announced real increases in the social grants. The increases are shown in table below:

**Table 13: Percentage increase in grants, and international poverty lines**

Grant	2005/6	Increase	2006/7	% Increase	Dollar Conversion (ZAR 6.07= US\$1)	Grant in comparison to 1 US \$ per day poverty line	Grant in comparison to 2 US \$ per day poverty line
Old Age and disability grant	740	40	780	5.4	128.50	4.28	2.1
CSG	180	10	190	5.6	31.30	1.08	0.5
Foster care grant	560	30	590	5.4	97.20	3.35	1.6

The table illustrates several important issues;

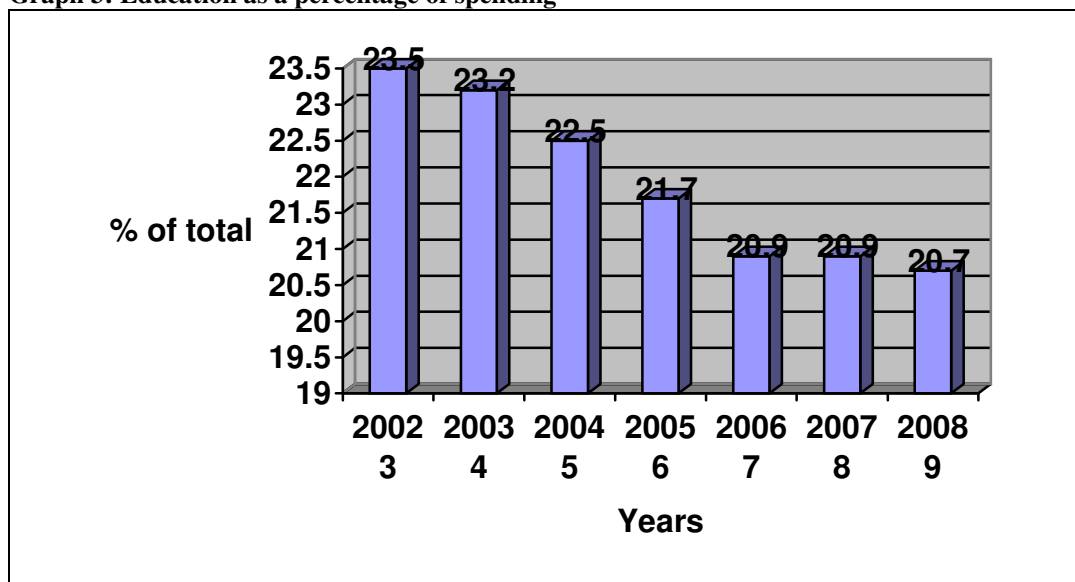
- Minister Manuel accepts that these amounts are modest in terms of household needs. The increase of around 5% for all the grants is modest compared to overall increase in expenditure. Moreover, the total increase in spending is about R4 billion, which is small compared to tax cuts, for instance, or the R3 billion allocated to the Gautrain.
- The conversion of the value of grants to US dollars is intended to assess whether the grants are above or below international poverty lines of both US \$1 per day and US \$2 per day. Under both poverty lines, the Child Support Grant is insufficient to lift recipients out of poverty. The foster grant is inadequate to bring beneficiaries above the US \$2 poverty line. This is not to suggest that households do not receive remittances or that recipients do not have other sources of income. But it does show that, even though social grants comprise a substantial share of public spending, many families still have insufficient resources to meet their basic needs.

Grants of course play a significant role in mitigating the impact of poverty. The analysis however suggests that the macroeconomic argument that social grants are consuming too large a share of fiscal spending needs to be assessed in light of the microeconomic realities faced by most households. A reasonable but vigorous debate on the interactions between macro targets and household realities is needed in South Africa.

### 5.5 Education

The education vote is perhaps the most disappointing aspect of the budget. First, the share of education as a percentage of the budget continues to decline.

Graph 3: Education as a percentage of spending



This withering education budget is unacceptable, given that education remains a top priority for our country. In recent years, it has increasingly been claimed that the problem with education is not a lack of resources, but an inability to spend efficiently. This argument ignores the realities of education in our country, including:

- The lack of skilled teachers and
- The lack of infrastructure and support services.

Table 14 shows the percentage increase in consolidated national and provincial spending on education over the MTEF period.

**Table 14: Consolidated spending on education**

	Audited Outcome			Revised Estimate	Medium-Term Estimates		
	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2008/9
Education	62012.2	70130.1	75485.1	83437	91994.8	101145.4	110236
% increase		13.1	7.6	10.5	10.3	9.9	9.0

The increases are modest given the scope of the problems being experienced. In light of these numbers, the PBC welcomes the increases in education, as it is inline with our call for education spending to increase 3% in real terms.

A major disappointment for us is that a process towards the scrapping of school fees has not been part of the budget documents. The Department of Education has been developing proposals – which are hotly debated – to reduce the impact of school fees on poor households. Whilst we have been supportive of these efforts, we believe that a universal free basic education remains a fundamental pillar of creating a more equal society, and a society where the poor can participate in economic growth.

Although the majority of education spending occurs in provinces, our response focuses on areas for which we have national data: trends in adult basic education, early childhood development and financial assistance for tertiary education.

**Table 15: Selected line items in education**

	Audited Outcome			Revised Estimate	Medium-Term Estimates			% change 2005/6 to 2006/7	% Change MTE F
	2002 /3	2003 /4	2004 /5	2005/ 6	2006/ 7	2007/ 8	2008/ 9		
Adult Learning and School Enrichment	6349	5616 9	3506 5	2106 5	1503 5	1567 5	1601 7	-28.6	6.5
Early Childhood Development	5300 0	8553 0	2470	0	0	0	0		

National Student Financial Aid Scheme	5915 62	7191 16	7376 73	1025 961	1108 696	1321 521	1432 000	8.1	29.2
HIV/Aids Life Skills Education	1334 58	1260 49	1341 51	1362 93	1444 71	1516 96	1619 04	6.0	12.1
National School Nutrition Programme Grant	5213 22	7116 20	8322 00	1112 151	1098 036	1152 938	1238 487	-1.3	12.8

Table 15 shows areas at a national level where comparisons can be made on educational spending. There are several worrying trends:

- The decline in Adult Learning and School Enrichment – itself an odd combination – is worrying, given the challenge of illiteracy in South Africa, and the need for skills development in the economy. The increase over the MTEF is also very small in comparison to needs.
- The discontinuation of the Early Childhood Development conditional grant is worrying. In our review of the Estimates of Expenditure we have found no indication that government will support ECD in other ways. If this is true, then it reflects a significant lack of foresight by government. We will be exploring ways to fund ECD, and call on the Department of Education to do the same
- The school nutrition programme is also one that we believe would be an excellent candidate for increased spending, given its potential for enormously beneficial development outcomes.. Moreover, the intention to extend school nutrition programme to secondary school must be costed.

The allocations for supporting tertiary education for poor students and the HIV/Aids life skills grants are welcomed.

## ***5.6 Expanded public works programme***

The Estimates of Expenditure and the Budget Review do not provide consolidated list of projects and budgets dedicated to the EPWP. Whilst the PBC fully supports the integration of labour intensive projects into all government departments, we believe that better reporting in the budget is needed in this area to promote monitoring and evaluation of the programme's impact. The recommendation is for a table covering the allocations across each department and the four priority sectors.

## **6 Tax proposals**

This section starts with a summary of the tax proposals presented. Next, it puts forwards recommendations for 'people's tax cut', through restructuring of VAT. Finally, it comments on Minister Manuel's proposals and applauds his decision not to cut company taxes.

Minister Manuel tabled a series of tax proposals during his budget speech. The proposals for tax relief are:

- Personal income tax reductions of 13,5 billion
- Tax relief of R 7 billion for businesses resulting from the abolition of the RSC levies
- Tax amnesty for small business
- A reduction in taxes on retirement 18% to 9%
- An increase in the transfer duty threshold from R 500 000 to R 1 million
- Increased monetary thresholds for qualifying small businesses
- Increased monetary thresholds for capital gains tax and estate duties
- Extension of the learnership allowance until 2011, coupled with incentives to encourage the intake of learners with disabilities
- Incentives to boost expenditure on Research and Development
- Abolition of ad volorem excise duty on certain products
- An increase in biodiesel fuel tax concessions to 40% of the general fuel levy

Tax increases were tabled in the following areas:

- Increase in the Road Accident Fund levy by 5 cents per litre
- Increase in excise duty on tobacco products
- Increase in excise duty on alcohol products

The temptation is to assess all of the proposals in turn, but that would detract from the broader picture. The measures for tax relief certainly benefit some of those who are employed, particularly those earning more than R 40 000 per year. However, 39% of employed people earn less than R 1000 per month, and we have an employment rate of 26% (using the narrow definition which excludes those who have given up looking for work). Consequently, the tax measures proposed do not benefit the working poor, the unemployed or the indigent.

The PBC has argued that tax relief must enhance the progressiveness of the tax system and, for this reason, has called for a significant restructuring of VAT. The proposals have two components:

1. Reducing the VAT rate from 14% to 13%
2. Introducing variable VAT rates through:
  - a. Increasing the number of zero-rated items
  - b. Introducing a higher VAT rate for luxury goods

The PBC will develop clear recommendations for both zero-rated items and luxury goods in its submissions for the 2007/8 Budget. These recommendations would constitute a 'people's tax cut' as they would benefit the poor, the unemployed and the working poor.

The PBC would also like to comment on three specific proposals made by the Minister. First, the PBC opposes the R13,1 billion cut in personal income tax. To put the cut in perspective, consider the following table which compares the personal income tax cuts for this year to expenditure on key strategic areas for poverty reduction:

**Box 3: Tax cuts versus asset building**

Tax Cut	Strategic Areas – Asset Creation for the poor	
13 Billion	Land restitution	R 3,3 billion
	Land redistribution	R 665 million
	Housing	R 6,3 billion

To put the personal income tax cuts into better perspective, over the next three years we will spend about R10 billion on land restitution, and in a single year we have given R13 billion in tax cuts. More tellingly, the total increase for social grants amounts to R4 billion. Perhaps most disappointing, the main programmes to build assets for the poor, land reform and housing only receive about R10, 2 billion rands. The tax cuts perpetuate a disturbing trend in which employed people receive significant tax cuts, while programmes intended to generate assets for the poor remain under funded.

Second, we welcome the reduction in tax on retirement funds as a significant and progressive choice by government. The PBC will also engage the much anticipated discussion documents that the National Treasury has promised to release on taxes on retirement funds, and we urge the speedy publication of these proposals. We must however point out an inequity in the system. Whilst government has raised the threshold for personal income tax, those exempted from Personal Income Tax, pay the same tax rate as those not exempted from Personal Income Tax. To illustrate, a person earning R35 000 per year pays the same tax rate (i.e. 8%) as a person earning R1 million. The PBC thus proposes a tax exemption for lower income earners as a principle to guide pension fund reform. The PBC will also commit to developing proposals in this regard. Government needs to give serious consideration to this proposal, as a means to build the progressiveness of the tax system.

Third, as discussed earlier, we welcome the increase in the fuel levy to support the work of the Road Accident Fund. However, we would encourage government to introduce a levy to support preventive measures (including education and law enforcement) to reduce accidents.

Fourth, the PBC endorses the Minister’s decision not to bow to pressure to cut company taxes. Contrary to popular belief, such tax relief has not prompted a reciprocal growth in corporate social responsibility programmes that demonstrate a commitment to the poorest and marginalised of the nation. Despite growing profits and tax relief the gap between executive salaries and those of workers continues to grow. This represents an indictment of government’s relationship with corporate business on the one hand, and its protection of their interests, on the other. Moreover, we call for urgent steps to finalise the scrapping of RSC levies.

## 7 Budget Reform

The PBC endorses the recent submission by Parliament to the Africa Peer Review Mechanism on budget reform recommendations. These recommendations are as follows:

- The budget process needs to be further decentralised to ensure the involvement of critical stakeholders, such as Parliament and civil society. The Government should also facilitate greater public involvement and understanding of the complex characteristics of South Africa's fiscal policy so as not to compromise budget transparency.
- Parliament should effect the Constitutional requirement, in terms of Section 77 (2) of the Constitution, that allows for an Act of Parliament to enable Parliament to amend money bills.
- The credibility and reliability of statistics used for policy development and planning should be improved.
- The feasibility of StatsSA as an institution independent of Government should be considered.

The PBC endorses these proposals, noting that we have not developed a position on the independence of StatsSA, but we welcome the debate. Moreover, we require clarity on exactly what 'further decentralisation' means. This response speaks specifically to the requirements in Section 77 (2) of the Constitution.

We originally tabled proposals for parliamentary money bills amendment powers in 2001. These are available in our various submissions.. The central issue for the PBC is that without parliamentary amendment powers, civil society representations to the Finance Portfolio Committee are ineffective in achieving policy changes. It is for this reason that the PBC has chosen not to attend the hearings of the Finance Portfolio Committee and has chosen instead to articulate its comments through other channels. We are mindful that this means that private sector economists dominate parliamentary hearings, but the principle of having a strong parliament trumps all other considerations. Moreover, the PBC has and will continue to contest the private sector's hegemony in public space through its research, advocacy and training activities.

In this light, we urge parliament to develop legislation that gives effect to its constitutional money bills amendment powers. Moreover, the PBC will commit resources to the drafting of legislation to translate our policy position into a legislative form.

## 8 Conclusion

It is tempting to reduce the budget debate to an academic assessment of whether the glass is half full or half empty. In comparison to the GEAR years of the late 1990s, we believe that, in budgetary terms, the glass is half full. The fact of the matter is that, with an expected increase in spending during 2006/7 of 13%, we cannot help being cautiously

optimistic. The PBC focus, however, is not simply on whether the budget increases or decreases, but rather on the distributional consequences noting that, in the past, government has missed several opportunities to ensure that the poor have been the primary beneficiaries of economic growth. To budget is indeed to choose. The 2006 Budget choices, as with all budgets, have distributional consequences. The reluctance to use fiscal space for the re-allocation of resources to priority areas means that the 2006 Budget takes a cautious approach to poverty eradication. The PBC believes, however, that a genuinely transformative Budget demands a bolder redistributive vision.

## 9 Annex One: Additional Allocations to the MTEF

	Direct impact on the poor	National prioritise and improving administration	Projects with little or negative development impact	Unclear impacts
R Millions				
Provincial Equitable Share	3511			
Higher education and recapitalisation of FET Institutions	350			
Revitalisation of hospitals and forensic pathology services	340			
Social grants and SA Social Security Agency	660			
Housing grants	800			
Municipal infrastructure, transport and water schemes	1180			
Community libraries, cultural institutions, sports promotion	170			
Neighbourhood development partnerships	50			
Soccer World Cup Infrastructure	400			
National roads and rail rehabilitation	600			
Gautrain rapid rail link			3241	
Industrial development zones and other infrastructure				445
Research and development				285
Pebble Bed Modular Reactor and NECSA			650	
Tourism promotion	20			
Regulatory Capacity		199		
Courts administration and capacity		350		
SA Police Service infrastructure and personnel		509		
Military skills development				100
Defence modernisation				691
Foreign affairs capacity and African Renaissance Fund		229		
Maintenance and investment in government accommodation				988

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Municipal equitable share and project consolidate	563			
SARS & financial management systems		420		
Statistics SA		168		
Other adjustments				1389
Total	8644	1875	3891	3898
Less: infrastructure announced in 2005 & savings				
% Breakdown	47.2	10.2	21.3	21.3