idasa

MTBPS 2005: More Spending? Different Spending? Better Spending?

Executive Summary

In our response to the 2005 Medium Term Budget Policy Statement (MTBPS) we begin with a review of unemployment, poverty and inequality in South Africa. We find that the unemployment rate has not significantly decreased over the period 2000 to 2005. Our review of poverty indicates that, although trends in income poverty have not improved between 1996 and 2001, access to basic services has. Similarly, the redistributionary incidence of social spending shows effective targeting towards the poor. Trends in inequality point to a decrease in inter-group inequality but an increase in intra-group inequality with a net effect which has not reduced inequality for the population as a whole.

Turning to the MTBPS, we look at the extent to which more spending would be possible by arguing that budget deficit outcomes reveal excessive caution and are more austere than the deficits proposed in the budget reviews. We look at the shift towards increased infrastructural spending and identify some challenges in this regard, as well as a degree of re-allocation within social spending. We provide an overview of the MTBPS and intergovernmental fiscal relations before evaluating it in terms of the extent to which HIV/AIDS and the rights of children are considered and addressed in MTBPS proposals. In discussing 'better spending' we point to the continued need to improve the efficiency and effectiveness of public spending for the realisation of social outcomes which improve the quality of life of citizens.

I. Introduction

The Medium Term Budget Policy Statement (MTBPS) is a window into government's thinking and assumptions regarding the domestic and international economic outlook and the manner in which public resources are to be generated and allocated over the next three fiscal years for the attainment of social objectives. Preceding the tabling of the 2006 / 2007 budget, it provides a context for the budget discussions between government and its social partners which culminate in the document presented to parliament in February

We begin with a review of unemployment, poverty and inequality in South Africa, using both official statistics and some recently published studies. We then turn to the 2005 MTBPS and ask a few basic questions: Should government be spending *more*? Should government be spending *differently*? Should government be spending *better*? We conclude with a number of recommendations.

II. Unemployment, Poverty and Inequality

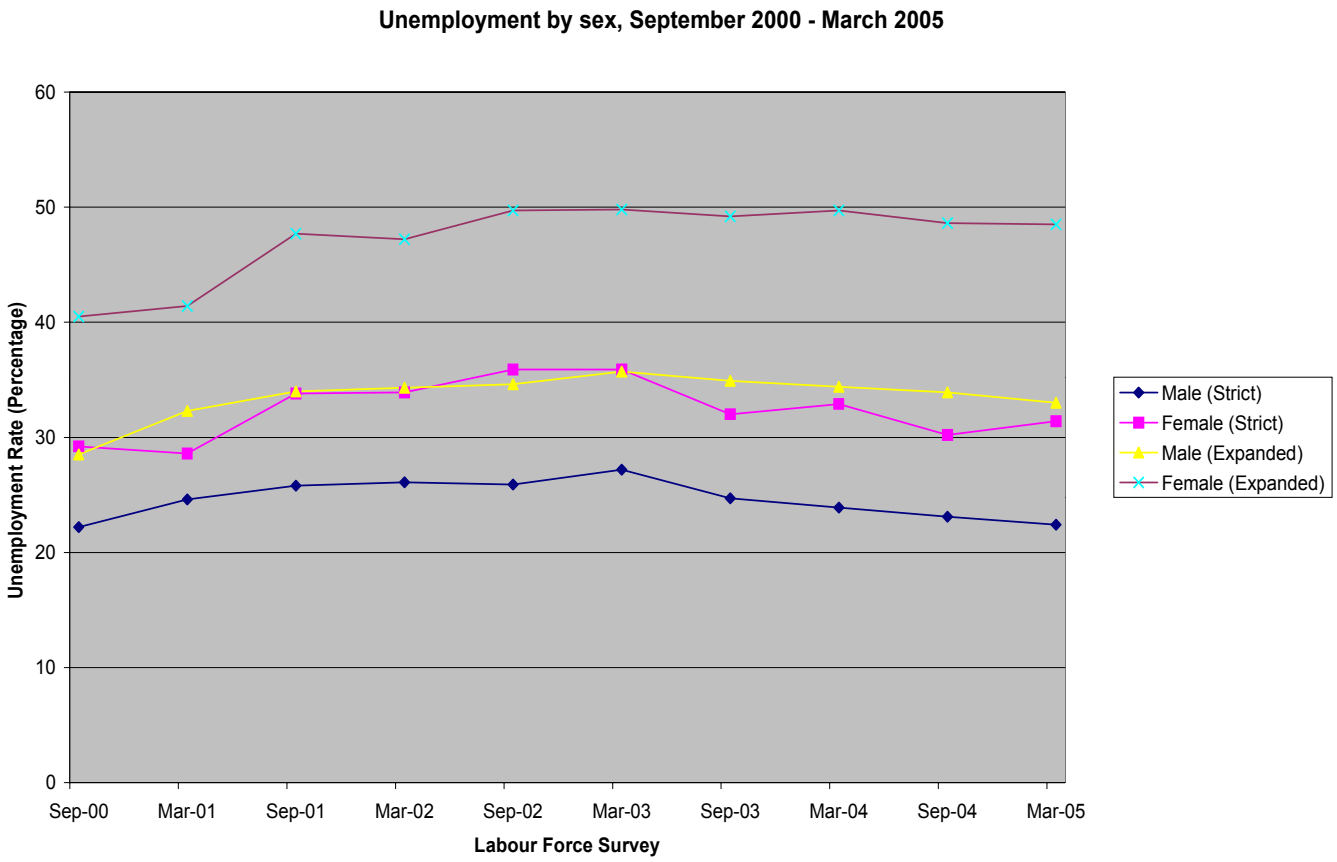
Unemployment, poverty and inequality remain at high levels in South Africa. How high, and how much progress has been made in improving the quality of life of all citizens, and the extent to which progress (or failure) can be attributed to the impact of government policies, remains more contested.

A recently released labour force survey[1] indicates an official unemployment rate of 26.5 % for March 2005 and a rate of 40.5% using the expanded definition which includes those who didn't take specific steps to find work in the four weeks preceding the interview. Figure 1 represents unemployment trends broken down into rates for male and female members of the economically active population for the period 2000-2005, and suggests that employment opportunities are still unequally distributed between men and women, that the unemployment rate has

[1] Labour Force Survey (P0210) September 2000 to March 2005: Historical Series of Revised Estimates

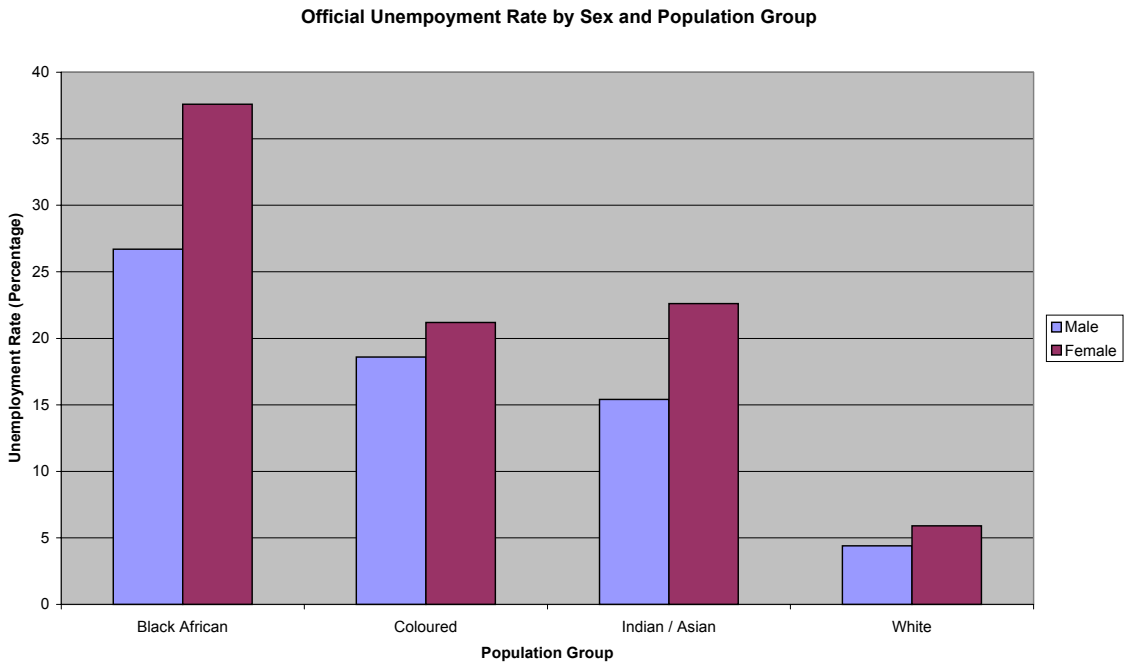
not decreased significantly over this period, and that a large percentage of the economically active population can be described as 'discouraged', as indicated by the difference between the official and expanded unemployment rates.

Figure 1



Unemployment also remains concentrated by population group. Figure 2 shows the strict unemployment rate broken down by sex and population group for March 2005.

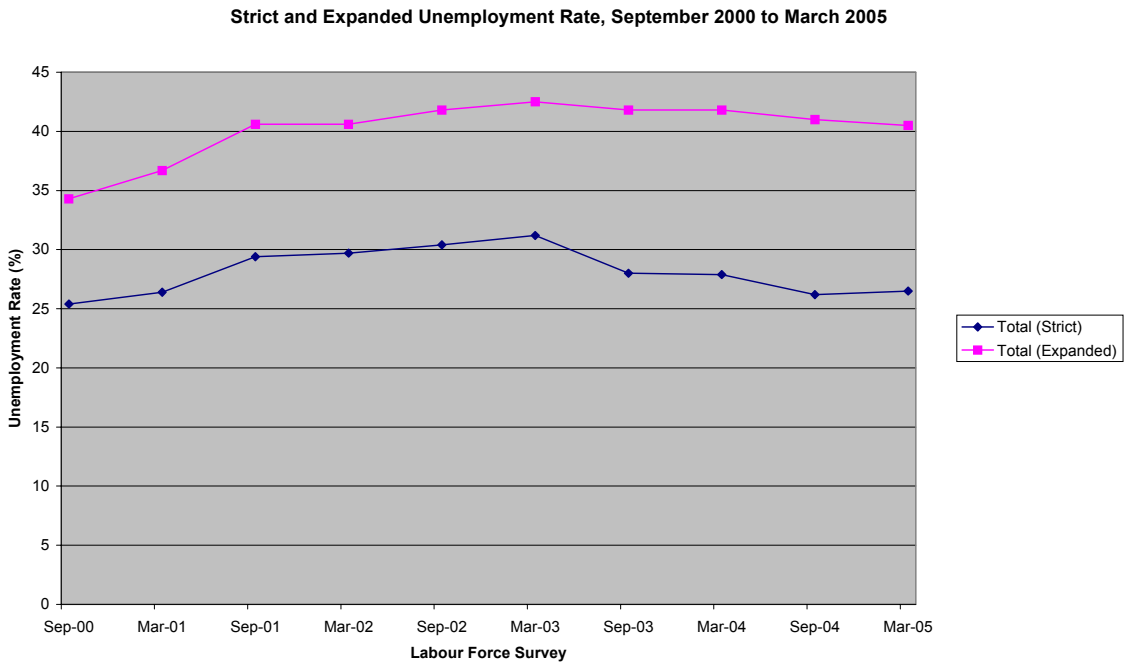
Figure 2



Though MTBPS 2005 points out that a "marked acceleration in employment creation has been recorded since March 2003,"[2] the unemployment rate from September 2000 to March 2005 has in fact fluctuated around high values and points to the continued structural nature of the problem. As figure 3 shows, the unemployment rate remains higher now than in late 2000 and early 2001, suggesting that the more expansionary fiscal policy inaugurated in 2001 has had a limited impact on the unemployment rate.

[2] MTBPS 2005 p. 8

Figure 3



Poverty refers to a wider range of deprivations than insufficient income. Many comparative discussions of poverty and broader well-being do, however, focus on income poverty as a measure of well-being primarily because other measures are both conceptually and data-wise more difficult to secure. When determining the impact of government spending on well-being, attempts should ideally be made to adjust income-related poverty measures to reflect the enhanced well-being which may stem from greater access to publicly provided services.

Given the difficulties in these kinds of studies, it is difficult to accurately assess the most recent trends. A 2005 study[3] of changes in South African inequality and poverty using 1996 and 2001 census information provides some indications however. Poverty measured by availability of monetary income to households remained firmly entrenched over the inter-censal period and seems to have worsened slightly from 1996 to 2001. Using an absolute poverty line of R 400 per

[3] 'Measuring Recent Changes in South Africa Inequality and Poverty Using 1996 and 2001 Census Data', Development Policy Research Unit (DPRU), Working Paper 05 / 94

month[4], the authors indicate that 50% of households fell beneath the line in 1996 and 55% of households in 2001. The typical household in 2001 fell 32% short of this poverty line, compared to 30% in 1996. In other words, more households became poor and the gap between their income and the poverty line (the 'poverty gap') increased slightly.

However, when the income measure of poverty is adjusted to incorporate access to basic services[5] the results suggest encouraging conclusions which indicate that access to basic services improved over the inter-censal period. Service access has improved across income groups in the population and, encouragingly, improvements in access to basic services have been most pronounced in the lower income groups. We can assume, however, that access to basic services would have started off a very low base for the poorest segments of the population, so positive trends by no means suggest *adequacy* in realising the socio-economic rights enshrined in the Constitution.

Though these trends should not be attributed solely or simplistically to the impact of public spending (the study attributes improvements in telephone access primarily to cell phone uptake, for example), they suggest that the budget *is* making a difference in the well-being of poorer households through, amongst other things, access to basic services. Changes are, however, occurring slowly and there is little reason to assume significantly more rapid change since 2001, given that, amongst other things, the unemployment rate has not changed significantly.

[4] We have inflated the R 250 (1996 Rands) used in the study to R 400 (2005) Rands using the CPI
[5] Shelter, water, energy source for lighting, energy source for cooking, sanitation, refuse removal and telephone access are the categories used

In a broad-ranging study of trends in the incidence of social spending from 1995 to 2000[6], Van der Berg concluded that social spending[7] was well-targeted towards the poor, including the poorest segments of the population.

Figure 4

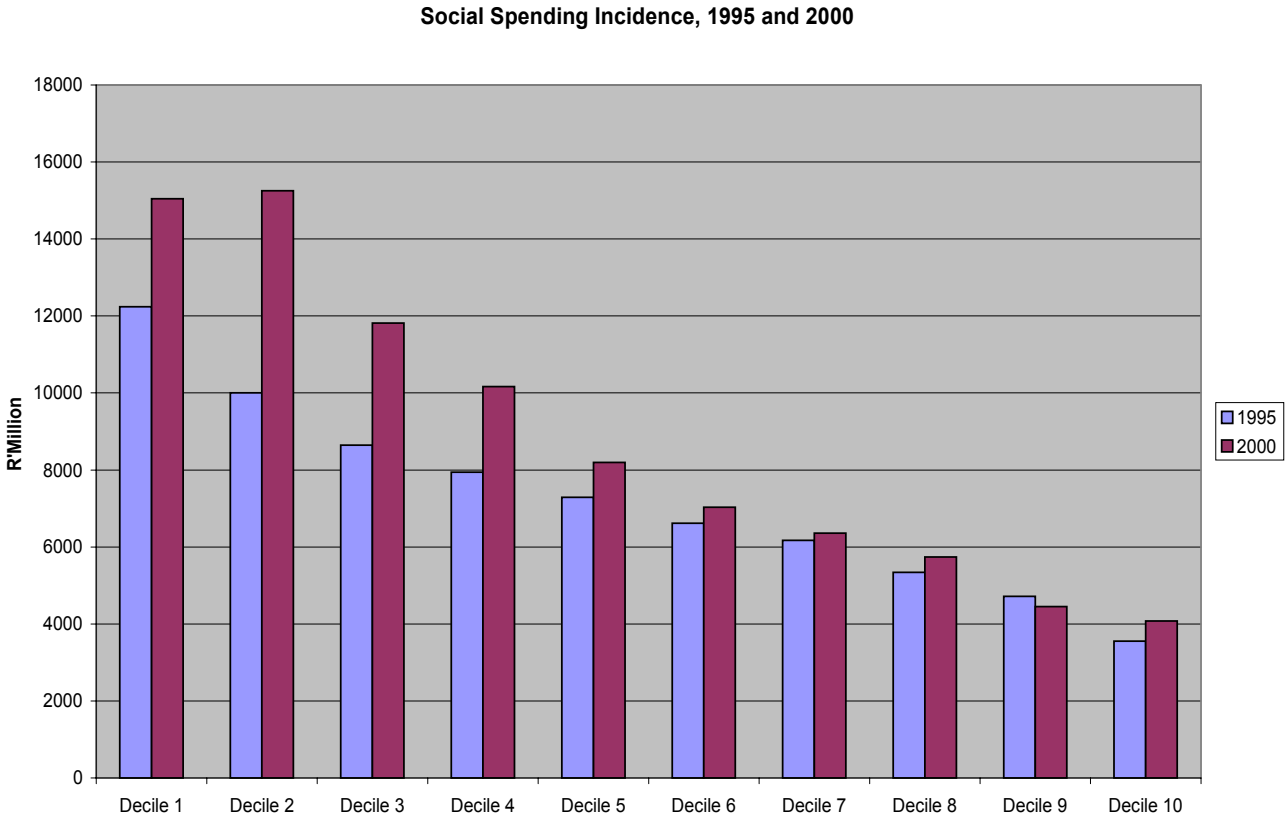


Figure 4 shows, for each income decile (tenth) of the population, estimated total social spending. The progressive incidence of these results is heightened if we assume that the marginal private and social benefit of spending that is effectively targeted at the lower deciles is higher than spending targeted at the higher deciles; in other words, that the social value of a public Rand spent on the poor is currently probably greater than that spent on the rich. The redistributionary slant

[6] 'Fiscal Expenditure Incidence in South Africa, 1995 and 2000: A Report for the National Treasury', Servaas van der Berg, February 2005
[7] Education, Health, Social Grants and Housing

of social spending is visually clear in figure 4: more is being spent on the lower than the higher deciles, with a fairly smooth progression in spending as we move across deciles. The redistributionary slant of social spending may of course be either enhanced or diminished by the incidence of other spending and by tax incidence; that is to say by who benefits from other public spending and who bears the actual burden of taxation.

The dynamics of inequality in South Africa have shifted over the last two decades. In a study of inequality trends in the 1990s, Whiteford and Van Seventer found unmistakably that, whilst inter-group inequality, as measured by the Gini coefficient[8], had decreased, intra-group inequality had increased, with a net effect that perpetuated high levels of general inequality. Their results have been incorporated and expanded to run up to 2001 by the DPRU study cited earlier, as shown in table 1.

Table 1

	1975 (Whiteford & Van Seventer)	1991 (Whiteford & Van Seventer)	1996 (Whiteford & Van Seventer)	1996 (DPRU)	2001 (DPRU)
African	0.47	0.62	0.66	0.62	0.66
Coloured	0.51	0.52	0.56	0.53	0.60
Indian / Asian	0.45	0.49	0.52	0.48	0.56
White	0.36	0.46	0.50	0.44	0.51
National	0.68	0.68	0.69	0.68	0.73

[8] A measure of inequality with 0 indicating complete equality in the distribution of income and 1 equaling complete inequality in the distribution of income

Estimations of Gini coefficients typically have a large margin of error: small changes in the values above should not be granted too much significance; however, to the extent that trends are identifiable they point to an increase rather than a decrease in inequality both nationally and for different population groups. Thus, even with a re-distributionary budget policy, it appears that the high levels of unemployment in the South African economy, and income differences between the employed and the unemployed/under-employed, have generated increased rather than decreased inequality.

III. Public Policy and the Budget

Continuing high rates of poverty, unemployment and inequality mean that public policy needs to be informed by a realistic assessment of resource availability and an accurate appraisal of where government is most effective, where partnerships are likely to work best, and where other actors are likely to do things better. Public policy also needs to seek and find the optimal balance between providing basic social security, whose benefits, it can be assumed, are realised immediately, investing in human resources, the benefits of which are more dispersed over time, and other enabling measures aimed at moving the South African economy permanently onto a higher growth trajectory with broadly shared benefits [9].

In its *Towards a Ten Year Review*, as well as various policy documents, government reiterated its commitment to the five key RDP objectives:

- Meeting Basic Needs
- Building the Economy
- Democratising the state and society
- Developing human resources

[9] We look forward to the *accelerated and shared growth initiative*, conducted under the Deputy President's leadership, mentioned in MTBPS 2005

- Nation building

Given that any budget is necessarily the product of difficult trade-offs, we are interested in whether tensions exist or may appear between some of these objectives. For example is there potentially a tension between measures aimed at meeting basic needs *now* and measures aimed at building the economy, which presumably would take somewhat longer and would include increased public investment in infrastructure? The South African Constitution clearly inserts a temporal dimension into budgeting when it calls for the 'progressive realisation' of some rights; it also establishes, however, that other rights, for example those pertaining to the well-being of children, are of such an urgent and absolute nature that they are *unqualified.*

It seems certain that even the most optimistic growth projections, such as the 6% annual real GDP growth currently being mentioned, coupled with optimistic assessments of the employment coefficient[10] (which in turn is closely related to the labour-intensity of production), are unlikely to yield a significant reduction in the unemployment rate in the medium-term. Market-based income opportunities will remain elusive for large parts of the population and social support, through income transfers and other means, is therefore necessary if these households and individuals are to live lives even distantly related to the aspirations of the Constitution.

The risk has been articulated that direct support may improve well-being over the short-term at the *expense* of growth and greater well-being over the longer term: "When government develops programmes to provide direct support to the unemployed, it has to be careful not to make spending decisions that will undermine the capacity for economic growth to reduce poverty through job-

[10] That is to say jobs created for a given increase in economic growth

creation in the mainstream economy over the long term."[11] It may do this by crowding out public spending on programmes and projects with a longer benefit-horizon (such as physical capital investment and human capital investment in education, for example). The labour market implications of an industrial policy aimed at export-led growth and greater competitiveness exhibit a similar time-horizon dilemma, aptly described by Nattrass as one between policies which seek to maximise labour-intensive growth *now* (but which may not incentivising production in areas where South Africa has or is likely to attain a comparative advantage) and policies which favour capital- and skill-intensive investment now as a catalyst for more dynamic and (it is assumed) labour-demanding growth later.[12]

In recent budget policy documents government has itself expressed a degree of unease in relation to the growth in costs of direct income transfers. The proposed centralisation of grants administration in the National Social Development Agency is an attempt to reduce costs by means of increased administrative efficiency and reducing grant access by those who are in fact ineligible. But the growing costs of grant programmes are equally (if not more) attributable to increased grant *take-up*, which is based on a more complex and entrenched set of factors.

[11] 'Fitting the pieces together: A Composite view of government's strategy to assist the unemployed in South Africa 1994 – 2004, October 2004, IDASA

[12] 'High Productivity Now: A Critical Review of South Africa's Growth Strategy', Nicoli Natrass, 2001

IV. MTBPS 2005

Introduction

We look at MTBPS 2005 in terms of a few basic, broad-ranging questions. Should there be *more* spending? Should there be *different* spending? Should there be *better* spending?

More Spending?

'More spending' can mean different things. It can refer to a real growth in total government spending, in the sense that, when adjusted for inflation, government is spending more money this year than it did last year and more money last year than it did the year before that. If the economy is growing at a given rate then, even with unchanged tax policies and tax effort, revenue would tend to increase correspondingly and we would expect a real growth in expenditure. In this meaning of the term, however, government's *share* in the economy remains constant. 'More spending' can also refer to a growing share of government spending in a measure of aggregate production such as GDP. In this case, government would be increasing its share of total economic resources, and could finance this through changes in tax policy, improved tax administration, or running larger budget deficits, that is to say borrowing more.

MTBPS 2005 prudently proposes budget deficits of 2.2%, 2.1% and 2.0% over the next three fiscal years, which is aligned quite closely with proposed deficits for the preceding fiscal years. It remains desirable to not exceed these deficits, since:

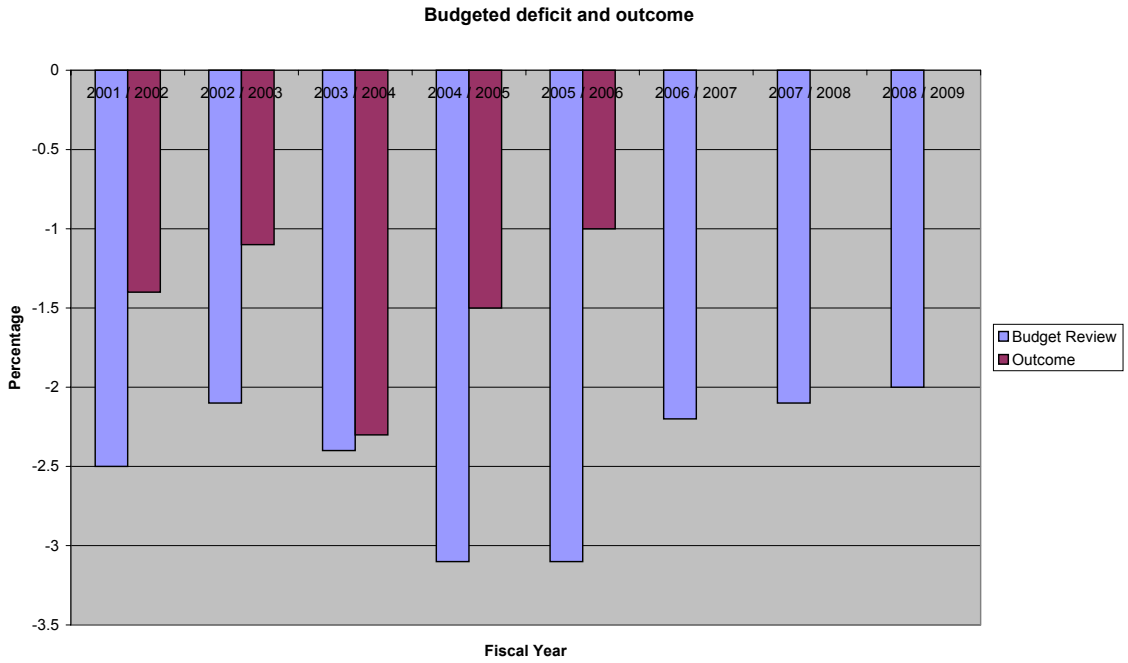
- public debt may increase to excessive levels
- departments may not be able to spend additional funds efficiently and effectively

- private sector growth, and therefore job-creation, could be stifled through the impact of higher tax rates on demand and of increased public borrowing on the availability of loanable funds for business

However, even a casual comparison of proposed budget deficits and actual deficit outcomes shows significantly smaller deficits than planned. Revenue over-runs, that is to say larger amounts of revenue collected than expected, have in other words been a consistent feature of the fiscal landscape in recent years. Figure 5 represents budget deficits as proposed in the various Budget Reviews as well as deficit outcomes.[13] These divergences are partially due to the inherent difficulties of modeling and forecasting, but their systemic bias points to excessive caution in forecasting economic growth and revenue collection. In effect a significant portion of potential funds are not being systematically incorporated into the MTEF planning process. The budget deficit outcome, as a percentage of GDP, is a great deal more austere than fiscal prudence would require, and more austere than the deficit parliament approves. This implies lost opportunities. The credibility of budget forecasting may be diminished over the medium-term if this becomes an entrenched feature of fiscal policy. A table in this year's MTBPS is in fact headed 'Economic risks and the fiscal framework' and indicates that "there are a number of factors that can influence the forecast positively or negatively."[14] Our sense is, however, that a systematic preference for extreme caution, coupled with doubts about departmental absorptive capacity, rather than chance variability, is responsible here.

[13] Note that the 2004 / 2005 value is a preliminary outcome and the 2005 / 2006 is an estimate.
[14] MTBPS 2005, p. 63

Figure 5



Source: MTBPS 2005, Selected Budget Reviews

Over-runs have allowed tax-breaks as well as accelerated debt re-payment in recent years. The additional disposable income injected into the economy through tax-breaks is to be welcomed since it raises domestic demand, as is due regard for maintaining a sustainable debt position with minimal risk of crises.[15] The question is whether, given poverty and vulnerability levels in South Africa, this currently represents the highest likely social benefit of spending 'windfall' sums.

Different Spending?

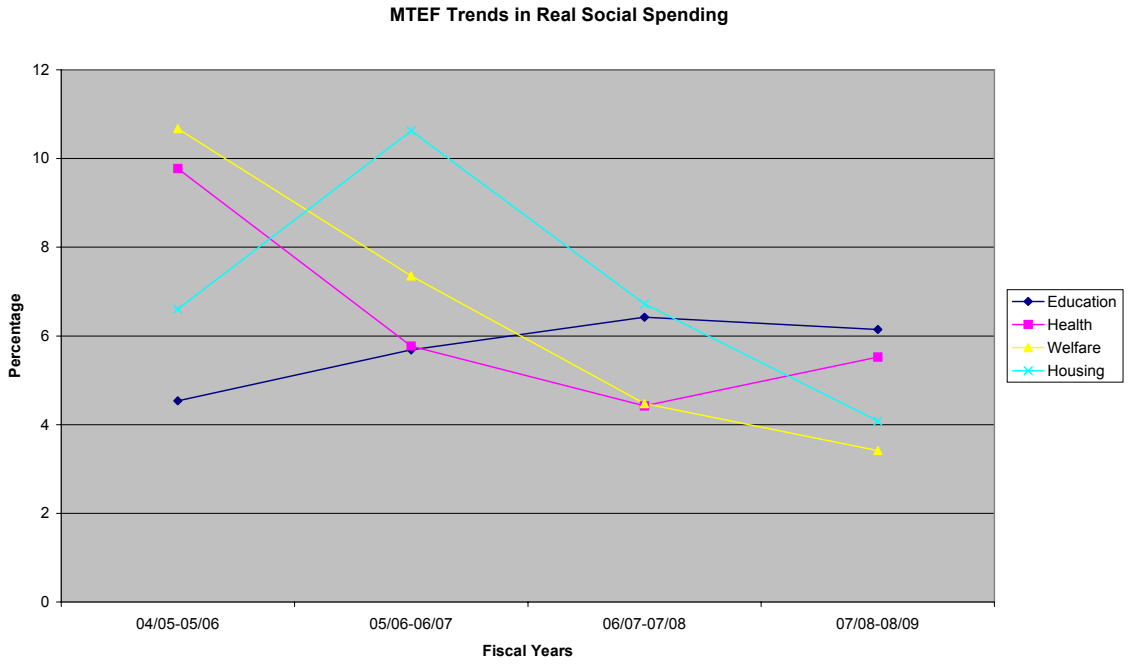
How much room to manoeuvre is there in budget policy currently to enhance quality of life in South Africa by changes in spending? What are the significant trends in allocations and to what extent can allocative efficiency be improved? Put another way: for a given amount of spending and a given level of efficiency

[15] cf. The September 2005 IMF report 'South Africa: Selected Issues'. The risk analysis of public debt in South Africa conducted by IMF staff confirms 'South Africa's sound public debt position'

and effectiveness in how funds are used, can improvements be made by shifting funds? We look at MTBPS 2005 proposals for infrastructural and social spending, for the division of revenue between spheres of government, and focus lastly on the thematic areas of children and HIV and AIDS in order to ask after the extent to which the MTBPS is informed by an awareness of the plight of particularly vulnerable groups.

Proposed total spending over the MTBPS period on social services remains constant at approximately 58% of total non-interest expenditure. However, trends in the re-allocation of social spending warrant further comment. Figure 6 shows proposed real percentage changes in social spending over the three MTBPS fiscal years for education, health, welfare and housing.

Figure 6



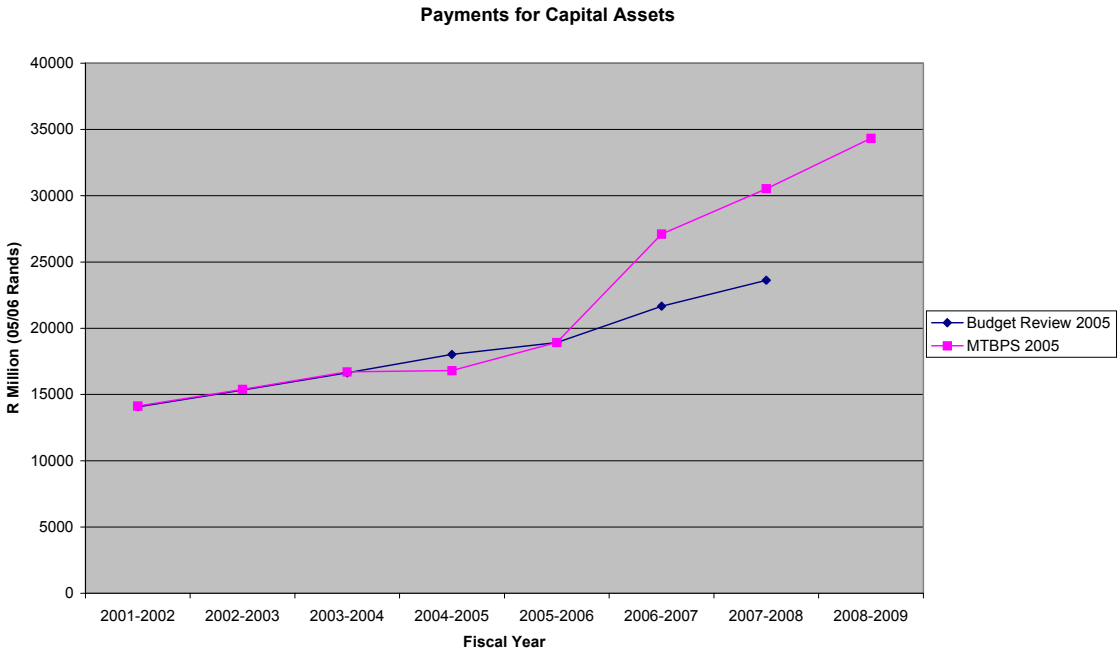
Education spending, at a proposed real growth in the region of 4-6%, can be regarded as staying aligned with expected real GDP growth and as such its claim on resources generated by the economy remains roughly constant. In the case of

both health and welfare, however, the MTBPS proposes 'putting the brakes' on current rates of increase. Whilst health and welfare spending increased by roughly 10% from the 04/05 to 05 / 06 fiscal years, the MTBPS shows slower rates of real increase over the next three fiscal years. Spending on housing and community development, on the other hand, is set to increase at a faster rate, partly reflecting the increased priority given to spending on infrastructure in the MTBPS, which we discuss further below.

Though the MTBPS retains the focus on investing in human resources through education and health spending, and on providing support to the most vulnerable, there is an increased emphasis on physical spending by government as a means of encouraging growth through providing infrastructure, which reduces business transaction costs, establishes spatial linkages, and can be presumed to have a variety of employment *multiplier* effects which exceed the actual number of people employed on infrastructural projects.

The MTBPS figures exhibit a shift from the medium-term estimates presented in the February 2005 Budget Review. Figure 7 compares trends and medium-term estimates from the 2005 Budget Review and MTBPS 2005 for capital asset payments. We see a clear intention to accelerate capital spending, by 43% in real terms from 2005/2006 to 2006/2007. Increased capital spending is primarily on buildings and other fixed structures, for which the MTBPS proposes a massive real increase from 2005/2006 to 2006/2007 of 55%.

Figure 7



Questions which should inform further debate in this concern:

- government's capacity to identify and efficiently implement public investment projects (absorptive capacity in other words)
- whether such a large increase in capital spending optimises trade-offs between short-, medium- and long-term social considerations
- the extent to which physical infrastructural spending is distributed between housing/community development orientated services (a real increase of 11% from 2005 / 2006 to 2006 / 2007) and, for example, transport and communication-related services (a real increase of 25% from 2005 / 2006 to 2006 / 2007)

With regard to the division of revenue between spheres of government, the 2005 MTBPS exhibits some additional allocations and some reprioritisation.
The 2006 budgetary policy priorities are balanced between the central pillars of fighting poverty and expanding economic opportunities. While provinces receive additional allocations to reinforce their social and economic responsibilities, local governments receive additional allocations to expand the provision of free basic services and local capacity, particularly in the transport sector. The 2006 MTEF proposes to allocate additional amounts of R102,3 billion in support of economic growth, social development, and accessibility to better public services. Of this amount, R24 billion compensates for the abolition of the RSC levies and R78.3 billion will be shared between the three levels of government as follows: 38.8% to national government, 58.7% to provinces and 2.5% to local governments.

The essential structure of fiscal decentralisation remains unchanged. Provinces continue to lack revenue raising authority and depend consistently on national transfers, which will grow by 6.3 per cent in real terms over the MTEF. The provincial equitable share is projected to grow by 5.2% per year, resulting in additional allocations for education, health and social development. Conditional grants will also grow. At this stage it is not possible to assess the conformity of these allocations with respect to the Financial and Fiscal Commission recommendations, which will be addressed in the 2006 Budget Review.
Transfers to local government will continue to growth over the MTEF, with a rapid proposed expansion between 2005/06 and 2006/07. The new local government equitable share formula introduced last year is intended to be fully phased in by 2007/08.

The 2005 MTBPS does not say much about HIV and AIDS. However, a new and discouraging development is the cancellation of the HIV and AIDS Conditional Grant for the department of social development. The National Integrated Plan (NIP) for HIV and AIDS (1999) has been providing conditional grant funding for

HIV and AIDS interventions in three social sector departments, namely education, health and social development. Basically these three departments utilise HIV and AIDS conditional grants to drive the government response for HIV and AIDS. The health sector spends the money on prevention, treatment, care and support interventions. The education sector uses the money for HIV and AIDS life skills and prevention education in schools whilst the social development departments spend the money on HIV and AIDS community and home based care services (CHBCS), mostly implemented by non-governmental organisations (NGOs).

Education and health sectors continue to receive conditional grant funds for HIV and AIDS programmes. With the phasing in of the CHBCS grant, the total earmarked HIV and AIDS funding for 2006/7 has dropped from R1.9 billion estimated in the 2005/6 National Budget to R1.7 billion proposed in this MTBPS. Almost R150 million which was allocated to CHBCS for 2006/7 in the 2005 Budget Review is no longer ring-fenced for this purpose. The total HIV and AIDS conditional grants have also decreased from the Budget Review estimates of R1,9 billion to an MTBPS estimate of R1,8 billion for 2007/8. Now provinces will need to ensure that they provide CHBCS resources from the equitable share funds to make up for the reduction in the HIV and AIDS earmarked resources.

In general, the utilisation of conditional grants for HIV and AIDS services calls for proper financial and strategic planning to ensure sustainability of these services. To sustain the CHBCS programme from 2006/7 strong and convincing instructions will have to be developed at national level to make provincial social development departments allocate and utilise equitable share funds on CHBCS.

From the perspective of bringing relief to vulnerable children and making progress in fulfilling resource obligations to children's constitutional socio-economic rights, there are a number of positive initiatives in MTBPS 2005. Most noteworthy in this regard are the following:

- The announcement of an increase in provincial equitable shares to give provinces the financial room to eliminate school fees in schools which operate in low income communities.
- The additional allocation of R4.2 billion over the next thee years for financing an expansion of the social services components of the expanded public works programme (which includes early childhood development services for children age 0-5 (ECD) and home and community based care (HCBC) services).
- The increase in the allocation to national government to allow the value of social assistance grants to increase in line with inflation.
- The announcement of substantial new allocations for improving basic infrastructure and housing for poor communities.
- An increase in the equitable share of local government to finance further expansion of free basic services.
- The increased allocations to improving the quality of schooling and in particular to finance extension of the Grade R programme.
- The announcement of further tax relief and financial service support to develop the income capacity of poor households through expanding small and medium sized enterprise.

However, if one looks at these initiatives in the context of how much still needs to be done to fulfill socio-economic rights promises set out in the Constitution, by financing programmes delivering goods such as health, food, education, social welfare services, housing and social assistance and the unemployment situation, from a vulnerable child perspective, the MTBPS emerges as a little disappointing.

The Constitution demands that government mobilises and allocates as many resources (financial and human) as possible to fulfill the socio-economic rights of everyone, and in particular children. The favourable economic growth forecast and financial position of government announced in the MTBPS for the next three

years makes it clear that government could have, and should have, done more for vulnerable children and their families. In particular, we would have liked to have seen the following:

- An announcement about Treasury's estimates of the cost of extending social assistance to all vulnerable adults (through for example the basic income grant of R100 proposed by the Taylor Committee, or some similar initiative) and an outline of when government plans to adopt this initiative.
- An announcement that government would extend the child support grant to all children age 14-18. This is not an expensive initiative. The extension would add only about R3.4 billion a year to the state's social assistance bill.
- Clarification about the cluster of social welfare services that provincial social development departments, together with the not for profit sector are obliged to provide to vulnerable children and their families, and based on the costs of the package, an explanation about how these services are provided for in the increased allocations to the provincial equitable shares.
- An announcement about how much money has been set aside in the equitable share to finance higher salaries for social workers in not for profit organisations which are assisting government to deliver social welfare services to children.
- Linked to the announcement of the extra R4.2 billion for the social side of the EPWP, an announcement about progress in the ECD and HCBC part of the programme and explanation about how much this amount falls short of that needed to take the two programmes to a scale that meets demand (assuming funds are also allocated to build necessary delivery capacity).

From the perspective of vulnerable children and fulfilling the resource obligations associated with socio-economic rights commitment in the Constitution another shortcoming of the MTBPS that needs to be noted is the classification system used to report past expenditure and the estimated allocations for the up-coming

three-year period. The classification system breaks down the expenditures and allocations in two ways:

i. Votes of each department
ii. Personnel vs. capital expenditure

This does not allow for comprehensive tracking of how much government is spending and allocating to socio-economic rights programmes and services for different groups of vulnerable individuals, including children. A change in the system, which involves adding spending and allocations to the programmes and services which government sees as the ones put in place to give effect to the rights of different vulnerable groups (such as those living with disabilities, children and women), would be a great step forward in the struggle to mobilise sufficient resources for socio-economic rights. It would improve accountability in spending and allocations for socio-economic rights by the state. It would also improve spending and stimulate more resource flows by improving inter-departmental and inter-governmental co-ordination in planning for and budgeting for programmes to give effect to socio-economic rights.

Better Spending?

The MTBPS 2005 contains successes and disappointments but no radical surprises, a fact which is to be welcomed as it reflects government's commitment to credible, transparent fiscal policy rather than attempts to catch the market 'off-guard'. In fact, the greater predictability of budgeting, which some may regard as 'disappointing' or 'boring', is a strong indicator of improvements in the quality of fiscal governance.

Our concluding question, discussed very briefly, goes somewhat beyond the confines of the MTBPS discussion to the issue of budget administration and budget outcomes. Can significant improvements in social outcomes be achieved

by improving the productive efficiency of government departments? That is to say, can the way in which funds allocated through the budget process are converted into departmental goods and services, and their impact on social well-being, be improved significantly compared to the status quo?

By its very nature government performance is difficult to measure. Governments step in as economic actors precisely where there are problems of information, pricing or incentives which lead to undesired social outcomes. This also makes it difficult to determine when governments succeed or fail economically, or to assign particular outcomes to the impact or lack thereof of government policies. In addition to inherent conceptual challenges, there are also challenges regarding information collecting, managing and interpreting. This was affirmed again recently by the Director-General of the National Treasury in the foreword to the *Provincial Budgets and Expenditure Review 2001/2002 – 2007/2008:* "Over the years, availability, timeliness and quality of financial information has improved considerably – thanks to the discipline brought about by the Public Finance Management Act. However, the same cannot be said about non-financial information. Not only does this hamper planning; it also makes it difficult to assess progress and evaluate the quality of public services".

Government should be credited with disseminating a wide range of budget policy and budget-administration related documents. But steps still need to be taken to enhance the manner in which information is organised, and the kind of information which is collected, if civil society monitoring and evaluation of budget *performance* are to be facilitated. The focus in the media and amongst civil society remains almost exclusively on the budget review and the MTBPS, at the expense of ensuring consistently high levels of public accountability by focusing greater attention on what happens to spending plans over the course of the fiscal year and how audited spending reports compare to initial budget allocations. Engagement with all the stages of the budget process is necessary to ensure

that publicly provided goods, services and income transfers reach their intended beneficiaries with a minimum of delay and waste.

V. Recommendations

We began this response to MTBPS 2005 by referring to the context of unemployment, poverty and inequality in South Africa. The unemployment rate has not shifted significantly since 2000, notwithstanding a more expansionary fiscal stance. This does not mean that new jobs have not been created, but that job creation still lags behind new entrant rates in the labour market. Though poverty and inequality are not easy to measure, studies suggest that both remain at high levels, notwithstanding real improvements in access to basic and social services.

Increased infrastructural spending, if it is efficient and well-conceived, can create greater enabling conditions for economic growth, increase the demand for labour, and have a significant impact on poverty. But this is part of a long-term growth strategy and should not deflect attention or resources from the provision of social security to vulnerable parts of the population and measures to enhance the impact of spending on human resource development. Care also needs to be taken that infrastructural spending is well-conceived and executed and that showcase projects are avoided.

The divergence between planned budget deficits and deficit outcomes reveals excessive caution. Indeed, one wonders whether an ‘expansionary’ period can be said to have commenced in 2001 given that the actual deficit outcome for that year was still less than 1.5 %. of GDP. If the executive’s concern is with the ability of departments to absorb additional funds, then more effective measures should be employed to improve their absorptive capacity. At the moment these

deficits, given a sound debt position, constitute something of a missed opportunity for social spending.

Lastly, budget policy debates remain a central aspect of democratic governance, but should be complemented with increased scrutiny of in-year fiscal events, that is to say when and how allocated funds are actually being spent. Such monitoring helps ensure that budgeted funds are indeed spent efficiently and effectively so as to enhance the well-being of South Africans and realise the vision of the Constitution.

References

International Monetary Fund, *South Africa: Selected Issues*, September 2005, IMF

Leibbrandt, M et.al *Measuring Recent Changes in South Africa Inequality and Poverty Using 1996 and 2001 Census Data,* June 2005, Development Policy Research Unit (DPRU), Working Paper 05 / 94

Nattrass, N *High Productivity Now: a critical review of South Africa's growth strategy* in Transformation 45 (2001)

National Treasury, *Budget Review 2001, 2002, 2003, 2004, 2005*

National Treasury, *Medium Term Budget Policy Statement 2005*

National Treasury, *Provincial Budgets and Expenditure Review, 2001/02 – 2007/08*

Statistics South Africa *Labour Force Survey September 2000 to March 2005; Historical series of revised estimates (P0210)*, September 2005

Streak J and van der Westhuizen, C Fitting *the pieces together: A composite view of government's strategy to assist the unemployed in South Africa 1994-2000,* October 2004, Budget Information Service: IDASA

The Presidency: Policy Coordination and Advisory Services (PCAS), *Towards a Ten Year Review*, 2003

Van der Berg, S *Fiscal Expenditure Incidence in South Africa 1995 and 2000: A Report for the National Treasury*, February 2005

Whiteford, A & van Seventer, D *South Africa's changing income distribution in the 1990s* in Journal for Economics and Econometrics 2000 24 (3)