


Budget and Expenditure Monitoring Forum

Oral Submission to Standing and Select Committees on Finance



national treasury
REPUBLIC OF SOUTH AFRICA

2014

THE PEOPLE'S INSUFFICIENT FUNDS
SOUTH AFRICA
PUBLIC SERVICES


FINANCE MINISTER PRINCE GORDHAN
GOVERNMENT OF SOUTH AFRICA

Thokozile Madonko
4th of March 2014
Cape Town


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Introducing BEMF


- BEMF held its inaugural meeting on the 21st of August 2009.
- Budget and Expenditure Monitoring Forum draws together individuals, organisations from civil society, academia, government, organised labour to focus attention on ensuring that sufficient money is budgeted for and appropriately spent on health and basic education services.
- BEMF seeks to consolidate budget and advocacy work in South Africa on Health, Education and other relevant social services.




SPII
STUDIES IN INEQUITY AND
INEQUALITY INSTITUTE
*Building up knowledge
to better serve society*




COMMUNITY
LAW CENTRE




TAC
THERAPEUTIC ALLIANCE
COUNCIL




Kartal Health
Advocacy Project




**Sonke Gender
Justice Network**
After 1994, Sonke Gender Justice Network




PSAM
People's Service
Accountability
Movement




CEGAA
Cape Education
Gender Advocacy
Alliance




+SECTION27
INSTITUTE FOR SOCIAL JUSTICE




BLACKSASH
MAKING HUMAN RIGHTS REAL




New Women's Movement
Reproductive Justice, Gender Equality, Human Rights




Alternative Information
& Development Centre



WORLD
AIDS
CAMPAIGN



WORLD
AIDS
CAMPAIGN



UNIVERSAL
ACCESS
HUMAN RIGHTS

Recommendations 2014/15

1. Constitutional duty to meet the people's needs
2. Tax Justice For All
3. Review the Budget Deficit
4. Budget for Social Infrastructure
5. Green Economy - A million climate jobs
6. People's Budget



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Keeping Our Eye on the Constitution

The Constitution mandates urgent, equitable, sustainable development

Von Holdt:

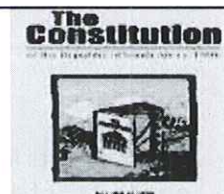
It is unclear how far the Constitution and the institutions it establishes are adequate to facilitate redistribution since the ANC in government has hardly tested the possibilities.

It has precluded such innovation through conservative policy choices (see other papers) shaped by internal developments, the pressures and inducements from business, international development institutions and 'expertise', and the constraints of global capitalism.

We therefore, through our freely elected representatives, adopt this Constitution as the supreme law of the Republic so as to –

- Heal the divisions of the past and establish a society based on democratic values, social justice and fundamental human rights;
- Lay the foundations for a democratic and open society in which government is based on the will of the people and every citizen is equally protected by law;
- Improve the quality of life of all citizens and free the potential of each person; and
- Build a united and democratic South Africa able to take its rightful place as a sovereign state in the family of nations.

The Constitution regulates and directs power to achieve rights through the Budget – Public, Private, Personal & Social



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‘the budget is the skeleton of the state stripped of all misleading ideologies’ Goldscheid

- MTBPS 2013 Overall what is National Treasury told South Africans – “2014/15 Budget will continue to be constrained with Government facing an extremely tight budgetary environment”.
- People’s Alternative Budget Speech shows that there are alternative political/policy choices that Government could face to expand the budgetary environment for 2014/15 and the medium term

Be Careful
What You
Cut



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Three features of South Africa’s Economy

1. **Resource depletion and climate change:** Hitting back on the monetary economy with higher oil prices and other raw material + costly environmental disasters.
2. **No buying power among the masses.** Lack of sufficient economic demand means small home market, means difficult to expand production for SA consumers .
3. **“Financialisation”** – the growth of loans (‘credit’) and of the finance sector, trading in papers of ‘promises to pay’, at the expense of real production and real service delivery.

All these three crises feature globally – not unique for SA!

1. Constitutional Duty to Meet People's Needs

- The level of social and labour unrest in South Africa should show Government that real change is needed urgently in how it chooses to raise and allocate resources
- The current proposal creates a "small state" policies since 1997 of deregulation, narrow budget deficit, low-tax regime (restricts revenue collection) and tax dodging, increases to key social services below inflation and focus on large
- Austerity policies as well as some of the main economic 'fundamentals' that are being implemented currently in South Africa have failed around the world. These policies have created greater inequality and social instability.
- For the minority of wealthy/privileged in South Africa adhering to market fundamentalism to support economic privilege only for some, has and will continue to have, multiple costs: underfunded and under capacitated government institutions, unemployment, crime and instability, as well as environmental degradation.

RECOMMENDATION

- ☐ Revise the current framework to ensure that government can play an active role as guided by the constitution.
- ☐ Welcome the focus on corruption and financial mismanagement.
Ensure that public officials do not engage in business with the state.
Implement the AG's recommendations and use the MFMA and PFMA to ensure those found guilty of corruption are held accountable.

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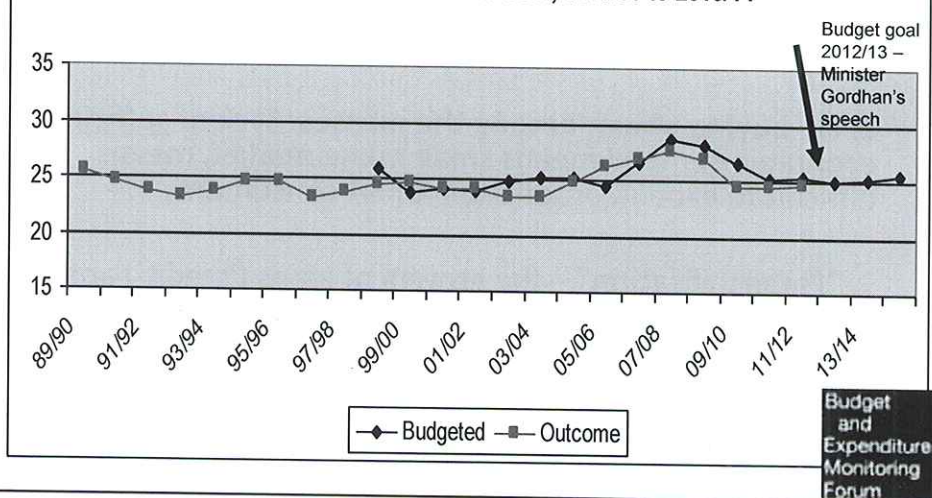
Where the money can come from – Tax Justice

Tax revenue to GDP and "restrained fiscal space"

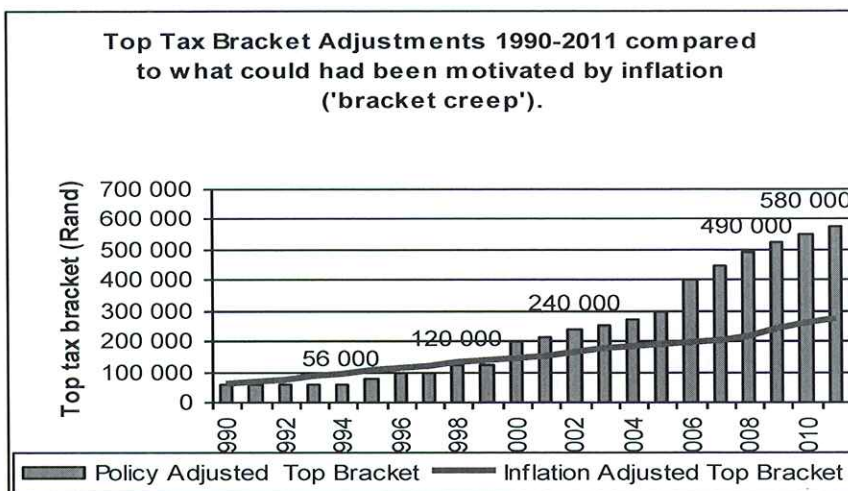
1989/90-2013/14:

Basically unchanged since apartheid

South Africa: Tax revenue to GDP, 1989/90 to 2013/14



If the highest tax bracket had only been adjusted at the rate of inflation, the 40 percent personal income tax would be levied in 2011/2012 already on the income above R280,000 per year, not R580,000.



If the Treasury had 'done nothing' =
= only adjusted brackets for 'fiscal drag'...

If tax pressure on individuals (PIT) had been today what it was in 1994/1995*, the fiscus would have more than R125 billion in additional PIT tax revenue in 2010/11 alone.

*) The 5% 'Transition Tax' is not included in this contra factual estimate.

2. Tax Justice For All

Full support for the Tax Review committee established in 2013.

- Internationally as well as locally there is growing recognition that raising enough revenue through good tax policy is BETTER for economic growth, stimulating job creation than tax cuts and incentives/subsidies.
- All of us –rich or poor – benefit from public services. In line with social solidarity we should all contribute, according to our ability to pay, to the delivery of services need by ALL South Africans.
- Since 1997 implementing a tax regime that was inappropriate, inequitable, and regressive. We have a narrow tax base in South Africa because we are a deeply unequal society. Without raising sufficient funds, government cannot pay for the goals it sets itself.
- If we hadn't cut taxes (way above bracket creep) every year for the past 14 years, the personal income tax alone would have raised additional revenue of more than R125 billion last year – More than the total health budget in 2012/13.

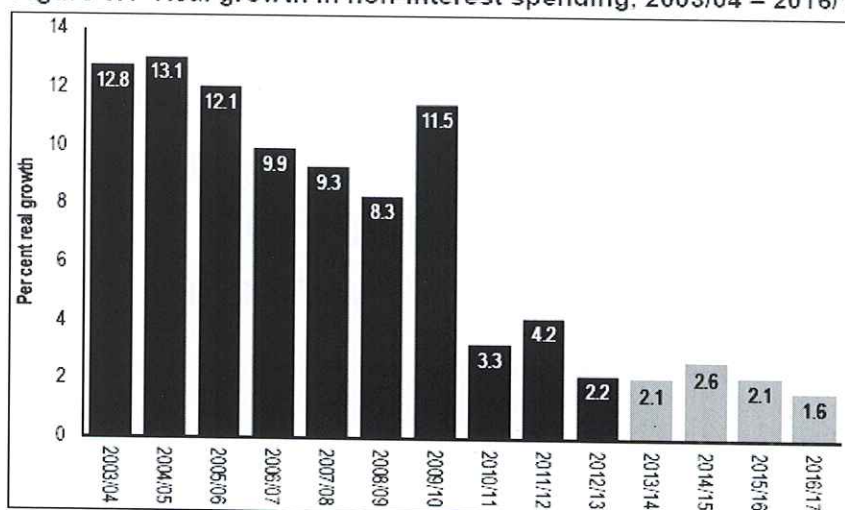
RECOMMENDATION

- ☐ Scrap the 25% national tax rule. We believe we need a GDP ration of at least 30%.
- ☐ Support initiatives to curb tax avoidance, dodging, implement regulations to block the use of tax havens like Barbados and British Virgin Islands.
- ☐ Increasing the number of basic goods which are VAT zero-rated - basic food stuffs, medicines, water, domestic electricity.
- ☐ Subject certain luxury goods to a high rate of VAT
- ☐ Increasing the rate of income tax at higher income levels to include a solidarity tax "super rich"

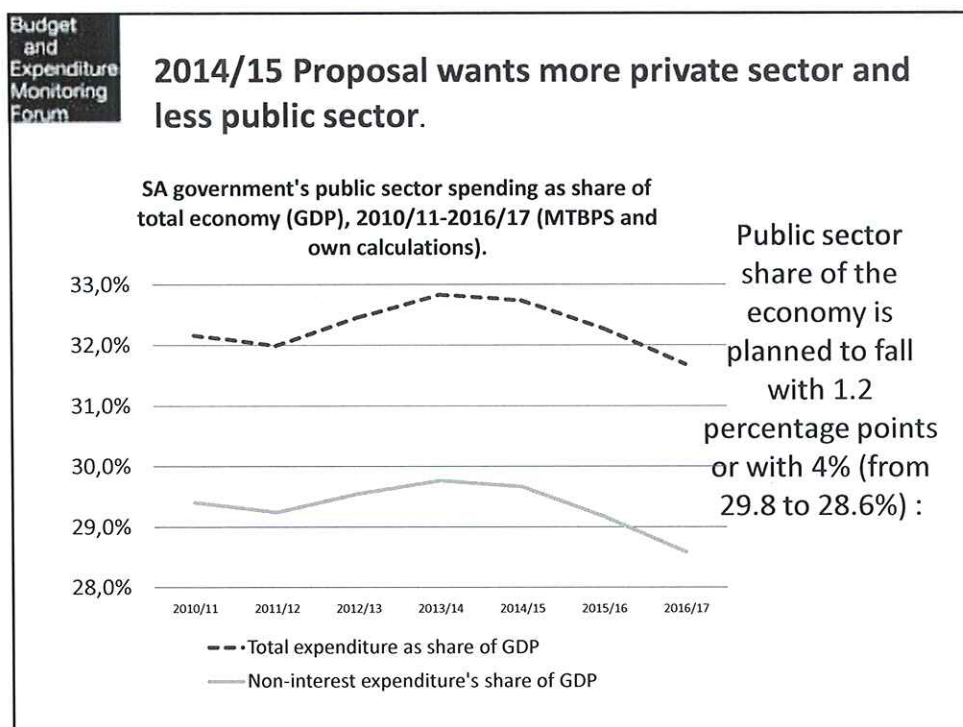
Where the money can come from – Progressive Deficit Spending Not Spending Cuts

MTBPS 2013

Figure 3.1 Real growth in non-interest spending, 2003/04 – 2016/17



Source: National Treasury



Example of what the effects of current macro-economic policy are on Health

There is no NHI budgeting by the Treasury anywhere near the DoH plans from 2011

R billion (2010 prices)	DoH 2011 Green Paper	Fiscal year	MTBPS Oct 2013	MTBPS shortfall
2012	125.4	2012/13	113.5	11.9
2013	134.8	2013/14	113.4	21.4
2014	144.4	2014/15	116.2	28.2
2015	156.2	2015/16	117.6	38.6
2016	166.7	2016/17	119.1	47.6

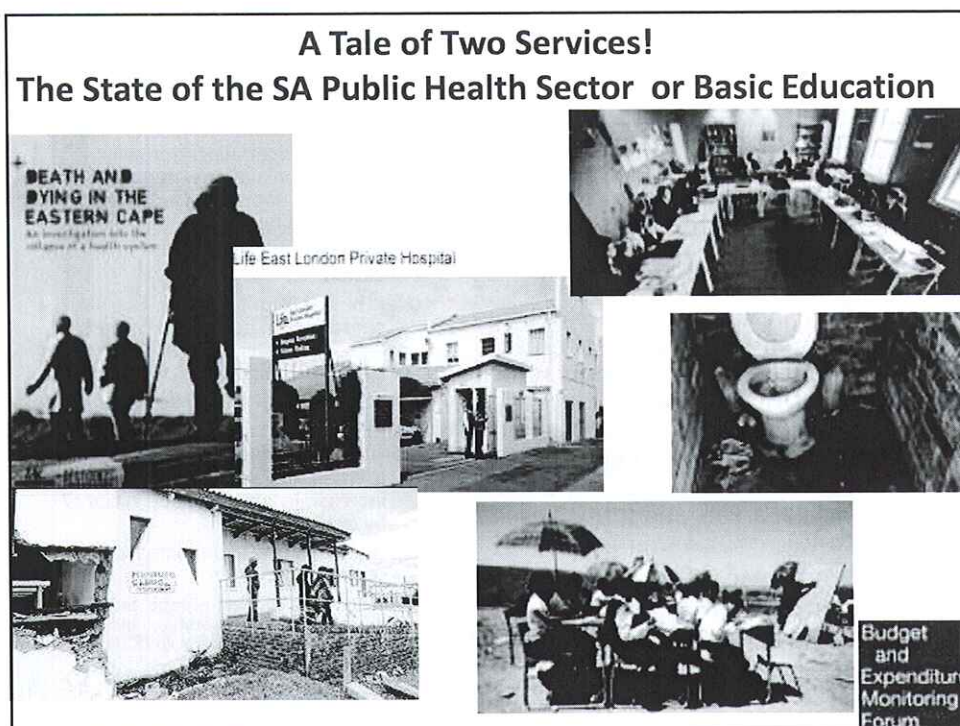
3.Review the Budget Deficit

- Budget 2014/15 outlines a public sector that takes a smaller share of GDP (imveliso isizwe iyonke) until 2016/17.
- The Budget of R1.2 trillion which was tabled in 2013/14 (national, provincial and local) clearly has failed to deliver the services the majority of those living in South Africa needed and we see a small growth in total government expenditure again in 2014/15.
- A limit in real growth in non-interest public spending to approximately 2.6% is asking government to do more with less, and provides just the opposite of growth and pulls much needed spending out of the economy and will hamper the achievement of a **Capable State**.
- South Africa faces plenty of deficits and not just a budget deficit – should consider deficits relating to unemployment, infrastructure and social infrastructure (community play grounds, affordable clean water) deficits in our investment in future generations with respect to nutrition, quality of education, employment opportunities and protection of the environment.
- A budget deficit is **ONLY** dangerous if the interest paid on the debt is increasing too much according to the demand on returns from financial investors (often foreign investors taking South Africa's wealth outside of the country).
- Also very worrying to witness how the government is trapped by its own deregulations of financial markets: interest hikes; a policy of economic contraction will further impact the economy especially when official unemployment stands at about 25%.

3.Review the Budget Deficit

RECOMMENDATION

- ☐ Allow for a budget deficit of 6% do so would not make South Africa exceptional: recently wealthy economies United States, United Kingdom, France and India have all had budget deficit shortfalls in excess of 8% of GDP. Just a mere 2 percentage point increase could inject an additional R67 billion per year that could fund long-term social projects.
- ☐ Greater domestic borrowing – Government has a R1.5 trillion fund at its disposal (Public Investment Corporation) where it can borrow at a reasonable and regulated rate to repair defunct social infrastructure and invest in services that stimulate employment and demand. Pension savings have been used to build infrastructure all over the world.
- ☐ Borrowing from a domestic fund at a regulated interest rate is a guarantee that all that the government has borrowed will be paid back to the claimants/creditors. It also does not put the South African government (and economy) at the mercy of international risk taking and financial shocks.



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4. Budget for Social Infrastructure

- The presentation so far has indicated that there are other options government could be pursuing to stimulate growth and employment in South Africa.
- To address the allocations and performance of key service delivery departments across the spheres of government and implement reforms such as NHI and free basic education government - and the SA Reserve Bank – MUST review the budget deficit, low tax regime and regulations pertaining to financial markets and foreign exchange controls.
- Without these reforms Treasury will continue to paint a picture of “constrained budgetary environment”.

Health

- over the medium term, consolidated health budget allocation will increase on average, in real terms, by approximate 1% with an estimated budget of R164 billion by 2016/17.

Education -

- over the medium term the consolidated education budget allocation will increase in real terms by approximately 2% by 2015/16.

Social Protection and Child Focused budget –

- Consolidated government expenditure towards social protection is set to increase in real terms by 2016/17 by only 1.8%.

We see below inflation increases for social grants

chronic under-funding of rape and domestic violence services and the under-valuing of NGOs' work

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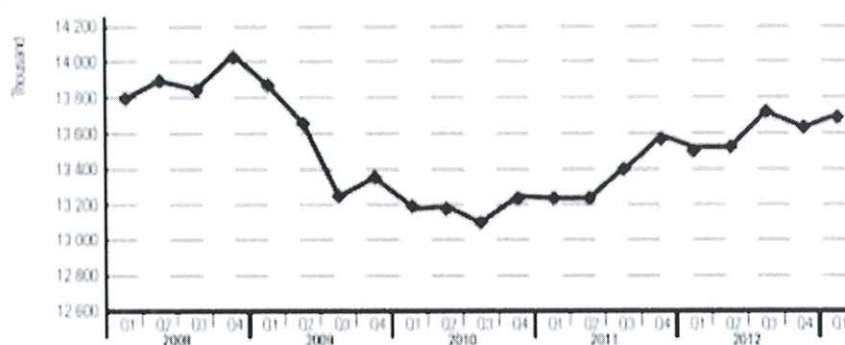
RECOMMENDATIONS

- ☐ Above inflation increases to key social service delivery departments Health, Basic Education and Social Protection and Development.
- ☐ Revision of the equitable share formula to avoid continued allocations that are based on apartheid era allocations.
- ☐ Budget for rurality and for inequities within provinces and municipalities.
- ☐ Use need as the basis for allocation of public funds and not in the form of a zero/sum game shrinking budgets in one sector to expand allocations in another.
- ☐ Need to ensure resources are used both in the private and public sector in ways that promote EQUITY between public and private sectors, as well as within the public sector itself. Example reducing the cost to provide ARV from R313 in 2009 to R89.37 per month. Use companies found of collusion, price fixing etc to “repay” via the delivery of services. For example Construction Companies should build at their own cost school toilets or parks etc.
- ☐ Given the recent unauthorised, undocumented and unlawful debit deductions from Social grant beneficiaries bank accounts and the tender irregularities with Cash Paymaster Services social grant payments need to be managed by a government department or agency to ensure integrity of this vital service.
- ☐ While structural unemployment remains high government must implement a Basic Income Grant to broaden the safety net and inject much needed funds into poor communities to create demand and kick start entrepreneurial initiatives and increase circulation of money within communities.

Employment

South African economy badly. Figure 1 below shows that more than one million jobs were lost in less than one year between 2008 and 2009. By 2013, the economy still had fewer jobs than it had before the crisis.

Figure 1: *Employment in SA*



Source: Stats SA, QLFS (Q1, 2013)

5. Green Economy & Protecting Workers

- Currently local businesses are sitting on more than R1.2 trillion in idle cash reserves and not being invested into the economy the private sector could join the state in investing locally.
- The Employment Tax Incentive Act is yet another tax cut to big business and is likely to contribute to the general downward pressure on wages and not contribute to increasing overall employment.
- Diversify our economy – Mining might bring R20 billion in revenue annually but the current bill for government to clean up abandoned mines and acid mine drainage is estimated at R30 billion.
- Support and implement recommendations from the One Million Climate Jobs campaign

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5. Green Economy & Protecting Workers

RECOMMENDATION

- Review the Employment Tax Incentive Act and finance real public works programmes such as employing community health workers, in-job training to build houses, repairs and maintain schools, clinics, parks and contribute to social infrastructure urgently needed in working-class and poor areas.
- Invest in a low carbon economy by allocating resources to invest in public transport systems, adapting homes and buildings to reduce energy consumption, transition to wind and solar power, invest in rural and urban land spaces to encourage local food production and small scale organic agriculture.
- Protect local labour and encourage domestic economic growth.

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6. People's Budget

RECOMMENDATION

- Review how we develop our national, provincial and local budgets.
- Implement gender-responsive planning and budgeting.
- Facilitate REAL participation and engagement in the budget process from the neighbourhood, ward, district to the province to national government.
- Support greater transparency and access to budget information at provincial and local levels. A black board outside a clinic, school or infrastructure project outlining the budgets, contractors responsible and so forth.

THANK YOU



