

# 2015 Medium Term Budget Policy Statement

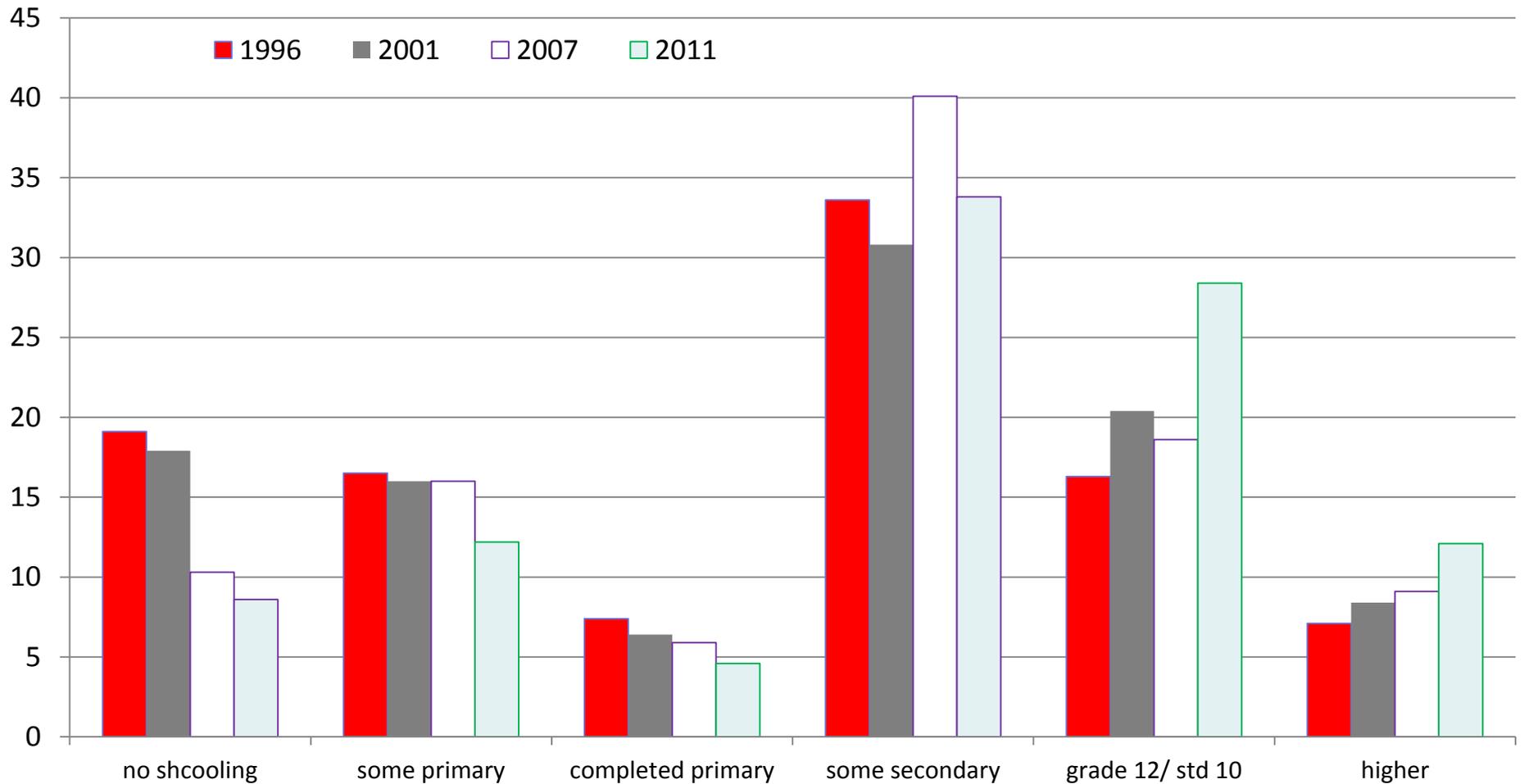
Date: 30 October 2015

# Overview

- Education
- Health
- A skilled and Capable State
- Accelerated economic growth
- Infrastructure investment
- Job creation
- Social cohesion, violence, trust/corruption perceptions

# Funding for Higher Education in South Africa

# Educational level of the SA population



# Education level of SA labour force

	2010	2011	2012	2013	2014
<b>No schooling</b>	418094	368887	374121	374768	372957
<b>Less than primary completed</b>	1164177	1159854	1129033	1142783	1 077587
<b>Primary completed</b>	674428	633937	640779	639703	613587
<b>Secondary not completed</b>	4555708	4696029	4865468	4964800	5 042835
<b>Secondary completed</b>	4163083	4196903	4416318	4555095	4 795920
<b>Tertiary</b>	2616876	2834948	2842253	3040719	3 072110

In 2014 there are about 3 million tertiary graduates between the ages of 15 to 64. The NDP's aspirational target is 10 million university graduates by 2030. This means producing 7 million graduates by 2030: an average of 500 000 for each of the next 15 years.

**A big ask and big resources!**

# Size and shape of post school sector: 2010 - 2013:

## Massive expansion of the TVET sector

	Public University	Public TVET colleges
2010 enrolments	892 923	358 882
2011 enrolments	938 113	400 273
2012 enrolments	953 207	657 690
2013 enrolments	983 698	639 618
% enrolment change: 2010-2013	<b>10%</b>	<b>78%</b>

# FUNDING

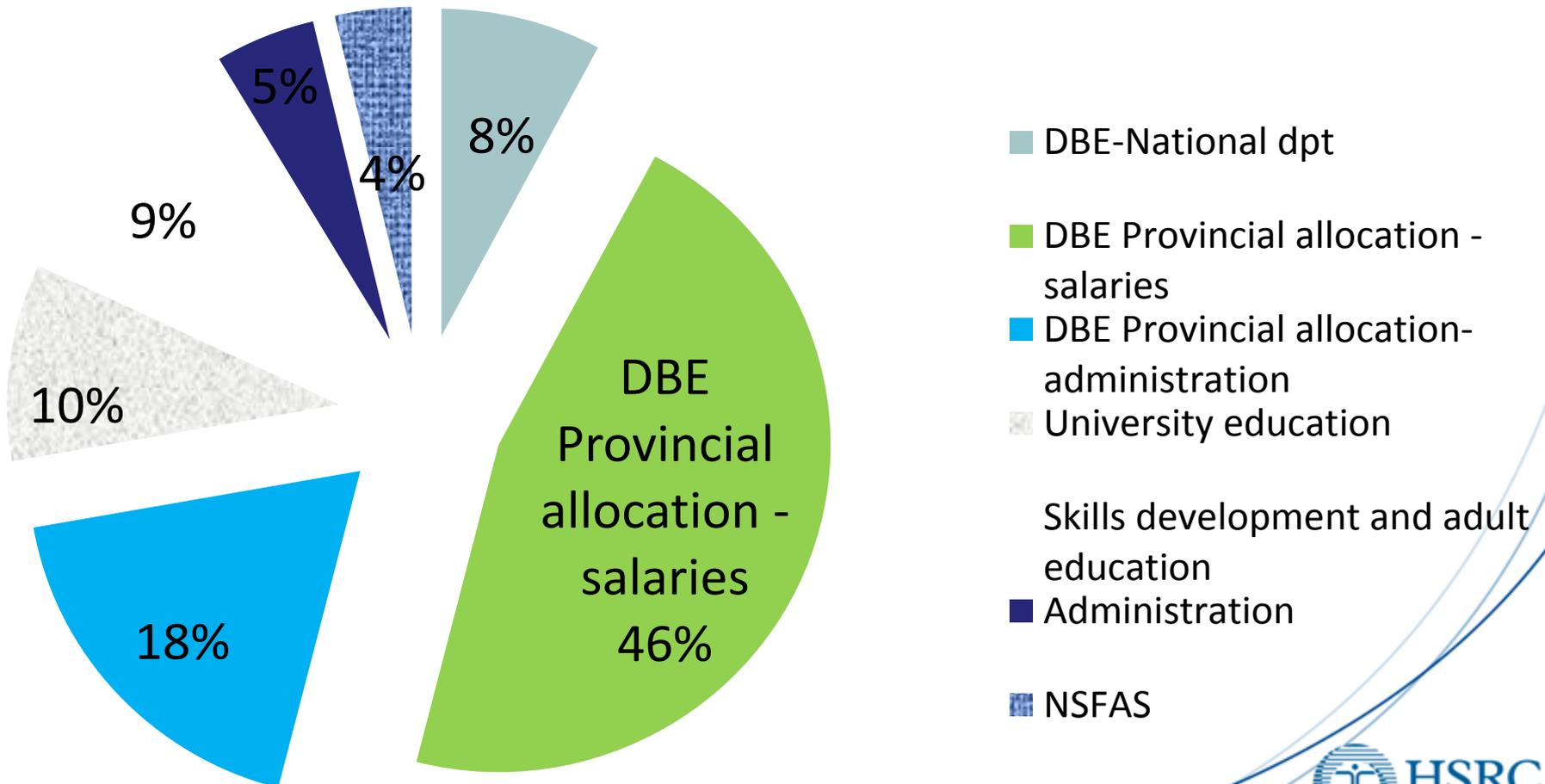
Allocation of funding for university sector is higher than budget for skills sector, but % of GDP is lower than other countries.

Addressing address historical backlogs requires higher share of funding.

Does the funding match expansion plans?

# The 2015 Education budget at a glance

**Total Education budget is R265 billion**

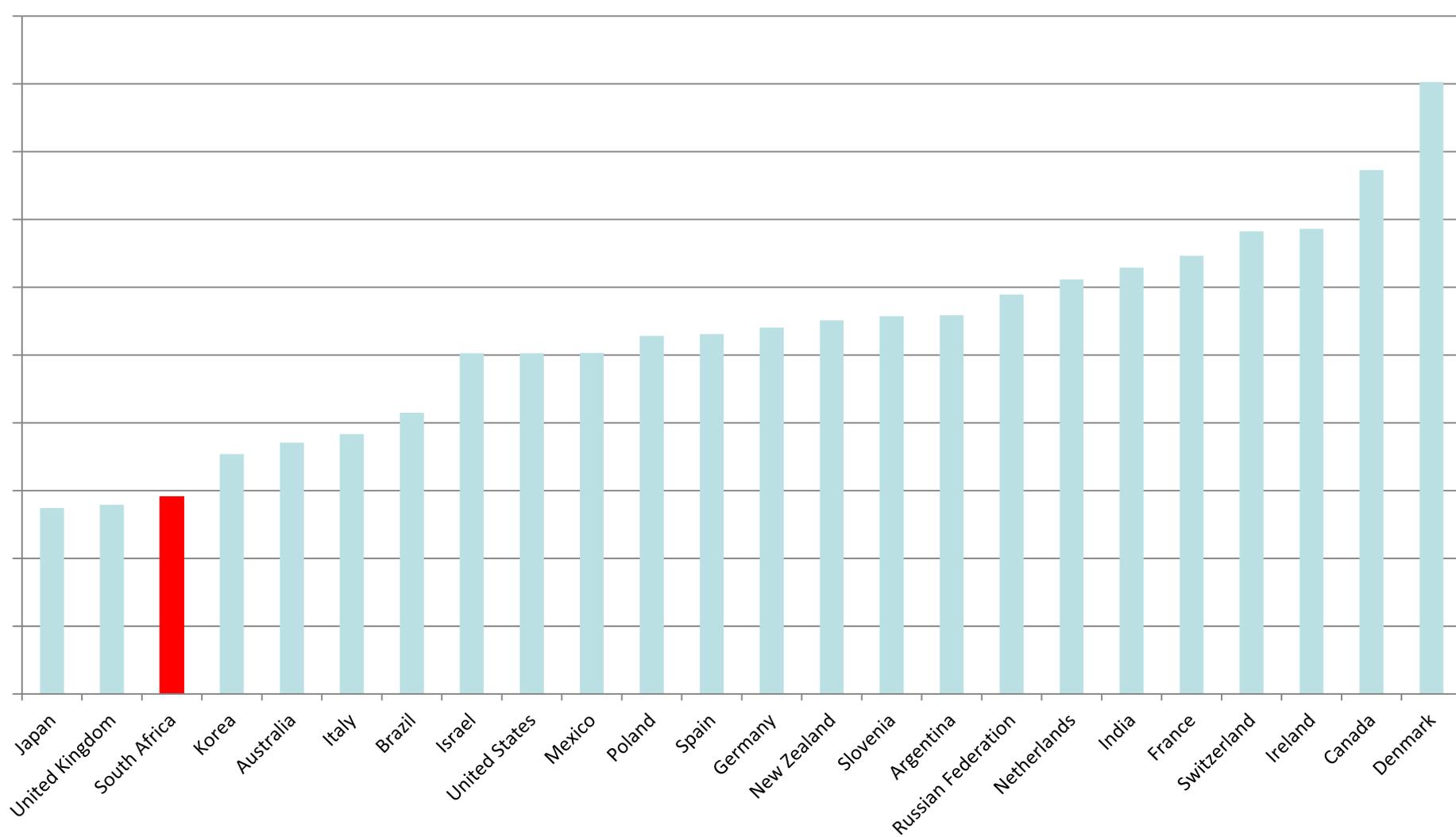


# Budget in R billion

	2012/2013	2013/2014	2014/2015	2015/2016
Total Budget	31 580	34 333	38 988	41 880
Univ. Budget	26 232	28 303	30 443	32 847
Vocational Ed	5 044	5 644	8 088	8 502
SETA Levy (non-fiscus)	9 120	9 922	10 500	11 700
NSFAS (Uni)				R5 billion
NSFAS (TVET)				R2.204 billion

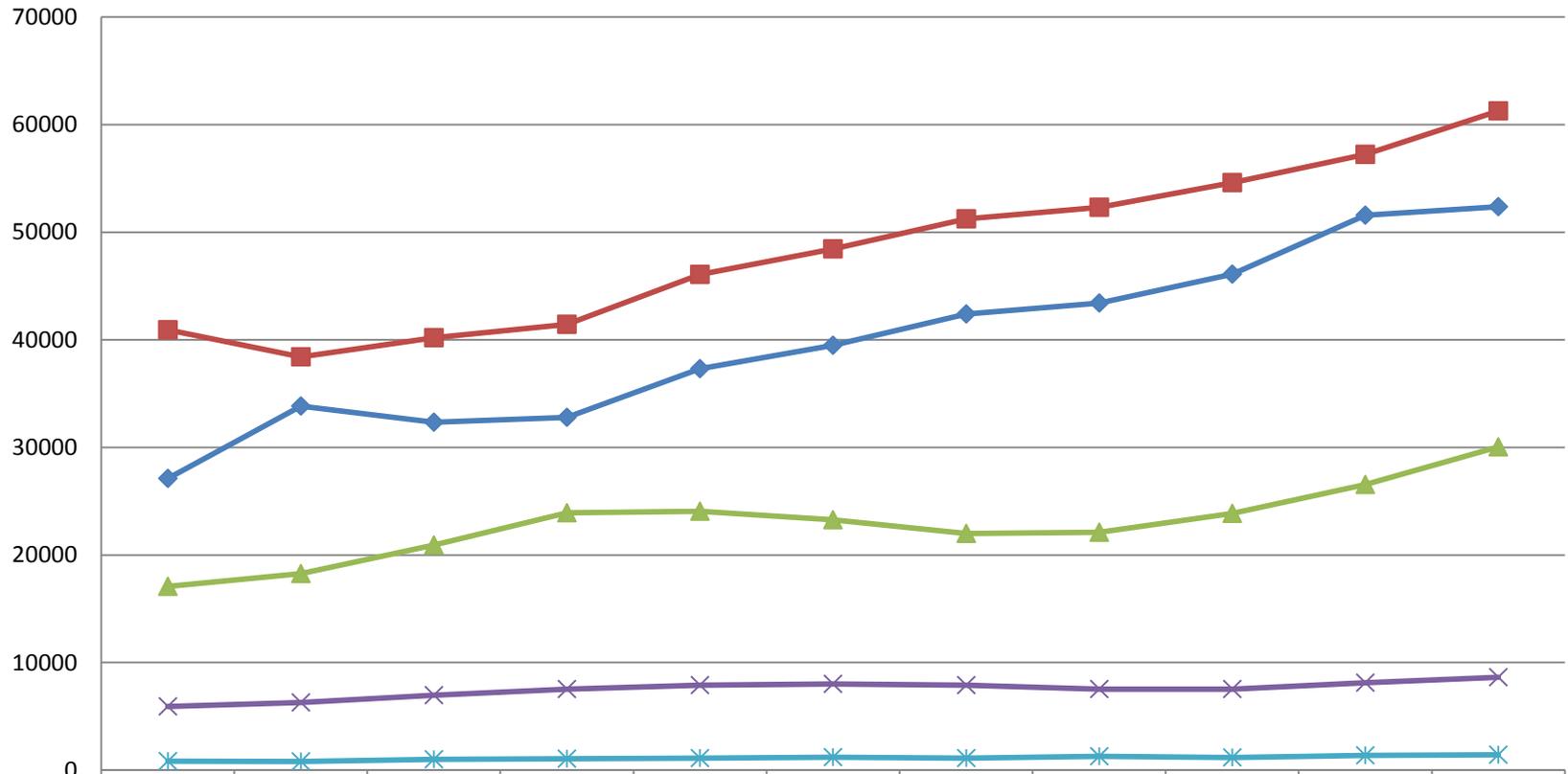
# Comparison (by GDP) of HE funding

SA spends 0.6% of GDP on tertiary education (2009)



# Profile of Graduates from HE sector

NDP target is 5000 PhD graduates by 2030 – increase from 1423 in 2010



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
UG dip/cert	27117	33822	32332	32796	37310	39477	42407	43419	46090	51580	52385
UG degrees	40925	38414	40205	41422	46072	48444	51242	52319	54608	57232	61279
PG yep to Honours	17065	18251	20928	23905	24069	23254	21984	22112	23848	26550	30036
Masters	5911	6286	6973	7516	7883	8021	7882	7516	7513	8110	8618
Doctoral	827	802	987	1052	1103	1189	1100	1274	1182	1380	1423

# Student funding in higher education

- Over the medium term: R19.9 billion will be spent on student loans and bursaries to support students in higher education institutions and in TVET colleges
- For 2015/16: R7,4 bil down from R8.5 bil in 2014/15
- NSFAS has developed a negative reputation due to:
  - Insufficient funds to meet the number of students
  - Late payment to students
  - Only 10% of students pay back the loan.
- NSFAS mechanism for disbursing funds to students must be improved.

# Possible increased funds for students in HE

- Increased university internal efficiencies
- NSFAS – improved efficiencies
- NSFAS – higher throughputs of students on funding and increased loan repayments
- Use of NSF (non-fiscus) to fund students from low income homes studying scarce skills in the country.

# Funding options for post school education: Immediate and long term solutions

- In the immediate term NSFAS as the implementing agent for the provision of financial support for the financially needy must be protected. Dismantling NSFAS now cannot even be contemplated.
- NSFAS must be strengthened in terms of its administrative capacity.
- A R10 billion injection of funds into NSFAS to cover the students who are struggling now is required
- In long term, the President's task team must advise on the structures that should be put in place.

## How can all stakeholders contribute to the funding of higher education (Higher education leadership, citizens, private sector, government, etc)

- The principle must be implemented of paying according to your ability. Wealthy people must pay more than they currently do. This could be a form of wealth tax.
- The most needy must be allowed to study for free subsidised by the state.
- But everybody who has benefitted, even the poor, must pay back something towards recovering the cost of the investment.

# Health

# Health issues

- The government must be commended for continuing to prioritise health issues as a means for addressing both poverty and inequality in our country.
- This is evidenced by additional allocations amounting to R324 783 000 from the implementation of various cost containment measures as recommended by the National Treasury.

# Health issues (contd)

- The main recipients of the extra funding are as follows:

a) additional support to the University of the Witwatersrand for the medical students expansion programme and also both the Public Service Sector Education and Training Authority and the Health and Welfare Education and Training Authority.

- This is indeed very timely given the #FeesMustFall campaign as it is aimed to increase the intake of medical students at tertiary institutions of learning such as Wits as there is a big shortfall of qualified medical doctors need for the country to successfully implement the new National Health Insurance (NHI);

# Health issues (contd)

b) contracting of general practitioners for sessional work in NHI pilot districts in the Western Cape province.

- Once again this will help expedite the piloting of the NHI which the country is eagerly waiting to be implemented in full work in the near future.

c) the purchase of capital equipment to facilitate the establishment of the new South African Health Products Regulatory Authority (which is meant to replace the Medicines Control Council).

- This will help expedite approval of registration of newly developed medical drugs and related products as there is a huge backlog that has been building up during the past decade or so;

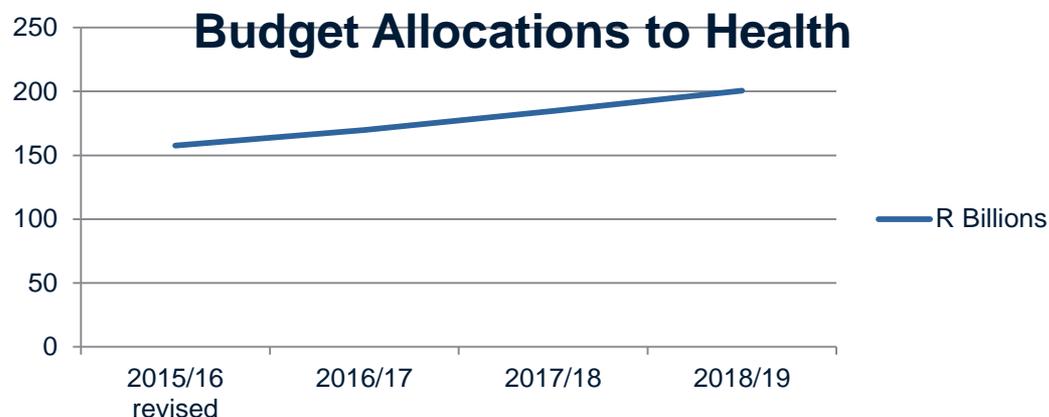
# Health issues (contd)

- c) partial funding for the South African Demographic and Health Survey (DHS) which will be implemented by both the SAMRC and StatsSA in 2016.
- It is now more than a decade since the last DHS was held in South Africa in 2003. Ideally one should be held every 5 years. So this investment will provide both the policy makers and programme implementers with useful information to inform their work especially on the growing problem of non-communicable diseases as well as both reproductive health and reproductive rights issues;

# Critical Observations

- The following statement is insightful --
- ***“ investments in health, nutrition and basic living conditions are key contributors to poverty reduction, social mobility and lower inequality”.***
- It predicates the MTBPS and demonstrates a holistic understanding of the importance of health and its determinants – that is commendable
- Investing in health care alone without addressing issues of poverty, nutrition and the general living conditions – is like investing in “fire-fighting” and not in “preventing the fires”
- The country, despite its notable wealth paradoxically continues to experience **under and over-nutrition**

# Health Remains a Priority!



- An annual budget growth of 8.3% is encouraging-way above inflation showing real increase.
- This is critical given the growing burden of disease – epidemiological and demographic changes
- **NB: It must be said that improving efficiencies within the health system is just as important as increasing the budget envelope**

# Priority Areas for Budget Allocations

- Investments in Primary Health Care – for broad based access and gate-keeping
- Phased rolling out of NHI – fundamental to addressing issues of equity of access to quality services and protection from financial hardships
- R30 billion in health facilities and equipment – to improve service coverage and quality of services
- Financial support for HIS for management of medicine stocks in preparation for NHI – critical health system block for routine generation of system intelligence.
- Additional funds for science and innovation -to bolster research and development – commendable but this is an area which generally appears to be under-supported. The bulk of research funding is EXTERNAL sourced

# Key Messages

1. Funding for accelerated implementation of NHI – **to address inequities in access to quality services and health outcomes**
2. Investments in health systems strengthening – (not just disease programmes) – **to enhance health systems performance and more importantly health systems resilience**
3. Need a funding structure that supports mainstreaming-Health-all-Policies or multi-sectoral partnerships – **meaning having coherent investments in health and health related interventions (such as poverty reduction, food and nutrition security, education, water and sanitation) across sectors**
4. Research and Development --- **funding for health research is limited --- despite the increasing demands for new knowledge and innovation in addressing the various health challenges**

# A Skilled and Capable State

# The NDP on a skilled and capable state

- The National Development Plan highlights the need for a professional civil service to deal with the many transformative and developmental challenges faced by South African society.
- The key challenge identified in the National Planning Commission's diagnostic documents is the unevenness in state capacity, which leads to uneven performance in local, provincial and national government.
- A number of interventions were suggested in the NDP to create a skilled and capable state.

# Interventions suggested in the MTBPS on a Skilled and Capable State

- The 2015 MTBPS focuses on three interventions: improving the effectiveness of the public sector, expanding partnerships with the private sector and strengthening the governance of state-owned entities.
- However, these interventions are not budget interventions per se, but are frameworks, refocusing of grants and examples of partnerships with the private sector.
- It is not clear in the MPBPS, for example, how the budget is being used to promote partnerships with the private sector.

# Improving the effectiveness of the public sector

- The HSRC welcomes the inclusion of education and skills development in the medium-term spending priorities because it suggests alignment with the development of skills so necessary to improve state capacity.
- However, the question here is if, and how the government at all levels is applying various interventions suggested in the NDP to improve the skills of civil servants, such as apprenticeships and graduate training schemes for civil servants.
- It is not clear in the MTBPS, for example, how the budget is used to strengthen the state's role in developing technical skills in both the state and SOEs.

# Improving the effectiveness of the public sector (cont)

- The HSRC maintains that improved systems only deliver good results if the officials implementing the system have adequate skills and motivation for quality services.
- The challenges is to develop a skilled labour force, particularly in technical and maintenance areas through improved FET training and alignment of training with requirements and standards found in the private sector.
- The HSRC also welcomes mention of the development of a capital budgeting framework to address the planning, skills and capacity shortfalls across the public sector.

# Improving the effectiveness of the public sector (cont)

- The HSRC welcomes the refocus of the *municipal systems improvement grant* as an indirect grant.
- Emphasis could have been made in the MTBPS on how the refocus will be used to promote the development of skilled and capable municipalities.
- The HSRC is concerned that the emphasis is placed on rural local government structures, and instead would like to see this extended as well to distressed urban local government structures that face the most serious challenges.

# Partnerships with the private sector

- Although the 2015 MTBPS identifies partnerships with the private sector as one of the requirements to build a capable state, it is not clear how this is to be achieved. Instead, the statement focuses on several partnership in place, and partnerships envisaged in the future.
- The HSRC would welcome budgetary measures that lead to improved partnerships with the private sector on skills training for industries, and linked to FET training.
- The HSRC also notes that the budget could encourage more effective use of civil society organisations in service delivery, particularly by increasing fiscal investment in non-profit organisations beyond the annual 4% increase.

# The governance of state-owned companies

- The HSRC welcomes the announcement in the 2015 MTBPS that work has begun to develop a uniform legislative framework to regulate state-owned companies.
- It also welcomes mention of the efforts by the government to stabilise several state-owned enterprises, as well as a commitment to restrict fiscal support to state-owned companies through offsetting asset sales so that there is no net impact on the budget deficit.

# Other challenges not addressed in the 2015 MTBPS - effectiveness

- Growth in managerial and policy staff should be restrained as this sector takes most of the wage bill, yet is often less qualified or skilled to lead and manage.
- Motivation of labour force to increase quality of work, service and products in line with the above-inflation wage increase.
- Retention of skilled labour/management and increase of post-retirement contracts of mentors, trainers and skilled and experienced workers.
- Improvement of accountability systems, including recourse on corruption and inadequate management and production, and increase in unqualified and clean audits.

# Other challenges not addressed in the 2015 MTBPS – effectiveness (cont.)

- Improve IGR at national, provincial and local level to achieve synergies and concerted planning for both delivery and maintenance.
- Simplify procurement systems to fast-track procurement within stringent measure to ensure quality delivery and to prevent corruption.
- Investigate innovative ways of reciprocity between indigent recipients of services and the service provider (local municipality).
- Realistic growth figures may send out the message that the state is in a real crisis and requires sacrifices.

# Other challenges not addressed in the 2015 MTBPS – partnerships

- Rebuilding trust between private sector and state through coherent and consultative policy development, resulting in socially responsible private sector investment.
- Strengthening the social compact between state, private sector, labour and civil society in order to achieve ‘grand bargains’ on key issues.

# Other challenges not addressed in the 2015 MTBPS – SOEs

- The issue of governance challenges in the SOE sector, especially the SABC, SAPO and PRASA, amongst others, is a cause for concern and needs resolution by providing more resources to strengthen the governance and accountability instruments of the SOEs.
- Fast-tracking of interventions to deal with challenges faced by SOEs, including assessments of effectiveness in management at all levels and capacity of management and employees for delivery on SOE mandates.
- Increase of accountability of SOEs within the public sphere without political interference in the affairs of the management and operations of the SOEs.

**Challenges and opportunities for:**  
**Accelerating economic growth**  
**Infrastructure investment**  
**Job creation**

# Context

- Slowdown in economic growth
- Weak global economy
- Poor investment climate, weak business & consumer confidence
- Downward revision in tax revenue (R7.6bn current year)
- Budget deficit unchanged (3.8% of GDP)
- High government debt (46% of GDP)
- Large foreign trade deficit
- Growth of public spending and public sector jobs (now 30% of total formal sector non-farm wage bill)

# Overall assessment

- More prudent approach than in the recent past – “restraint ... taking the pain”. Focus on efficiency
- Commitment to contain public spending and the budget deficit to limit the growth of borrowing
- Tougher approach to managing state entities (eg Eskom, SAA) including sale of non-core assets (eg property and shareholdings)
- Commitment to increase private sector investment and expertise in public infrastructure
- Some tax increases (no details given)
- Uncertainty about ability to implement all this

# Accelerating economic growth

- Growth for 2015 is slower than expected in February: down from 2% to 1.5% (slightly above IMF forecasts)
- Consumer price inflation slightly lower but higher food prices and weakening currency major concerns
- Efforts to encourage private investment by:
  - Involvement in strategic infrastructure projects
  - New forum for business to make inputs
  - Removing obstacles to private investment
- Increased emphasis on manufacturing and exports to rest of Africa

# Infrastructure investment

- Support municipal planning and implementation of urban development projects that catalyse spatial change
- Investment in infrastructure has been slow to grow, but is now 20% of GDP
- Much has been on social programmes – schools, hospitals, housing, water, sanitation, electrification
  - For example: R23 billion allocated to Eskom
- Early days for transport and communications infrastructure investment

# Job creation

- Growth of public sector employment will be very slow
  - Directly and indirectly (eg in state entities)
  - Its early days for infrastructure investment
- Private sector employment will also be restrained by slow domestic growth and infrastructure blockages
- Manufacturing and exports are not labour-intensive
- Assessment of early phase of Employment Tax Incentive shows positive impacts and outcomes
- Increased investment in public employment schemes:
  - Expanded Public Works Programme and Community Works Programme

# Important new emphasis (1)

- Focus on reviving investment in cities
- “Well-planned and well-managed urbanisation can accelerate economic growth”
- Rationalise municipal infrastructure grants - maintain infrastructure & expand basic services
- Increased investment in municipal infrastructure – community infrastructure and housing
- Urban Investment Partnership Conference- explore options for municipal infrastructure investment
- Treasury will work with financial institutions to expand the municipal debt market

## Important new emphasis (2)

- The government aims to transform urban spaces, through greater integration of residential areas, employment and trade.
- Incentives to encourage metros to promote more compact, efficient and equitable cities by aligning planning and infrastructure investment
- Reform infrastructure grants to local government to scale up the provision of well-located and affordable social housing and upgrade informal settlements
- R560 billion in grants in grants over 3 years to assist in providing bulk infrastructure, electrification, schools, clinics and water

# 27 Priority Rural Districts

- Grants for rural municipalities to eradicate backlogs in access to social services
- Investment in rural areas aimed at facilitating increased mobility
- Create opportunities for innovation and growth in local economies
- Boost market opportunities for agriculture and rural enterprises

# Social Cohesion, Violence, Trust/Corruption perception

# Social cohesion, violence and trust in government

## Medium Term Strategic Framework

**(3) All people in South Africa are and feel safe**

**(9) Responsive, accountable, effective and efficient local government**

**(12) An efficient, effective and development-oriented public service (Fighting corruption and crime – electoral priority 2014-2019)**

**(14) A diverse, socially cohesive society with a common national identity**

**(11) Create a better South Africa and contribute to a better Africa and a better world**

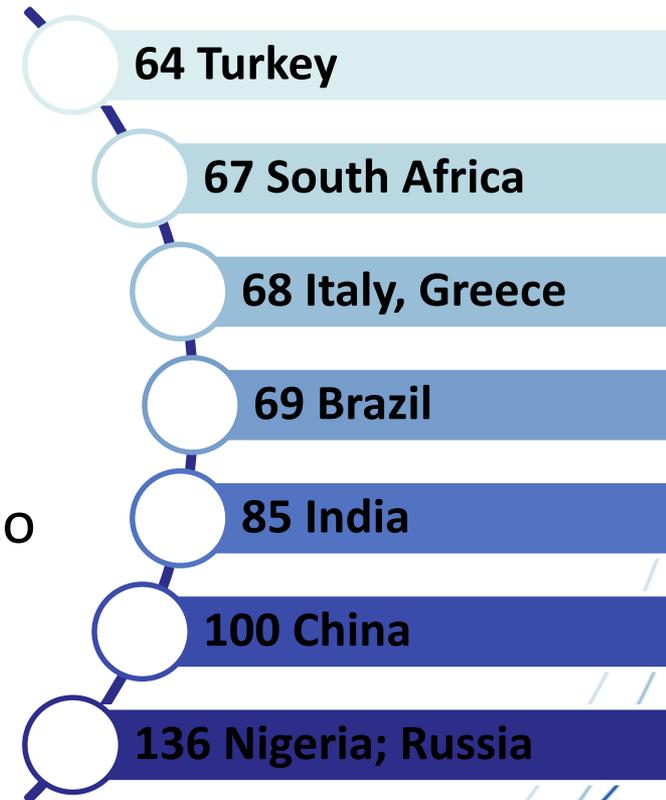
- The mid term budget pays very little attention to these areas
- Violence, social cohesion and trust in government is under researched, underfunded and underspent
- These are critical elements if societal transformation is to be realised – along with economic transformation
- At least two programmes in the HSRC focusses on these areas (HSD and DGSD), along with a number of research studies

# Why these areas are critical considerations in budget allocations?

1. Trust in government is decreasing (Ipsos 2013; IJR 2014; SASAS 2012) - trust is essential for social transformation
2. Trust between 'race' groups is diminishing (SASAS 2012; IJR 2014) – increasing conflict could result
3. Violence remains a feature of South African society – from violent crime to violent protests and police responses
4. Corruption is used as a reason for an absence of individual contribution towards redress and nation building (Swartz, 2016)
5. Racism, sexism, and the indignities of class oppression leads to violence (Swartz, 2016)

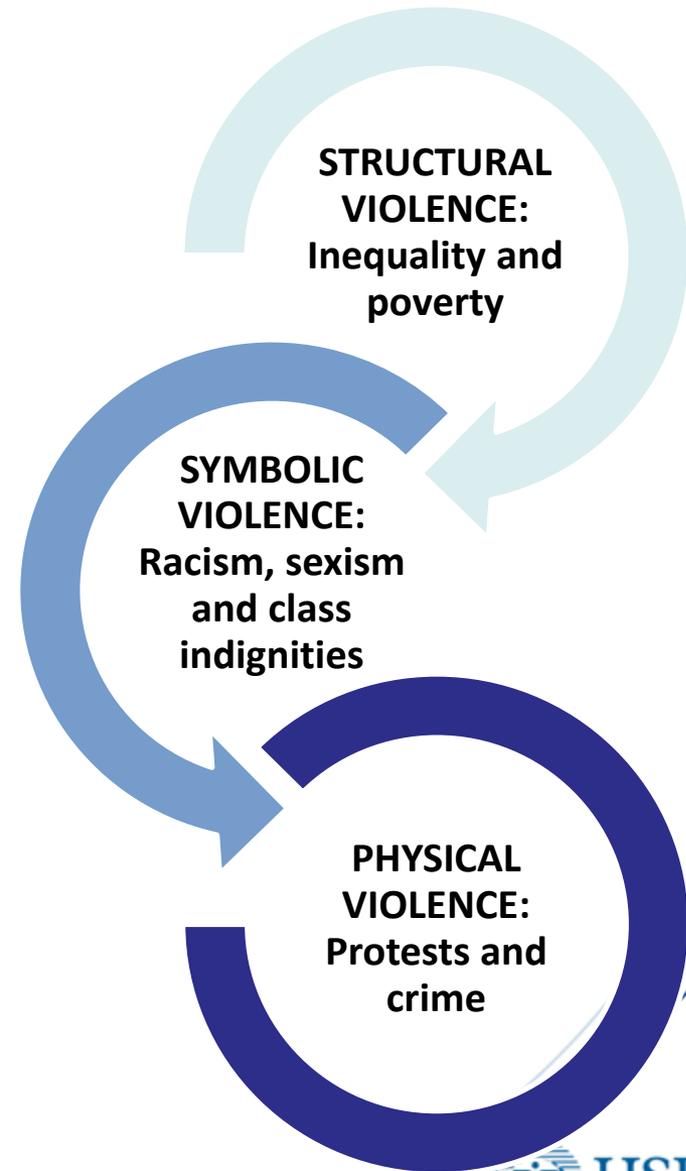
# Corruption

1. Fosters distrust of government
2. Weakens civic participation
3. Fuels racist discourses
4. Causes people to disengage from nation building
5. “R35 billion a year lost to corruption” empirically unsubstantiated
6. South Africa is 67<sup>th</sup> in the world (similar to Italy, Turkey and Greece)
7. BRICS partners are all faring worse
8. Nigeria - African competitor - is 136<sup>th</sup>
9. Government strategies needed to rectify perceptions, AND stamp out existing corruption



# Violence

1. Why are protests frequently violent (whether student-led, service-delivery or labour)?
2. The contributions of poverty and inequality, forms of oppression (racism, sexism and class indignities – including xenophobia, gender based violence) to physical violence needs to be investigated
3. Considered strategies for action need to be advocated (to students, police, NGOs, teachers etc).



# Social cohesion and nation building

1. Dialogue is critical - DAC “delays with the appointment of a service provider to conduct the community conversations on social cohesion and nation building”
2. Allocation of R48 795 000 (conversations, flags and flag poles, heritage bursaries, libraries) underspent but insufficient
3. This expenditure is urgent and needs to be expanded (and possibly not left to DAC only)
4. Social cohesion, violence and trust perceptions need evidence based strategies –the HSRC can provide
5. All three critical in the light of current social protests