Introduction

Our society has taken many significant steps to eradicate poverty in our first decade of democracy. But we still face many challenges. It is from this perspective that the People's Budget approaches fiscal policy – one of the most important tools in the struggle to uplift our people.

Fiscal policy is never neutral. Rather, it has been an area of contestation between two major groupings – each with many variants – in our society. The first grouping, mostly based in the private sector and international financial institutions, has called on government to adopt policies associated with the mantra of privatisation, trade liberalisation, deregulation and business-led development. The second grouping, based primarily in mass-based civil society organisations, has called on government to increase spending on programmes to address poverty, with a more expansionary fiscal policy.

The debate between these groupings is not an academic exercise. It has an immediate impact on the lives of our people. The People's Budget Campaign sees this as the key test of our proposals for more rapid redistribution and expansionary fiscal policies.

To this end, our fourth budget framework seeks not a populist alternative, but rather an alternative that is credible and evidence-based. The proposals presented here are for the 2005 / 2006 financial year. This should ensure that government has sufficient time to engage our proposals and phase in fundamental changes, where needed.

This document aims to:

- locate fiscal policy within an integrated developmental perspective;
- explain our proposals for job creation and rapid poverty eradication, particularly in rural areas; and
- provide revenue and expenditure proposals that translate our vision into practice.

The document has four parts:

Part 1. A broad approach to poverty eradication: This section outlines an integrated strategy for poverty eradication.

Part 2. Spending proposals: This section looks at measures for improving incomes, building capabilities and redistributing assets. The key measures proposed include a basic income grant and expansionary budgets for land, housing and free basic services.

Part 3. Building participation: This section analyses the budget process and recommends reforms to enhance opportunities for popular participation in identifying spending priorities at the national and local levels.

Part 4. Financing and integrated development strategy: This section reviews revenue trends of recent years, explores methods of financing new poverty eradication and job creation initiatives, and proposes mechanisms to improve the delivery capacity of the State.

Each of the sections reviews the performance of government over the last ten years and points out both the many successes that government has achieved and the challenges that remain unmet. The theme of the document is thus: *Eradicating poverty by 2014 – Learning from the first ten years of democracy*.

Our proposals have been developed through a participatory process. Over the last twelve months the People's Budget Campaign has:

- **Called for submissions:** The People's Budget Campaign has called on members within its constituencies and beyond to provide submissions to inform our proposals.
- **Held training workshops:** Two major training workshops with the theme *Budgets and Poverty Eradication* were held in Johannesburg and East

London. The training workshops served as a basis for soliciting feedback and improving economic literacy. In addition, our organisations have held internal training programmes for members. These processes also let us discuss our core proposals.

- **Convened a consultative conference:** The three coalition partners held a consultative conference in Johannesburg in November. The conference adopted a series of resolutions that served as the basis for our proposals.

In addition to this, the People's Budget Campaign has commissioned research on several areas to inform discussion and stimulate debate. While the research papers are important in themselves, they have served the more important function of building capacity and stimulating debate through a process of participation and involvement.

Finally, we are often asked whether the People's Budget Campaign has achieved its aims. To answer this question, we have to remember that our aims are:

- to engage with government policies through the budget process, putting forward proposals from our civil society organisations; and
- to improve the capacity of our organisations, activists and members to understand and engage on the budget at national, regional and local level.

Since the People's Budget Campaign vocalises demands made by much of civil society, it is impossible to separate out our influence on government decisions. The effects of these broad-based demands can be seen, among others, in:

- the adoption of a somewhat more appropriate fiscal policy, moving away from the restrictions and cuts of the late 1990s;
- the decision to roll out anti-retroviral treatment for HIV / AIDS;
- the extension of the child-support grant; and
- the expansion of free basic services.

Generally, the People's Budget Campaign has been instrumental in keeping economic policy alternatives on the public agenda and in building support for a modest relaxation of fiscal constraints, particularly within the Campaign's mass-based constituencies. Moreover, our research and training work has contributed to the ability of our organisations to engage more practically and specifically on these types of policies.

Part One

A broad approach to poverty eradication

To devise effective strategies to raise living standards, we need to understand the root causes of poverty. In South Africa, the long history of colonialism and apartheid created the conditions that produce poverty. Above all, past policies deprived the majority of our people of productive resources, skills and access to the formal economy.

Ten years after our transition to democracy, many of these conditions persist. That does not mean all is doom and gloom. During the last ten years, government has vastly improved services for the poor. Moreover, the hard-won rights to organise, vote, protest and assemble mean that life is substantively better in the new South Africa. It is precisely due to these rights that the People's Budget Campaign can openly propose alternatives to government policies.

Ending poverty is not just about spending more and better. Perhaps even more importantly, it is about economic and political power. The government must step in to empower the poor economically and socially by improving social protection, redistributing wealth and redirecting the economy to create employment. That means that we need measures to give the poor greater access to jobs, productive assets and skills, ensuring greater investment in industries. Only this type of programme can reverse apartheid's legacy of impoverishment.

Poverty eradication remains a central goal for our government and other progressive forces. This section starts with an analysis of the achievements of the past decade, as well as the challenges that remain. Next, we assess the role of fiscal policy in transforming the processes that produce and reproduce poverty. Finally, we propose an integrated poverty perspective in order to redistribute resources and enhance the power of poor people.

Progress and challenges

The last ten years have been remarkable. Among others, the consolidation of democracy, the establishment of democratic local government, and, in mid-2003, the signing of agreements at the Growth and Development Summit (GDS) all constituted high points to break with over three hundred years of colonialism and apartheid. These and many other success stories indicate that we have taken giant steps towards genuine liberation.

A critical area of progress was the extension of government services. As Table 1 shows, government spending made considerable progress in overcoming the backlogs in basic services left in black communities. As discussed below, sometimes the pricing of these services proved a problem, but the extension of services nonetheless represented an important step forward.

However, the first ten years of democracy have also been characterised by continued challenges. Key among these challenges is widespread poverty associated with soaring unemployment and persistent racial disparities.

Income inequality remains pervasive in South Africa. According to World Bank data, South Africa is one of the five most inequitable countries in the world. Most studies suggest that there has been very little

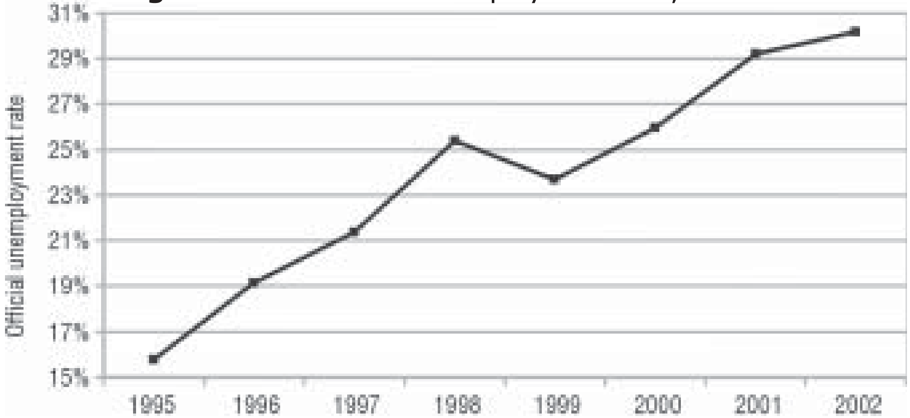
Table 1: Access to infrastructure, 1995,[a] 2000 and 2002

	Percentage of households with access to service			Average annual increase in share with access	
	1995	2000	2002	1995-2000	2000-2002
Formal housing	66%	69%	75%	0,9%	4,2%
Electricity for					
• Lighting	64%	71%	77%	2,1%	4,1%
• Cooking	55%	51%	55%	-1,5%	3,8%
• Heating	54%	51%	48%	-1,1%	-3,0%
Piped water	79%	83%	85%	1,0%	1,2%
Flush toilet	57%	54%	56%	-1,1%	1,8%

Note: a. The 1995 figures are from the October Household Survey and may not be entirely comparable with the later figures, which are from the Labour Force Survey that replaced the October Household Survey.

Source: 1995: October Household Survey 1995, reported in StatsSA, *Earning and Spending in South Africa*, 2002, Chapter 2. 2000 and 2002 calculated from StatsSA, Labour Force Survey, 2000 and 2002, database.

Figure 1: The official unemployment rate, 1995-2002



Note: The official definition of unemployment, used here, reports workers too discouraged to seek work as outside the labour force, rather than as unemployed. **Source**: Figures calculated from StatsSA, *South Africa in Transition* (Pretoria: 2001) for 1995-1999, and from StatsSA, Labour Force Survey, September 2002, electronic database.

improvement in this regard since 1994. Indeed, according to government's Income and Expenditure Survey (StatsSA, 2002b), income disparities may actually have increased between 1995 and 2000, with black households in particular seeing falling earnings.

This situation arises primarily because soaring joblessness has tended to offset the economic gains from improved social protection and opportunities for poor communities. Today, almost one in three workers is jobless. As Figure 1 shows, unemployment rose from 16% in 1995 to 30% in 2002. The latest data, for March 2003, show that unemployment had reached 31%. These data are not entirely comparable with the earlier figures, however. In all cases, the figures given here do not include workers too discouraged to actively seek jobs. If these workers were included, the unemployment rate would be 41%.

South Africa's unemployment rate is extraordinarily high by international standards. According to the World Bank, unemployment in other middle-income countries runs at under 10%. (World Bank, 2003)

High unemployment has been associated with falling real incomes for workers and their dependants. Since 1994, around 40% of workers have earned under R1000 a month – while the buying power of the rand is now less than half of what it was in 1994. (Calculated from StatsSA, 1995 and 2003a)

Two factors lie behind the high unemployment rate:

- Employment has grown relatively slowly, with a shift toward worse-paid informal jobs. According to the 2001 census, formal and informal jobs together grew 5% between 1996 and 2001 – far slower than the growth in the labour force and the population.[1] Employers in some sectors – the public service, mining, manufacturing and construction – saw big job losses, although retail trade and financial services expanded.
- In contrast, the number of people seeking work grew more rapidly than the population as a whole, at around 10% a year, as people who had previously worked at home sought paid jobs outside the house. The reasons for the increase in workseekers is not really known. It may be that with the end of apartheid, more rural people sought paid work in town. It may also be that in response to rising unemployment, more members of a family sought new jobs.

The extraordinarily high level of unemployment meant that young people leaving school had to wait long periods to get jobs. As a result, unemployment was by far the highest among the youth. Young people under 30 faced an unemployment rate of 61% in September 2002. This group made up over half of all unemployed people, and only a quarter of the employed. (Students do not count as employed. Calculated from StatsSA, 2003b)

This means that many young adults have never held a job, and that the unemployed have little prospect of finding work. In September 2002, 70% of the unemployed had been jobless for over a year, and almost 60% had never been employed. (Calculated from StatsSA, 2003b) This rate of long-term unemployment was the highest of over forty countries for which the StatsSA publication gives information. In Mexico, Republic of Korea, US and Norway, less than 10% of unemployed had been out of work for this length of time. (Lestrade-Jefferis, 2002: 68-9)

Unemployment is also heavily differentiated by race and gender. As Table 2 shows, African women have by far the highest level of unemployment, even when they have substantial education.

Slow job creation was linked to poor overall economic performance. As Table 3 shows, South Africa lagged behind most other middle-income countries in terms of GDP growth and investment as well as employment creation.

Rising unemployment and slow growth reflected systemic distortions left by colonialism and apartheid.

On the one hand, the State historically deprived the majority of the population of productive resources, skills and access to formal economic services, including the financial institutions and marketing. In economic terms, these measures ultimately aimed to compel black people to work for lower wages. But they meant that if the formal sector did not create jobs, most people were left poorly equipped to earn income in other ways.

On the other hand, the formal sector has generally been rooted in minerals production and refining. These activities tend to be highly capital intensive, creating few jobs and doing little to meet the basic needs of the poor.

The resulting situation has been termed a 'dualist economy'. Much of the population lives in the so-called 'second economy', where productivity and incomes are very low. They have little choice but to engage in subsistence strategies such as small-scale farming in the former homelands and hawking or begging in the cities. Meanwhile, the 'first economy' provides better incomes and employment opportunities. Even there, however, most workers earn under R2500 a month. Moreover, outside of the public sector, ownership and management remains almost exclusively white. (See Makgetla 2004, forthcoming)

Over the past ten years, the share of workers gaining employment in the 'first economy' has effectively declined. This outcome essentially reflected:

- The effects of re-integrating our economy into the global community following the isolation of the apartheid era. This process has involved substantial tariff cuts and increasing exposure to foreign competition. Some local producers closed, others laid off workers in large numbers. In 2003, the situation was worsened by the appreciation of the rand, which cut economic growth to under 2%.
- Shrinkage in mining employment as the gold mines matured and the gold price stagnated. Minerals exports and the mining companies shifted increasingly to platinum, which generated substantial revenues but created far fewer jobs.
- The downsizing of the public sector as the government slashed budgets and closed, commercialised and partially privatised the parastatals at national and provincial levels in the late 1990s.
- Job shedding by commercial agriculture as a result of rapid deregulation in 1996 and changing power relations on farms.
- Massive job losses for domestic workers. Some 20% of women workers were employed in this sector, which shrank by over 10%.

This analysis points to two fundamental strategies to overcome the employment crisis:

- Ensuring that the poor have greater access to productive resources like land, infrastructure and

Table 2: Official unemployment rates by race, gender and educational level, March 2003

Highest level of education	African		Coloured		Asian/Indian		White	
	F	M	F	M	F	M	F	M
None	22,5	20,6	24,5	6,5	0,0	0,0	0,0	—-
Grade 0 – 3/Std 1	24,8	24,3	17,1	12,6	72,7	42,1	0,0	—-
Grade 4/Std 2	31,2	31,0	22,9	23,2	0,0	29,8	—-	0,0
Grade 5/Std 3	35,4	26,8	15,2	17,2	60,3	0,0	—-	0,0
Grade 6/Std 4	35,0	30,2	20,7	23,5	0,0	0,0	41,9	—-
Grade 7/Std 5	38,6	30,8	27,4	23,7	36,5	15,2	25,4	73,1
Grade 8/Std 6	36,4	34,4	28,7	26,5	23,7	30,1	2,3	24,0
Grade 9/Std 7	50,8	38,2	35,5	25,8	45,2	17,4	22,3	13,8
Grade 10/Std 8	46,9	35,3	25,6	28,5	41,7	27,3	12,0	10,0
Grade 11/Std 9	59,3	43,5	26,1	20,3	30,0	23,3	16,5	3,3
Grade 12/Std 10	54,1	41,4	25,6	14,6	28,4	17,8	8,8	7,7
NTC I – NTC II	52,2	31,7	17,8	21,0	—-	15,5	14,1	3,8
Dip/Cert & < G11	32,1	19,9	0,0	6,7	43,6	9,2	7,9	8,8
Dip/Cert & G12	23,7	18,6	5,8	13,6	5,6	12,0	4,2	1,4
Degree and higher	11,5	11,7	4,0	10,3	17,0	3,1	4,6	4,1

Source: StatsSA, 2003d.

Table 3: Growth, investment and unemployment in South Africa and selected other countries, various years

	GDP growth	GDP growth *per capita*[1]	GDP *per capita*[2]	Investment as % of GDP	Unemployment rate
	1990-2001	2000-2001	2001	2001	1998-2001[3]
South Africa	2,1%	1,2%	10 910	15%	23%
Middle-income countries	3,4%	1,6%	5 390	24%	5%
of which:					
Malaysia	6,5%	-1,9%	7 910	29%	3%
Chile	6,3%	1,5%	8 840	21%	10%
South Korea	5,7%	2,3%	15 060	27%	4%
Egypt	4,5%	1,0%	3 560	15%	8%
Brazil	2,8%	0,2%	7 070	21%	10%

Notes: 1. *'Per capita'* means the average output for each person in the country – that is, total output measured by the GDP divided by the population. 2. The GDP *per capita* is calculated here in terms of purchasing power parity, which tries to measure actual output without taking exchange rate fluctuations into account. 3. The unemployment rate (the number of unemployed as a percentage of the labourforce) is given for one year between 1998 and 2001.

Source: World Bank, *Development Indicators 2003.* Washington, D.C.

skills, as well as financial and marketing networks. In effect, the very poverty of the poor prevents them from earning an income, which in turn leaves them poor in a vicious cycle that only government measures can break.

- Restructuring the formal sector by encouraging more labour-intensive sectors such as light industry and services, as well as more manufacturing based on the existing minerals and petroleum refineries. Since the economy has effectively been designed for decades to support mining and minerals production, that requires changes in many government policies, from taxation to infrastructure provision. (See Schafer 1994 for a discussion of the implications of sectoral structure for development strategies.)

Table 4: Changes in employment by sector, 1995-2001

Sector	Average annual % change, 1995-2001	Employment in 2001, in millions	% of total employment in 2001
Electricity, gas and water supply	-6,8%	72	1%
Mining and quarrying	-5,6%	383	4%
Private households	-1,9%	940	10%
Transport, storage and communication	-1,5%	443	5%
Construction	-1,1%	520	5%
Manufacturing	1,3%	1 207	13%
Community, social and personal services	2,6%	1 842	19%
Agriculture, hunting, forestry and fishing	2,8%[a]	960	10%
Wholesale and retail trade	4,8%	1 454	15%
Financial, insurance, real estate and business services	4,9%	905	9%
Unspecified	-3,8%	854	9%
Total	**0,8%**	**9 584**	**100%**

Note: a. Agriculture includes self-employed smallholders. The available evidence suggests downsizing in employment on commercial farms.

Source: For 1996, StatsSA, *Census in Brief*, downloaded from www.statssa.gov.za, January 2004. For 2001, StatsSA, 2003, *Census in Brief 2001,* Second Edition, Pretoria.

Government now sees rising unemployment as the main challenge to our country. In its insightful review of the past ten years, it argued that, despite substantial successes in entrenching democracy and extending services,

> *… if all indicators were to continue along the same trajectory, especially in respect of the dynamic of economic inclusion and exclusion, we could soon reach a point where the negatives start to overwhelm the positives. This could precipitate a vicious cycle of decline in all areas. (PCAS, 2003: 102)*

The next section considers how government policy, especially decisions on the amount and nature of spending under the budget, contributed to this contradictory outcome, and what kinds of broad strategy can bring about greater progress.

Fiscal policy and development

In order to confront the challenges of economic exclusion, government must build a developmental State that can:

- redistribute existing resources; and
- grow the economy in ways that include the poor.

This has been the central challenge facing government during the past ten years, and is likely to be the major problem for the foreseeable future. The adoption of the Growth, Employment and Redistribution (GEAR) macroeconomic strategy in the mid-1990s meant little progress was made in the remainder of that decade. Since 2000, however, government has adopted a more developmental fiscal stance, which should be reinforced by the agreements at the GDS to focus government programmes more on meeting the employment challenge.

Fiscal policy – that is, strategies related to the budget – affects development in three ways.

- The amount of government spending overall can increase or constrain domestic demand. When the government spends more, it buys more goods and services, which can stimulate investment and job creation. But if local producers cannot meet government's needs, the result could instead be higher inflation and imports, which could prove unsustainable in the longer run.
- How government spends its money also affects development. Government has a huge impact on the structure of the economy through decisions on which services to grow, in which communities; how to split infrastructure spending between services for business and for communities; and which types of producers and industries should benefit from tax relief or assistance through agencies like the Industrial Development Corporation (IDC). In effect, government services subsidise some people and enterprises and not others – and that can be decisive in setting the basis for long-term, equitable growth.
- Finally, government can direct its own procurement to desirable kinds of suppliers, encouraging their growth. For instance,

government could favour local producers, so that when it spends, it supports local job creation; black enterprise, to get companies to bring in black owners as a way of getting government contracts; or small enterprise, so that they have a stable base for growth.

Fiscal policy since 1994 has gone through three phases. Between 1994 and 1996, government increased spending in real terms more or less at the rate of economic growth. In 1996, with the introduction of GEAR, government began to cut the budget. From 2000, it has again begun to grow the budget at between 1% and 3% more than population growth.

GEAR involved an excessively contractionary fiscal policy that undermined efforts in all three areas. GEAR set diminishing targets for government borrowing and taxation relative to the Gross Domestic Product (the size of the economy, or GDP). It assumed that the economy would continue to grow, so that these targets would still permit some expansion in government spending. Instead, the economy grew only very slowly. As a result, to achieve the GEAR targets the government cut the budget slightly every year in real terms. With the population growing at around 2% a year, this meant substantially larger reductions in spending per person.

Overall, the budget cuts reduced domestic demand and limited government spending on infrastructure, poor communities and new kinds of enterprise. As Table 5 shows, the result was a distinct drop in the growth rate.

The budget cuts in the late 1990s had particularly strong impact on household infrastructure, overall government investment and employment.

First, while government expanded infrastructure to households, it did not have funds to subsidise on-going use of services. In these circumstances, municipalities argued that poor households should pay for their services, except possibly for the completely indigent. In 2000, around a third of households earning under R1000 a month did not pay for water or electricity – but those who did, spent, on average, 10% of their income. In contrast, the richest 5% of households spent less than 3% of their income on these services. School fees had a similarly regressive impact. (Calculated from StatsSA, 2002b) Since many households could not afford the new services, cut offs became commonplace in many areas. (See McDonald and Pape, 2002)

Second, government investment dropped rapidly in the late 1990s. Whenever budgets are cut, it is easier to reduce investment than to cut personnel. As Table 6 shows, by 2002, government investment relative GDP had fallen to its lowest level since 1946, when the data first became available. This fall in public-sector investment contributed to the overall decline in investment and growth.

Finally, government and the parastatals shed jobs rapidly, as discussed above. Most of the job cuts occurred through attrition rather than through direct retrenchment. Still, the public service lost over to 150 000 positions after 1994, while the parastatals shed 200 000 from 1990. Analyses showed that public-sector job losses largely explained stagnant employment in the late 1990s and early 2000s. (See Bhorat, 2002, and Altman, 2003)

Since 2000, the government has adopted a substantially more expansionary fiscal policy. From 2000 to 2003, the budget grew almost 5% a year in real terms, compared to a reduction of 0,1% a year from 1996 to 1999. The growth in the budget supported faster economic growth overall, until the excessive appreciation of the rand reversed the trend in 2003. In addition, greater government spending accelerated service delivery. It also permitted stabilisation in government employment, with a commitment to hiring more educators, nurses and police.

Higher spending has not yet translated into greater State investment. This reflects the difficulty of developing both new investment projects and capacity to use funds in departments that faced budget cuts for years. Government has, however, committed to very

Table 5: Economic growth, 1990-2002

Period	Average annual growth
1990-1994	0.3%
1994-1997	3.4%
1997-2000	2.1%
2000-2002	2.9%

Source: Calculated from SARB, long-term data on national accounts. GDP at market prices, constant 1995 rand. Downloaded July 2003 from www.resbank.co.za.

Table 6: Private and State investment, 1970-2002

	Percent of gross fixed capital formation (investment)		Total investment
Year	Private	General government and parastatals	As percent of GDP
1970	56%	44%	24,3%
1980	50%	50%	25,9%
1990	64%	36%	19,1%
1994	73%	28%	15,2%
1998	67%	32%	17,0%
2000	74%	26%	14,8%
2002	75%	25%	15,1%

Source: Calculated from SARB, data series on national accounts. Downloaded July 2003 from www.resbank.co.za.

large infrastructure investment over the coming years, especially in economic infrastructure.

In short, government decisions on the amount and type of spending have a substantial impact on development and growth. In the late 1990s, GEAR led to budget cuts, slowing down the transformation of the South African economy. Since 2000, however, higher spending promises better outcomes, both stimulating growth and supporting an expansion in poverty alleviation programmes. Nonetheless, as discussed below in specific proposals, there is still scope for higher and better-targeted expenditure, leading to stronger outcomes.

Integrated poverty perspective

Fiscal policy can only play a more assertive and redistributive role if a wider perspective on poverty pervades the practice of government. This section briefly outlines an integrated poverty perspective that guides the spending proposals presented here.

The traditional focus of understanding poverty has been on measuring the number of people below a particular poverty line (e.g. persons earning below R1500 a month). The poverty income should comprise the spending needed both to survive and to participate in the everyday life of society. (World Bank, 1990)

This measure remains an important measure of progress in addressing poverty. In defining how the State should use its resources, however, we need a better understanding of the factors that shape income poverty. That means we have to understand why poor people cannot generate an adequate income. The question then becomes how we can empower the poor economically, socially and politically.

In the words of the development economist, Amartya Sen:

> *Ultimately, the process of economic development has to be concerned with what people can and cannot do (e.g. whether they can live long, escape avoidable morbidity, be well nourished, be able to read and write and communicate, take part in literary and cultural pursuits and so forth). It has to do, in Marx's word, with 'replacing the domination of circumstances and chance over individuals by the domination of individuals over chance and circumstance'. (Sen, 1983)*

Box 1 indicates different factors behind poverty, and by extension the areas that government development strategies must address.

Box 1: Indicators of poverty

Dimension	Indicators of poverty
Assets	a . Inadequate access to physical assets (land, housing, water, electricity) b . Low productivity (failure of these assets to contribute to sustainable economic activity)
Incomes	a . Unemployment, underemployment and job losses b . Inadequate social grants
Capabilities	a . Inadequate or inappropriate education, skills development and health care
Participation	a . Exclusion from social, economic and family decisions b . Weak participation in the economy

Source: Derived from, May. 1998, Sen, 1983.

The systematic distortion of the South African economy as well as broader social and family relations ensured that the majority of our people were deprived in all these areas. The test of the proposals presented here is whether they indeed challenge poverty-producing processes, and are not just discreet interventions that ameliorate poverty for only a short time. This framework is elaborated upon in the following sections.

Part Two

Spending proposals

Land

Land represents a key productive asset, particularly in rural areas. Given South Africa's history of forced removals and land seizure, land reform is an essential component of social justice and transformation.

The government's land reform strategy involves three major programmes: land redistribution, land restitution and tenure security. The People's Budget Campaign supports this three-pronged approach, but calls for the adoption of a developmental land reform policy, including the abandonment of the 'willing buyer, willing seller' model that has obstructed more rapid change.

This section:

- outlines developments in land policy in contemporary South Africa;
- reviews the progress on redistribution, restitution and security of tenure; and
- develops proposals for a more expansionary land budget.

Developments in land policy

Land reform policy has evolved considerably over the past ten years. Here we review the trends that effectively define it.

Firstly, the scope of the programme is extremely limited in terms of its objectives, budget and overall impact on the pattern of property rights. Land reform in the South African context is no longer about a rapid reversal of past dispossession, but rather a gradual and modest redistribution of land through consensual, market-based methods. It is unlikely that the total amount of land transferred to black ownership through all aspects of the land reform programme over the first ten years of democracy will amount to more than 3% of total agricultural land – one-tenth of the official target.

Secondly, the goals of the land reform programme have changed. There has been a clear shift away from meeting the needs of the rural poor and landless to creating a new class of commercial farmers. Programmes specifically aimed at the poor have often been severely curtailed, as in the case of the Settlement / Land Acquisition Grant (SLAG) and municipal commonage. Others have simply failed to materialise, as in the case of the food safety-net programme promised under the Land Redistribution for Agricultural Development (LRAD) programme.

Targets for the inclusion of marginalised groups, such as women, the youth and the disabled, are being widely ignored. At the same time, support for 'emerging' farmers with their own resources and access to credit has, under LRAD, come to dominate the redistribution programme. This is actively promoted, not only by the Department of Land Affairs (DLA), but also by the Land Bank and the National Department of Agriculture.

Thirdly, the programme has resisted interfering with existing property rights, despite clear constitutional support for transformation. This is most evident in the 'willing buyer, willing-seller' approach to land acquisition, which has severely limited the type, location and size of land holdings available to would-be beneficiaries. The principle of non-interference also explains much of the failure to secure and extend the rights of occupiers and labour tenants on commercial farms. It remains to be seen whether the proposed amendment to the Restitution of Land Rights Act regarding expropriation signals a significant shift in the State's approach to private landowners.

Finally, the general neglect of post-transfer support, and the failure to integrate land reform with a wider programme of rural development, has severely limited its contribution to livelihoods and to the revival of the rural economy. Land redistribution is not the same as agrarian reform and cannot, by itself, achieve the wider objectives of alleviating poverty, promoting equality and contributing to economic growth.

Progress on land reform

A major achievement of the South African State and society during the first decade of democracy has been the creation of a land reform programme that is constitutionally protected. This provides a means of addressing historical injustices, as well as promoting social justice, equity and broad-based development through the redistribution of productive assets and economic opportunities to the poor and disadvantaged. In this manner, land and agrarian reform can make an important contribution to the ongoing struggle to overcome the deep-rooted legacies of the past: racism, poverty and inequality.

Broadly speaking, however, to reach the official target of transferring 30% of South Africa's commercial agricultural land to black people by 2015, the current rate will need to be increased fivefold. By mid 2003, just under two million hectares of land had been transferred through land reform as a whole (restitution and redistribution), amounting to 2,3% of all land outside the former homelands. About a quarter of this has been transferred through restitution, with the remainder being largely through the SLAG and LRAD programmes of redistribution. The pace of delivery has increased, however, with 0,46% of agricultural land being transferred per year over the past two years, compared to 0,24% on average per year in the period 1996 to 2000.

The under-performance of the land reform programme has been attributed to a number of factors, including insufficient funding, weak implementing institutions, reliance on a market-led model of redistribution, and the low political priority accorded to it.

Table 7: Land redistribution, 1994-2002

Year	Total hectares	Total beneficiaries
1994	71 656	1 004
1995	11 629	1 819
1996	60 120	5 068
1997	139 849	10 259
1998	229 009	15 995
1999	239 764	24 900
2000	233 426	34 768
2001	263 071	20 920
2002	203 567	12 216
Unspecified	28 743	3 504
Total	**1 480 834**	**130 453**

Source: DLA, 2003.

Land redistribution

By the end of 2002, a total of 1 480 835 hectares (ha) of land had been transferred under the land redistribution programme to an estimated 130 000 households. Despite significant achievements and a steep learning curve for implementers in the DLA and elsewhere, the early years of the programme were subject to much criticism regarding the slow pace of delivery, the small size of grants relative to the cost of land and the resultant tendency for large groups to pool their grants. In the period to 2001 there was a steady increase in both the amount of land being transferred and the number of beneficiaries, but this reversed somewhat for 2002, particularly with respect to the number of beneficiaries.

This recent shift can be attributed to a change in policy from the earlier SLAG, through which poor people were able to access land largely for 'subsistence' purposes, to the LRAD programme, which is more oriented to emerging commercial farmers. LRAD makes larger grants available to those able to contribute to the cost of land and investments in production. Ostensibly, the LRAD policy provides for a range of commercial and 'subsistence' uses, but in practice the conditions attached to LRAD favour commercial agricultural uses of land. Other components of the redistribution programme, such as municipal commonage and the provision of land for settlement and other non-agricultural purposes, have been de-emphasised in recent years.

Land restitution

The major achievement of the restitution programme has been the settlement of a large number of claims, at a rapidly increased rate, over the past four years. Of the 63 455 claims lodged by the deadline in 1998,

Table 8: Restitution claims settled per financial year

Financial year	Claims	Households	Beneficiaries	Hectares	Total award cost
1996/97	1	350	2 100	2 420	R5 045 372
1997/98	6	2 589	14 951	31 108	R15 568 746
1998/99	34	569	2 360	79 391	R2 988 577
1999/00	3 875	10 100	61 478	150 949	R155 045 907
2000/01	8 178	13 777	83 772	19 358	R321 526 061
2001/02	17 783	34 860	167 582	144 111	R994 168 313
2002/03	7 031	27 266	117 873	164 384	R518 222 476
Total	**36 908**	**89 511**	**450 116**	**591 721**	**R2 012 465 451**

Source: CRLR, 2003a:25.

36 279 claims had been settled by the end of 2002. The vast majority of these are urban claims that were settled by means of financial compensation.

Relatively little land – just over half a million hectares – has been earmarked for restoration through the restitution programme to date, but the majority of the large and complex rural claims remain unresolved. It is these claims that could potentially give rise to major conflict over land but also hold significant potential to contribute to the broader aims of land reform, namely the reduction of rural poverty and racially skewed control of land and rural resources.

Tenure reform

It is exceptionally difficult to quantify achievements in the sphere of tenure reform, not only because these are least tangible aspects of the land reform programme, but also because this is the least developed area of land reform.

The main achievements thus far have been a number of laws enacted to create statutory rights. These include the Extension of Security of Tenure Act 62 of 1997 (ESTA) and the Land Reform (Labour Tenants) Act 3 of 1996 (LTA), which protect the tenure rights of people living on farms, prohibit arbitrary eviction and provide means by which farm dwellers can secure long-term rights to land.

It is not known how many farm dwellers have been legally evicted in terms of ESTA and the LTA, nor how many have been illegally evicted in violation of these laws. Due to inadequate reporting systems within DLA, it is not possible to say how many labour tenants have acquired ownership of the land they use.

Measures to protect people with informal rights to land in communal settings in the former homelands are particularly problematic. This area of policy is to be addressed by a proposed Communal Land Rights Bill (CLRB), published for comment in 2002 and still before Parliament at the end of 2003. Reform of communal tenure has, however, progressed somewhat in the twenty-three former coloured reserves, or 'Act 9' areas (those designated under the Rural Areas Act 9 of 1987) in the Western Cape, Northern Cape, Free State and Eastern Cape. The State is currently in the process of consulting residents on the tenure and institutional arrangements under which they wish to hold their land. This has elicited strong support from residents for community governance of common resources through local institutions, but with State support.

Provincial differences

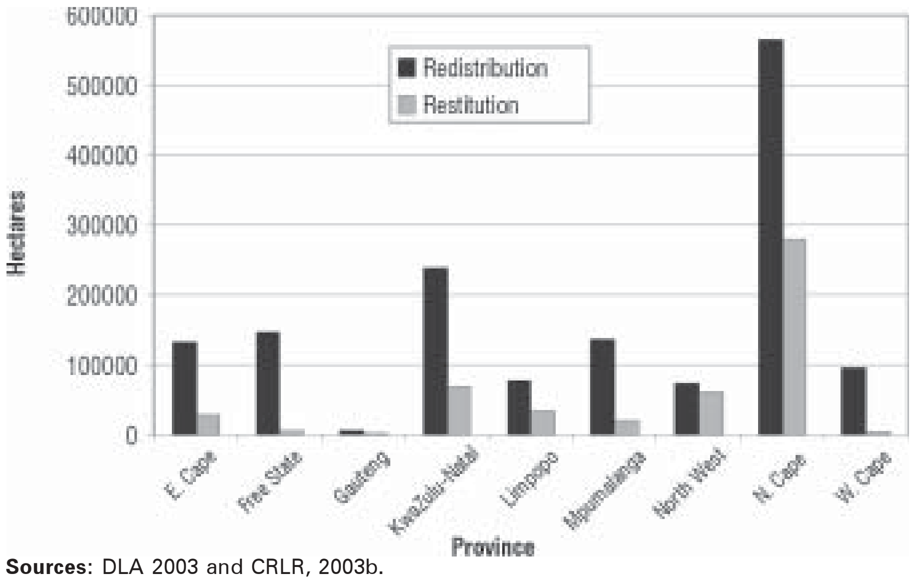
There are strong variations in the achievements of land reform across the country, as may be seen in Figure 2, which graphs the two main areas of land transfer – redistribution and restitution.

In each province more land has been transferred through redistribution than through restitution. Little land has been transferred in Gauteng, which is a predominantly urban province, and the Western Cape, where agricultural land prices are particularly high and most restitution claims are urban. However, provinces with large, poor rural populations like the Eastern Cape, Free State, Limpopo, Mpumalanga and North West, have not done much better, delivering less than 200 000 ha each. More than half of all land transferred has been in the semi-arid Northern Cape. Performance has been relatively good in KwaZulu Natal, where more than 300 000ha, including substantial areas of good quality land, have been transferred.

Other achievements

While the progress of land and agrarian reform to date has been disappointing, important advances have been made. New laws have been introduced to give effect to the rights and obligations contained in the Constitution; new institutions, such as provincial land reform offices, the Commission on the Restitution of Land Rights and the Land Claims Court have been established; and a sizeable number of beneficiaries have gained access to land and other resources.

Figure 2: Land transferred, 1994-December 2002

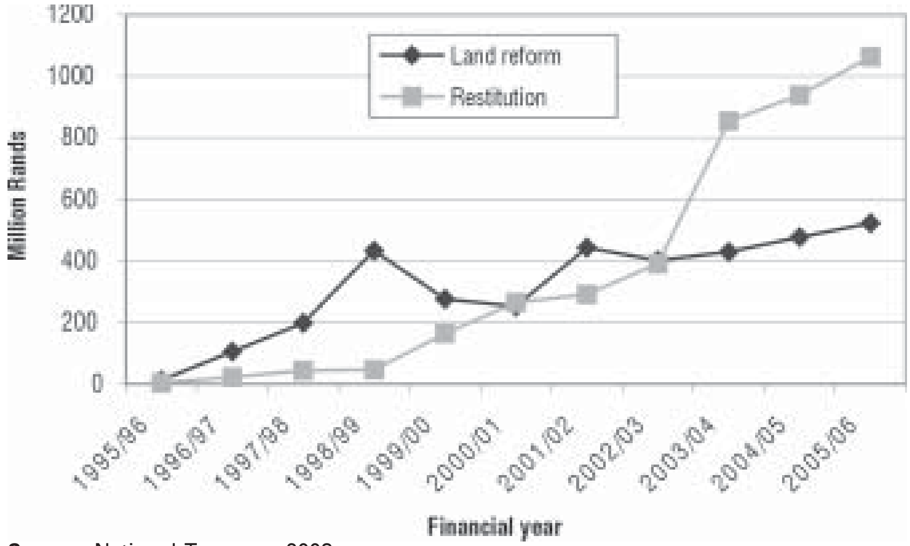


Sources: DLA 2003 and CRLR, 2003b.

Notable achievements in recent years have included:

- an increased rate of land transfer under the redistribution programme;
- an increased rate of settling restitution claims;
- larger budgetary allocations to land reform;
- an improvement in the ability of DLA to spend its land reform budget; and
- the creation of implementing partnerships with statutory and non-statutory agencies.

Figure 3: Trends in nominal restitution and land reform budgets, 1995-2006



Source: National Treasury, 2003a.

Although these achievements are significant, and there is evidence of steady improvement in certain areas of delivery, major problems remain. Broad areas for concern include the failure to meet targets in terms of land transfer, the ineffective protection of tenure rights on commercial farms and in communal areas, the lack of attention to livelihoods issues and the continued neglect of poor and marginalised groups, particularly women. Among the specific problems are:

- the limited contribution of restitution to redistributing land;
- difficulties faced by would-be beneficiaries in acquiring suitable land on the open market;
- failure to integrate land reform into processes of local development planning;
- disagreement among key players on roles in providing and funding post-transfer support;
- inappropriate project planning that bears little relevance to the needs of beneficiaries;
- poor implementation of farm dweller and labour tenant programmes;
- inadequate support for new landholding entities; and
- the absence of systematic monitoring and evaluation of implementation and the impact on livelihoods.

Budget proposals

Figure 3 shows the long-term trend for the two main line items of the land reform budget: land reform (i.e., land redistribution) and restitution.

In addition to the more obvious overall changes in the level of funding for restitution and land reform, there have been substantial internal changes in recent years, and further shifts are projected over the period of the MTEF. These are examined below in relation to restitution and land reform.

The primary thrust of land reform in South Africa is redistributing agricultural land to address the racially skewed pattern of landholding. Slow progress in redistribution over the past nine years underscores the urgency of finding ways to expedite the process, including, but not only, through substantially increased budget allocations for land acquisition and related costs.

The current land reform target set by the Minister – to redistribute 30% of agricultural land over fifteen years (i.e., by 2015) – requires an average yearly transfer of 1,988 million hectares, almost exactly the total number transferred through the entire eight years of the programme up to 2003. To meet the target, or even to make reasonable progress in that direction, requires that budgets be scaled up substantially. We outline some of the priority areas in which further funds are needed and provide costings based on past experience and projections for the MTEF. As well as the need for greatly increased budgets, we point out ways in which budgets should be restructured to give additional weight to certain budget items.

To realise even this limited official goal, the People's Budget Campaign proposes:

Increased allocations for the purchase of land. The total MTEF budget for land acquisition through 'land reform' (redistribution) for the 2004/05 financial year is R309 million. At current land prices, this is likely to finance the purchase of less than 0,6% of agricultural land, a relatively minor contribution to the overall aim of land reform.

The total value of land and fixed assets on South African farms was estimated at R51 481 million in 2000 (NDA, 2002). To purchase 30% of this would cost R15 444 million which, if spread over fifteen years at constant prices, would cost more than three times the amount currently allocated. Assuming that the redistribution programme makes a significant contribution towards the 30% target (with the bulk of the remainder coming from restitution), it would be reasonable to expect the redistribution programme to transfer 20% of land from white to black ownership by 2015. In terms of the 2004/05 estimates, this would require a threefold increase in the capital budget from R308 million to R924 million.

Given the actual cost of redistributing land to date, however, this underestimates the likely cost of acquiring and transferring the targeted amount of land by as much as 50%. The cost of redistributing 2,3% of land up to 2003 has been R1,720 billion (in nominal terms).[2] This includes the cost of the land and related grants (i.e., transfer payments), but excludes cash compensation to restitution claimants and all operating costs for the State institutions involved. On the basis of this record, achieving the 30% target could cost in the region of R22,43 billion. This can be considered a conservative estimate as much of the land transferred to date has been of relatively low quality (particularly in the Northern Cape) and therefore relatively cheap. It has also included a considerable proportion of State land, at little or no capital cost. These factors are likely to be less influential in the future. This suggests that even greater budgetary amounts will be required, assuming that market-related prices continue to be paid for land and that land prices do not change dramatically.

Increased spending on restitution. Restitution may yet become a route through which substantial areas of rural land are transferred, as the emphasis shifts to extensive rural claims. In the past, the cost of land – for those rural claims settled with land – has averaged R1,723 million per claim, of which about one-sixth were settled with State land (at no capital cost to the State). Restitution Discretionary Grants (RDGs) and Settlement Planning Grants (SPGs) have added approximately 5% to this cost.

The current MTEF allocates R775 million to restitution in 2004/05 and R894 million in 2005/06. Based on average cost per rural claim, settling even half of the estimated 11 000 outstanding rural claims with land would cost nearly R10 billion. To this must be added the cost of the balance of rural claims settled by cash compensation or other means, restitution discretionary grants and settlement planning grants, and possibly in the region of R1 billion to settle the estimated 25 000 outstanding urban claims.

The official target of settling all outstanding claims by 2005 appears quite unfeasible. It can be reasonably argued that settling all outstanding land claims will require both an extended time-scale and a substantial increase in current capital budgets, somewhere in excess of one hundred per cent.

A more realistic target would be to settle half of the currently outstanding claims by 2010. In terms of the 2004/05 estimates, this would require an increase from R775 million to R1,67 billion. Further resources to cover the staffing and operating costs of the Commission and its regional commissions will also be required.

Infrastructure and housing

The Reconstruction and Development Programme (RDP) expected provision of infrastructure and housing to the poor to address asset poverty, giving families the basis for increased incomes as well as improving living conditions. For instance, houses with adequate water and electricity can be used for childcare, hairdressing, backyard auto repairs and spaza shops. With the budget cuts of the late 1990s, however, the perspective shifted to a narrower emphasis on poverty alleviation, with services provided at levels too low to raise productivity or support micro-enterprise.

Given limited funding, the government has generally argued for:

- 'Some for all' – meaning a low level of service for all households, in order to spread limited budgets as far as possible. The national government is then responsible for ensuring adequate funding for these services, even in the poorest areas.
- User fees for all except indigent families, generally described as households earning less than R800 a month. In 2000, this approach was modified by the commitment to providing free basic services, although at a low level, to all households.

This policy has drawn two major criticisms.

First, the low level of service means that the hoped-for improvement in family production and incomes remains limited. For instance, at 8 amps, as opposed to the standard 15 amps, electricity connection for poor households is not enough for cooking or large-scale refrigeration. This rules out a range of home-based services and enterprises. This is particularly problematic for women, who bear the burden of household labour and who would often benefit most from opportunities to provide home-based services. It also means that many women end up spending long hours over coal stoves and fetching fuel, even if they have electricity.

Second, the emphasis on user fees means that services like water, electricity, schooling and rubbish removal become virtually unaffordable for the working poor. As noted above, many households have therefore faced cut offs.

The law requires municipalities to give relief to the indigent, and bans schools from forcing poor families to pay school fees. As a rule, however, families with incomes above R800 are essentially expected to pay in full. That means that workers earning between, say, R800 and R2500 – around half of all employed people – can expect little in the way of subsidies.

The situation was worse before the shift to free basic services. Before 2000, indigent households had to pass a means test to prove that their incomes were below R800. This administrative obstacle meant many households did not get the relief they were due. The commitment to free basic services ensures greater access, but in many areas has not been implemented, despite the national policy. Indeed, some municipalities insist on retaining the means test. Unfortunately, there is no information on how the new policy has affected expenditure on basic services by the low-income group.

The emphasis on user fees for basic household services has led to contradictions with the policy of providing almost entirely subsidised low-income housing – the so-called RDP houses. Until 2002, families could get housing virtually for free, but they still had to pay for services, typically around R100 to R150 a month. As a result, many have run into debt and sold the house or stopped using the basic services.

The People's Budget proposals on household services are two-fold. Firstly, they call for an expansion in both the spending on and quality of housing. Secondly, they explore ways to improve the delivery of free basic services.

Low-income housing

From the 1960s, the apartheid government practically refused to build new housing in most African urban communities, leading to steadily deteriorating living conditions. For this reason, the RDP argued that ensuring decent, affordable housing was a national priority. Today, low-income housing delivery is one of government's flagship programmes.

Since 1994, the government has delivered close to 1,5 million houses. Still, much of the new housing is far from city centres and employment opportunities, small in size and sometimes poor in quality. In part, this reflects deep cuts in the housing budget in the late 1990s, during the GEAR era, which have still not been overcome.

As the basis for proposals to improve the extent and effectiveness of low-income housing delivery, this section first reviews needs and achievements and explores budget trends and outcomes.

Housing needs and progress

Households in informal settlements and backyard shacks can certainly be regarded as requiring better housing. Traditional dwellings in rural areas may also require upgrading.

Table 9 indicates, by these standards, the housing backlog came to 1,4 million units in 2001. If we include traditional dwellings, the shortage comes to 3,5 million units. Essentially because of substantial rural-urban migration, the housing shortage has actually grown, despite the large number of houses government has delivered to poor families.

Table 10 shows the actual number of houses started from April 1994 to June 2003, by province. Some of the houses included may never be completed, so the data may be somewhat exaggerated. Overall, the table shows that housing starts peaked in 1997 / 8, and then declined substantially before recovering somewhat in 2002 / 3. Gauteng and KwaZulu Natal, with a quarter of the national population, accounted for almost half of all housing starts.

As Table 11 shows, in most provinces around one in seven approved housing subsidies did not translate into housing starts. Generally, this reflected inefficiencies in the overall process. In Gauteng, however, it reflected the province's focus on ensuring rapid access to land, followed by incremental improvement in the top structure.

Table 9: Inadequate housing, 1996 and 2001

	1996	2001	% change, 1996-2001
Total households	**3 740 000**	**4 050 000**	**8%**
Of which: % of total households occupying:			
Shack in informal settlement	28%	34%	31%
Backyard shacks	11%	11%	14%
Subtotal: urban housing shortage	***39%***	***45%***	***26%***
Traditional rural dwellings	44%	41%	1%
Subtotal: rural and urban shortage	***83%***	***86%***	***13%***
Formal housing	17%	13%	-14%
Households living in tents or caravans	0%	1%	79%

Source: StatsSA, 1998, 2003.

The housing budget

The 2003 budget for housing came to just under R5 billion. In real terms – that is, taking inflation into account – this represented a substantial fall over the past eight years. Almost the entire budget goes for housing subsidies for individual houses, funded by the national Housing Department but transferred to and managed by provincial housing departments. The full subsidy came to around R25 000 per family in 2003.

Table 10: Housing starts for government-subsidised housing, 1994-2003

Province	1994-1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	Total
Total In thousands	**178**	**296**	**248**	**162**	**191**	**143**	**204**	**1 421**
Of which:								
Gauteng	32%	24%	23%	28%	20%	33%	12%	24%
KZN	10%	27%	21%	18%	15%	10%	12%	17%
Eastern Cape	4%	11%	10%	13%	18%	8%	29%	13%
Western Cape	14%	15%	14%	17%	9%	12%	10%	13%
North West	12%	7%	7%	8%	7%	10%	12%	9%
Limpopo	6%	5%	9%	8%	11%	12%	7%	8%
Mpumalanga	11%	4%	7%	3%	9%	10%	11%	7%
Free State	7%	6%	7%	4%	8%	5%	4%	6%
Northern Cape	4%	2%	1%	2%	2%	2%	3%	2%

Source: NDH, 2003 (personal communication).

Table 11: Housing starts compared to subsidies granted, April 1994-June 2003

Province	Approved subsidies in thousands	Housing starts	
		In thousands	As % of approved subsidies
KZN	283	257	91%
Free State	102	91	89%
North West	148	132	89%
Eastern Cape	224	195	87%
Western Cape	229	19	83%
Limpopo	146	117	80%
Mpumalanga	154	120	78%
Northern Cape	42	32	76%
Subtotal without Gauteng	1 328	1 134	85%
Gauteng	999	356	36%
Total	**2 327**	**1 490**	**64%**

Source: NDH, 2003 and own calculations (personal communication).

Government spending on housing climbed rapidly in the first two years after the democratic transition. During the late 1990s, housing expenditure fell especially rapidly, in part because subsidy programmes are relatively easy to cut. Between 1997 and 2000, government housing budgets dropped by over a third. In the early 2000s, they recovered by 15%. Still, the 2003 housing budget remained well below the levels of the mid-1990s.

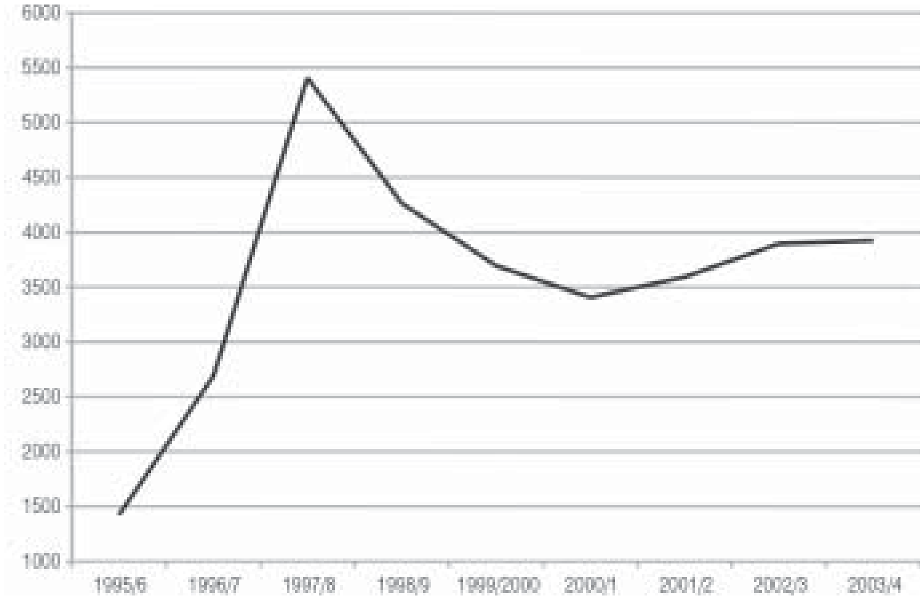
By international standards, the South African State still spends relatively little on housing. In 2003/4, housing absorbed 1,4% of all government spending. The housing share rose rapidly from 0,7% of the budget in 1994 to 2,4% in 1996, but then declined to current levels. In contrast, the international average for housing expenditure as a proportion of total expenditure for developing countries has typically been between 2% and 5%. (World Bank, 1993; May, 1998; UN Human Settlements Programme, 2003). In 1994, the government set a target of spending 5% of the budget on housing – a target that has yet to be attained.

Despite relatively low budgets, the housing sector has been plagued by underspending in recent years. In 2002/3, underspending came to 20% of the housing budget, with Gauteng and the Eastern Cape responsible for some 60% of the rollovers.

Factors behind underspending include:

- In 2002, the government began to require that even those eligible for a full subsidy, earning under R1500 a month, would have to contribute almost R2500 of their own money to get subsidised housing through a contractor. The only exceptions were for pensioners, disabled people or single women with dependents earning under R800 a month. This contribution equals between two and three months' salaries for most eligible households. Alternatively, families can participate in the People's Housing Process (PHP), where they build their own houses more or less together. But it takes a long time to set up PHP, which in 2003 accounted for well under 10% of all housing expenditure.
- Also in 2002, the government required that all subsidised housing except PHP meet standards set by the National Home Builders' Registration Council (NHBRC). Meeting the standards within the current subsidy level is difficult. Moreover, the Council is still building up capacity to monitor building standards, leading to delays in housing delivery.

Figure 4: Government budgets for housing, deflated with March CPI, 1995-2003



Source: Calculated from *Budget Review,* 1999 and 2003.

- Government has failed to raise the minimum income to be eligible for a housing subsidy, despite inflation. To get a full housing subsidy, a family must have a total income under R1500. Since this amount was first set in the mid-1990s, the real value of this income has fallen by half. In other words, a family must have a much lower income in real terms to gain a housing subsidy today than in 1996.
- Families earning R1500 to R3500 a month get only a partial subsidy, since they were expected to get housing bonds as well. Banks are reluctant to lend to families earning less than R6000 a month. Anyone buying a house in a township is also likely to be denied a bond. The banks claim that if a borrower defaults in these areas, they cannot easily evict the borrower or re-sell the house. Commercial micro-lenders provide small loans at very high interest, mostly for home improvements rather than for subsidised housing.

Another factor behind rollovers lies in the tendency to approve subsidies only late in the year. Some 80% of all subsidies are approved in the final quarter of the budget year (that is, in January to March). The data suggest that departments let applications pile up until they are under pressure to use their budget allocation, then push them through all at once.

A further problem is that the amount of the subsidy for each family is too low to provide decent housing near economic centres, where residents could more easily find work. Typically, the developer cannot afford land in these areas. As a result, subsidised housing is pushed far from employment opportunities. Even so, after paying for infrastructure, only a very small, sometimes poor quality top structure is affordable.

The poor location of housing means that the new communities often show very high unemployment. As a result, many residents find it difficult to afford the basic services that come with formal housing.

These problems have worsened because the housing subsidy has typically lagged behind inflation. In real terms, the value dropped by around 10% between 1995 and 2002. In 2003, the government provided increases equal to inflation. Still, the amount remains far too little to provide quality housing reasonably close to urban and industrial centres.

In short, although the government has impressive achievements to show in housing delivery, much more needs to be done. In this context, the budget remains low by international standards, leading to inadequate subsidies for poor households. As a result, the housing programme risks duplicating apartheid settlement structures, with the poor pushed far from jobs, political and cultural centres.

Proposals

The objective of housing policy should be to ensure that there is progressive realisation of the right of access to adequate housing. There are two dimensions to this:

- In quantitative terms, an increasing proportion of households must have access to adequate

Table 12: Percentage of housing subsidies approved in final quarter of fiscal year, 2003

Province	Percentage approved in January-March 2003
Gauteng	90%
North West	77%
Eastern Cape	70%
Free State	67%
Limpopo	59%
Northern Cape	51%
KZN	50%
Western Cape	48%
Mpumalanga	36%
Total	**82%**

Source: National Treasury, 2002a. National Department of Housing, 2003 (personal communication).

housing, and the numbers of households living in inadequate housing conditions must be significantly reduced within a reasonable period of time. This means that the delivery rate must be significantly more than the annual growth in housing need.

- In qualitative terms, the housing provided must be adequate, or be capable of being incrementally improved to ensure adequacy within a reasonable period of time. Moreover, low-income housing must form part of integrated, sustainable communities, with adequate government services and employment opportunities.

To accelerate housing delivery, the People's Budget proposes:

- **New housing programmes.** Much more must be done to ensure access to urban land. This requires rapid land-release programmes, as well as investigation of ways to get affordable access to better-situated land. In addition, the national government must support programmes aimed at upgrading of informal settlements and urban reconstruction. This type of programme permits people to remain in existing houses, but enjoy better infrastructure and ultimately housing. Currently, they only operate at local and provincial level, without national guidelines or models.
- **Raise the minimum income.** The minimum income for getting the full subsidy should be increased to R6000, since realistically families earning less cannot get housing bonds.
- **Stronger integrated development and capacity building.** The current system makes housing a national and provincial competency, while household infrastructure – roads, water, electricity, sewerage and water removal – fall to local government. This leads to long delays and poor coordination. Housing projects must be included systematically in local government Integrated Development Plans, with much stronger liaison bodies between local governments and provincial housing departments. In addition, service charges for subsidised housing must be geared to income levels. The national Housing Department should develop model systems and capacity-building programmes.
- **Facilitating access to appropriate credit.** In order to ensure that housing subsidies can be supplemented with housing credit and to assist in the development of a secondary market, there needs to be a large scale national savings and credit programme which provides access to appropriate and affordable savings-linked non-mortgage credit. Currently, the National Housing Finance Corporation (NHFC), the National Urban Reconstruction and Housing Agency (NURCHA), the Home Loan Guarantee Company (HLGC) and the National Housing Savings Scheme fulfil some of the requirements for such a programme (such as issuing guarantees, providing seed capital and wholesale finance for non-traditional retail lenders, providing loans to housing associations and securitisation), but this is done on a relatively small scale. These functions need to be coordinated and increased in scale, for example, by creating a national institution or a set of regional institutions. The primary purpose of institutional consolidation or rationalisation should focus on issuing guarantees for end-user loans linked to subsidies and savings contracts. In addition these institutions will play a role in providing seed capital and wholesale loans, providing guarantees and / or loans to housing associations, community based organisations and non-profit developers to build houses or obtain bridging finance.

To improve the quality of subsidised housing requires:

- **Integrated development**, with greater coordination between the spheres of government, as outlined above. A holistic long-term view of development must replace the current short-term, fragmented project-based view, which focuses narrowly on provision of housing and, to a lesser degree, transport.
- **Increasing participatory planning and delivery.** Public participation is crucial to the development of sustainable communities. Despite some successful participatory processes, many housing developments are ultimately designed and controlled by officials and consultants. It is particularly important that vulnerable and disadvantaged groups have access to information and opportunities to participate in the local decision-making process on community and shelter issues.
- **Sustainability.** Incorporating principles of energy efficiency and environmental sustainability in housing is crucial to ensure sustainability. A critical issue is to optimise land use through higher densities. Moreover, water conservation can be achieved through dual flush toilets, flow-control showers and taps, and through storm water and rainwater harvesting.

These proposals require that the housing budget come closer to 5% of total expenditure. This estimate is based on a number of factors.

An increase in the delivery rate can eliminate the housing backlog in ten years. With the current urban backlog growing by around 180 000 a year, this

Table 13: Proposed subsidy amounts and product affordability

Monthly income	Subsidy amount	Credit	House value
Under R1500	R40 000	Micro-loans: Up to R10 000	R40 000 - R50 000
R1500 – R3500	R20 000 - R40 000	Non-bank credit: R10 000 – R50 000	R50 000 – R70 000
R3500 – R6000	Up to R20 000	Bank credit: R50 000 – R100 000	R70 000 – R100 000

requires an average of 420 000 new housing units a year. Since it will take time to build up capacity, delivery must be higher than that in the later years.

Expanded delivery can also be justified in terms of job creation and economic growth. Estimates suggest that delivering an additional housing unit a year will create one permanent and three temporary jobs. So increasing delivery of subsidised housing from the current rate of 200 000 houses a year to 350 000 a year should add 150 000 permanent jobs and 450 000 temporary jobs.

In this context, the emphasis should shift to upgrading existing informal housing, with improvements in top structures over time. That means there should be greater flexibility in structuring the subsidy. It should be separable into the following sub-grants: land (to pay for actual cost of land); internal infrastructure (to pay for actual cost of internal infrastructure in greenfield projects and informal settlement upgrading); top structure (to contribute towards the cost of the actual house or flat); and finally institutional development, in terms of housing facilitation, capacity development and support for PHP.

At the same time, the subsidy amount and minimum eligible income must be raised. A 30 square metre contractor-built housing unit with adequate quality on a serviced site typically costs in the region R40 000 to R50 000. The serviced plot alone comes to R10 000 to R20 000. For the lowest income bracket, subsidy amounts should therefore be almost doubled, to around R45 000 for a complete housing unit on a serviced site. The first stage of informal-settlement upgrading, just for land and infrastructure, would come to R15 000.

The minimum income for housing subsidies should be increased to at least R6000 a month. That would reach all households that cannot get commercial credit.

Finally, housing needs to be located in a broader approach to integrated development, which includes community and social services as well as green spaces and secure design, especially for women and children. The Human Settlement Redevelopment Grant should be renamed the Human Settlement Development Grant, and the necessary systems and capacity built for development of the non-housing components of sustainable settlements. Project experience from the Integrated Serviced Land Project (ISLP) suggests that the cost of social facilities and infrastructure plus capacity development more or less equals the cost of the housing itself. In the ISLP, for example, the average total cost of the development programme was R35 000 per beneficiary, about twice the actual housing subsidy.

In this context, it makes sense for the municipalities to put more funding into the settlement programme. In the Special Integrated Presidential Projects, the principle was that municipalities and other sources would match the RDP funding equally. This seems reasonable, since municipalities are responsible for the provision of community facilities and infrastructure in any event. The funds available for settlement, then,

Table 14: Proposed delivery targets and budget allocations

	2004/05	2005/06	2006/07	2007/08
Informal settlement upgrading/managed land settlement	150 000	200 000	250 000	300 000
Delivery of completed units	75 000	100 000	125 000	150 000
Total delivery	225 000	300 000	375 000	450 000
Total housing subsidy funding[a]	R5,0 billion	R7,3 billion	R10,0 billion	R13,2 billion
Human settlements development funding[b]	R1,2 billion	R3,6 billion	R5,0 billion	R6,6 billion
Total housing budget[c]	**R6,9 billion**	**R12,1 billion**	**R16,6 billion**	**R22,0 billion**
Housing budget as percentage of total government expenditure[d]	1,9%	3,0%	3,7%	4,5%

a. Assuming average subsidy of R15 000 for informal settlement upgrading/managed land settlement and R30 000 for completed housing units (in 2003/2004 values), inflated by 10% per year.

b. It is assumed that in the first year expenditure on the Human Settlements Development programme will only be equivalent to 25% of housing subsidy funds, due to the need to gear up capacity for administration, implementation and monitoring of the programme, but that in following years it will be equivalent to 50% of housing subsidy funding.

c. Assuming 10% of total housing budget is for operational expenditure, capacity building of provincial and local government, funding of housing support institutions, etc.

d. Assuming annual growth of 10% in total government expenditure from budgeted amount for 2003/2004.

Table 15: Provision of free basic water, 2003

	Total	Access to free basic services	
		Numbers	Percentage
Total population	46,5 million	28,4 million	61 %
Poor population	29,4 million	13,6 million	46 %
Population with access to infrastructure	35,7 million	25,0 million	70 %
Number of municipalities and metros providing	262	214	82 %

Source: Department of Water Affairs and Forestry, Fair Share, 2003.

would ultimately be around twice the value of the housing subsidies alone. In effect, these funds could be used both to create sustainable settlements (through, among others, basic community facilities, public spaces, greening and upgrading of existing settlements) and for bulk infrastructure, supplementing the Consolidated Municipal Infrastructure Programme.

Table 14 indicates the impact of these proposals on housing starts and the budgeting. It assumes that two thirds of the funds go for incremental informal settlement upgrading and managed land settlement, while the rest funds delivery of completed housing units.

Free basic services

In South Africa, high levels of poverty mean that a large proportion of the population cannot pay for essential services. In 2001, President Mbeki indicated that, "the provision of free basic amounts of electricity and water to our people will alleviate the plight of the poorest among us."[3]

Since 2001, the national government policy is to provide 50 kilowatt hours (kWh) and 6000 litres free, at least to poor households. Decisions on how to implement this policy fall to local governments, since they are responsible for provision of these services. In any case, the national policy does not specify whether municipalities should provide the free services only to the indigent or, to save the delays and administrative burden of means testing, to all households.

Table 15 indicates progress in implementing free basic water. It suggests that the majority of households with infrastructure now have access to free basic water. Since poor households are least likely to have any infrastructure, however – largely because they are in rural areas – only a minority actually benefit from the policy.

In a study commissioned by the People's Budget Campaign, Fair Share undertook a comparative study of three local governments – Cape Town, Capricorn District Council and Mbizina. This section first identifies lessons to be learned from comparing the different municipalities. Next, we review the impact of national level interventions. Finally, we recommend ways to expand access to free basic services.

The case studies

• *Cape Town*

Cape Town is one of the richest areas in the country, despite the existence of extensive townships and poverty-stricken informal settlements. As a result, it has been able to fund free basic services primarily from its own resources, effectively subsidising the poor from rates and other income derived from richer households and industry.

Cape Town decided to phase in free electricity. Initially, despite the national goal of supplying 50 kilowatt hours (kWh) free, it opted to provide only 20 kWh to all domestic users in 2001, increasing to 23 kWh in 2002 and 30 kWh in 2003. A major problem was that Eskom declined to supply free basic electricity to the households it supplied – 25% of the total. Cape Town was engaging with Eskom to resolve this problem.

For the financial year July 2001 to June 2002, the free service cost the city some R34 million, which it recovered through a direct surcharge of 1,6% to all users.[4] Free services cost the city R40 million in 2002/3, which was also recovered through a surcharge. In addition, a progressive tariff system is used, in which unit charges increase as consumers use more electricity.

In line with national policy, Cape Town currently aims to provide 6000 litres of water monthly to each household free of charge. Where the household exceeds this amount, and the property is valued between R50 000 and R100 000, a grant of R20 is provided to help offset the additional water costs. As with electricity, amounts in excess of the free basic allocation are subject to progressively rising tariffs.

Finally, households valued at under R100 000 did not have to pay for municipal services, such as refuse removal and sewage.

• *Mbizana Local Municipality*

In contrast to Cape Town, Mbizana, a local municipality council in the O.R. Tambo District Municipality in the Eastern Cape, is a poor rural municipality. As a result, it has been able to implement the free basic services policy only for water.

Several factors have prevented Mbizana from implementing the policy in full:

- most of the households are poor;
- there is little scope for cross subsidisation because there are few rich people and not much economic activity; and
- the distance between houses and settlements leads to higher unit costs.

The Mbizana experience confirms the findings of a study tour conducted by the Portfolio Committee on Provincial and Local Government in April 2003.[5] It found that most municipalities indicated that their share of the equitable share was completely insufficient to deal with the delivery of services. The Portfolio Committee argued that a more structured and effective strategy is required to ensure that poor rural municipalities, in particular, are assisted in fulfilling their constitutional and legislative responsibilities.

A further concern for the Portfolio Committee was many municipalities' weak capacity for dealing with the administrative responsibilities of collecting their own income.[6] Many municipalities were unfamiliar or ill-prepared to deal with the responsibilities likely to be imposed by pending municipal finance and management legislation.

• *Capricorn*

Capricorn is a district municipality in Limpopo. The council had already extended basic free water and electricity to a number of communities. The level of implementation of free basic services in communities was not made clear. The council is also discussing a by-law on municipal services.

The municipality faces a number of challenges in the provision of basic services to local municipalities. According to one official, "sustainability of the projects [to deliver services] depends on diesel, weather conditions and management." These major challenges have a negative effect on delivery, where the persistent hot weather affects the level of water supply, or management lacks the skills and capacity to implement programmes.[7]

The official at the municipality felt that local councils should take responsibility for delivery. Community participation should be active and lead to communities taking responsibility for service delivery. This, he felt, would reduce the level of vandalism in local councils.

Analysis of the case studies

The mini-case studies indicate that there are major problems with the delivery of free basic services:

Standards differ across the country. The national government has set minimum free basic services at 50 kWh of electricity and 6000 litres of water a month. But many municipalities appear to provide no free basic services at all, and some provide less than the national guidelines.

Operation of the policy. In all of the case studies, stakeholders pointed to problematic implementation. In some cases, like Mbizana Local Council, this means that the policy of free basic services has not yet been translated into practice. In Capricorn District Council and even in Cape Town, the delivery of free basic services runs into several problems associated with institutional roles, in particular the divisions between municipalities, district councils and Eskom.

Indigent versus universal. The People's Budget Campaign has called for universal delivery systems based on the system of increasing block tariffs. However, most local governments are implementing an indigent policy, which means only those households that can prove their income is under R800 a month can benefit. This leads to severe administrative delays in providing the free service even to those who qualify.

Need for targeted support to municipalities with limited capacities. Many municipalities do not have the capacity to cost, provide or budget for services.

Equitable share grant. The equitable share grant is a portion of the national budget that is supposed to help poor municipalities, which cannot otherwise afford free basic services. But municipalities complain that the amount is too little. Moreover, the grant is often used for operating expenses rather than to subsidise services for poor households.

National interventions

The national departments responsible for water affairs and electricity play a central role in supporting local municipalities to deliver free basic services. The Department of Water Affairs runs several programmes aimed at assisting local government in implementing free basic services. These include financial models, guidelines on implementation and other support services. In contrast, the Department of Minerals and Energy has been slow to provide guidance on the implementation of free basic electricity. In part, this is due to both Eskom and local governments having distribution functions and the impending restructuring of the electricity sector.

Proposals

The People's Budget Campaign calls for:

- assurance that allocations to local government are sufficient to ensure provision of free basic services; and
- all free basic services should be based on universal access with a progressive increase in tariffs above the free amount, ensuring affordable services for the working poor as well as the indigent.

Extending social security

Government has both a political commitment and a constitutional obligation to provide social security to everyone in South Africa.[8] The People's Budget

Campaign strongly endorses a balanced and comprehensive approach to poverty eradication and social protection, as outlined in the March 2002 Report of the Committee of Inquiry into a Comprehensive System of Social Security for South Africa (better known as the Taylor Committee after its Chair, Professor Viviene Taylor).

The Taylor Committee identified distinct dimensions of poverty – including income poverty, capabilities poverty and asset poverty – and proposed a range of interventions to address them in a comprehensive and integrated manner. In particular, the Taylor Committee:

- Found that existing social assistance grants, especially the State old age pension, contributed significantly to lifting households out of abject poverty by effecting a substantial redistribution of income from the richest 20% to poorer sectors of the population.
- Estimated that more than 11 million people, or up to 60% of the poor, are not covered by the current social security system. In particular, the poorest 10% of households – those living in destitution – are excluded from the social security system by barriers such as means testing, complicated application procedures, uncertainty regarding eligibility, lack of funds for transport and a range of other obstacles.
- Concluded that, even with full take-up of existing grants – in other words, if all eligible people received the full benefits to which they are entitled – the current social security system only has the capacity to reduce the 'poverty gap' (the total amount by which individuals fall below a poverty line of R401 per month) by 37%.
- Drew attention to the role of income poverty in preventing people from accessing programmes designed to alleviate other dimensions of poverty, such as public health care, primary education and free basic services.
- Acknowledged the viability and complementary benefits of measures to address income poverty, viewing these as the keystone of a balanced and comprehensive social protection package.

Based on this analysis, the committee proposed to combat income poverty through the introduction of a universal income support grant on a phased basis, beginning with an urgent and substantial expansion of the Child Support Grant (CSG). It argued that a Basic Income Grant (BIG) "has the potential, more than any other possible social protection intervention, to reduce poverty and promote human development and sustainable livelihoods." Specifically, it could close the poverty gap by 74%.[9]

Consistent with the Committee's recommendations, the People's Budget Campaign calls for the phased introduction of a BIG, as a key intervention to reduce income poverty in the context of a comprehensive social protection package. Such a grant should:

- be paid on a monthly basis to every person legally resident in SA, regardless of age or income;
- be set initially at no less than R100 and be inflation-indexed;
- supplement existing grants to households so that no one would receive less social assistance than he or she does now;
- be financed primarily through the tax system; and
- be delivered primarily through public institutions.

This section first reviews trends in spending on and coverage of current social grants. It then examines the potential impact of a BIG on poverty and development, and considers common objections to a BIG. Finally, it assesses options for financing a BIG.

Current spending and coverage

Total grant beneficiaries doubled from 2,5 million at the beginning of 1997 to well over 5 million by 2002.

Most of this increase is attributable to the extension of the Child Support Grant. The target group has grown from poor children under seven to those under fourteen. The Department of Social Development, quoting administrative constraints, decided to adopt a phased approach: seven- and eight-year olds will be able to apply for grants in 2003/4; nine- and ten-year olds in 2004/5; and the remaining age groups in 2005/6.[10] See Tables 16 and 17 for a breakdown of these grant allocations on page 22.

According to the National Treasury, it is estimated that approximately 3,6 million children up to age seven are currently eligible for the Child Support Grant. Of these, nearly 2,5 million are currently receiving the grants, leaving another million to gain access. The extension to children below the age of fourteen will add another 3,2 million eligible beneficiaries over the next three years. To fund this roll-out, government allocated R1,1 billion for the Child Support Extension Grant for 2003/4, rising to R6,4 billion in 2005/6.

Overall, the People's Budget Campaign welcomes the extension of the Child Support Grant. However, the decision to exclude children between the ages of fourteen and seventeen seems arbitrary and may therefore even be constitutionally dubious.

In addition, the staggered roll-out plan provides no immediate relief for potential beneficiaries. It is also complicated, inhibiting clear communication and raising false expectations of immediate benefits.

Table 16: Number of social grant beneficiaries by type of grant, 2001-2003

Grant Type	April 2001	March 2003	Growth, 2001-2003	% of total grants, March 2003
Child Support Grant	974 724	2 513 693	158%	45%
Old Age	1 877 538	2 000 041	7%	36%
Disability	627 481	897 050	43%	16%
Foster Care	85 910	133 309	55%	2%
Care Dependency	28 897	56 150	94%	1%
Grant in Aid	9 489	12 279	29%	0,2%
War Veterans	6 175	4 629	-25%	0,1%
Total	**3 610 215**	**5 617 151**	**56%**	**100%**

Souce: National Treasury, 2003d.

Table 17: Social grant beneficiaries by province, 2001-2003

Province	April 2001	March 2003	Growth, April 2001-March 2003	% of total, March 2003
Free State	205 003	356 518	74%	6%
KwaZulu Natal	792 144	1 285 463	62%	22%
Gauteng	425 615	682 156	60%	12%
Limpopo	491 680	784 082	59%	14%
Western Cape	318 136	501 126	58%	9%
Mpumalanga	250 849	387 071	54%	7%
North West	304 075	450 712	48%	8%
Eastern Cape	722 440	1 035 763	43%	20%
Northern Cape	100 271	134 260	34%	3%
Total	**3 610 215**	**5 617 151**	**56%**	**100%**

Souce: National Treasury, 2003d.

Impact of a Basic Income Grant

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

Target the poor more effectively. By eliminating means tests and complicated application processes, a BIG would reach even those destitute households effectively excluded from the current social assistance programme. Targeting would be achieved by paying the grant to everyone, then recovering it from wealthier people through the income tax system. The richest households would also pay a solidarity tax to subsidise the cost of providing the grant to poorer households. With full take-up, the number of poor South Africans without access to social assistance would be nil, and destitution would be virtually eradicated.

Be cost-effective. As the grant is universal, there would be no need for a costly (and potentially corrupt) bureaucracy to investigate and adjudicate applications. More money would go directly to beneficiaries, rather than being absorbed by administrative expenses. Such transfer payments are the most direct and effective way to reduce poverty.

Be developmental. The means-tested 'dole' schemes common in industrialised nations penalise people who try to improve their incomes by terminating their benefits. In contrast, a universal BIG of R100 a month would prevent people from falling into destitution, but it would not be sufficient to discourage people from looking for ways to earn additional income. To the contrary, research demonstrates that success in job seeking is strongly correlated to income: as income rises, people tend to look for work more vigorously and are more likely to find it. Even a small, stable income enables poor households to take the sort of risks inherent in job seeking and entrepreneurship.

Stimulate economic growth. Cash transfers into households increase and stabilise demand, consumption and savings. Spending is likely to be concentrated on basic, locally produced and labour-intensive commodities, thus benefiting local markets and stimulating job creation. Increased consumption is likely to have particular impact on rural areas where it has the potential to kick-start the economy.

Combat the 'poverty tax'. Under the present system, it is typically the working poor, not the rich, who are ultimately responsible for helping the very poor to survive. The need to provide assistance to unemployed family members or friends acts as an effective 'tax' on the wages of the working poor. The BIG reduces these demands, allowing workers to devote a larger proportion of their wages to productivity-enhancing consumption and social investment (in health, improved housing, skills development, children's education, etc.).

Improve the efficiency of social investment. UN studies have shown that poverty undermines social investment. Inadequate child nutrition, for example, creates long-term health problems, which are associated with higher medical costs, poorer educational performance, lower labour productivity, increased absenteeism, etc. This places an extra burden on women who are typically responsible for health care and education in the family. By strengthening the capacity of households to meet basic health and education needs, the BIG enhances the benefits of additional State investment in these public goods.

Enhance responses to the HIV/AIDS pandemic. The current social assistance system is ill-equipped to deal with the HIV / AIDS pandemic. The support given is insufficient to absorb the additional burden that affected households have to carry. Those most affected by HIV / AIDS – working-age adults – have very little access to social grants. The BIG fills this gap and enables HIV-affected households to afford better nutrition and health care.

Contribute to equity and social cohesion. If it were financed through a progressive system of taxation, the BIG would be strongly redistributive, helping to address the economic inequalities that are a legacy of the apartheid era. Evidence from other developing countries demonstrates that such inequality is a significant obstacle to economic growth and investment.

Common objections to a BIG[11]

Grants vs. work: A false dilemma. Social grants are often misunderstood as an alternative to employment. Following the July 2003 Cabinet Lekgotla, for example, a key government spokesperson claimed that people needed opportunities to experience 'the dignity of work' rather than relying on State grants, which should, he claimed, be reserved for those with special needs.

Given massive unemployment, however, the majority of poor South Africans have little prospect of formal employment. Indeed, poverty is deepening precisely because more and more people are being excluded from the labour market for increasing periods of time. In this context, it is unrealistic to champion the 'dignity of work' as a viable alternative to social grants.

The 'work, not handouts' critique also creates a false dilemma by implying that the two options are mutually exclusive. In fact, South Africa's circumstances require *both* the large-scale expansion of employment opportunities and a guaranteed minimum income in order to make lasting inroads into poverty. Guaranteeing a minimum income becomes a key means of enabling people to engage in sustained – and sustainable – economic activity. The BIG can therefore be a crucial partner to the expanded public works programme that is both a key government objective and a mutually agreed goal established at the Growth and Development Summit (GDS), held in June 2003.

The myth of 'dependency'. A related objection is that the BIG would create 'dependency'. Proponents of this view tend to contrast a universal BIG with a selective social security system that caters for the needs of the 'deserving' poor (i.e. those who cannot conceivably earn an income, such as poor children, the aged and the disabled). A selective system is presumed to be developmental because it limits benefits to those who are 'truly' in need, while expecting others to be self-reliant.

However, a social security system that offers benefits only to those with 'special needs' cannot provide comprehensive coverage, as is obvious from the massive gaps in our current social security net. Moreover, numerous studies demonstrate that existing grants, ostensibly targeted at 'special needs', do not achieve their objectives because they must be used to support whole families or extended families. Strictly speaking, there are no grants purely benefiting the aged, children or disabled people, only grants going to *families* with these categories of people qualifying for such grants, while excluding millions who do not. The notion of targeted grants in this context is thus fictitious.

The vast majority of poor South Africans are unable to support themselves and their dependants because they lack access to resources (income, assets, services, etc.). In other words, poverty and unemployment in themselves form the primary source of poor people's dependency. Anything that perpetuates poverty deepens that dependency. Measures that reduce poverty, such as a BIG, empower poor people and lessen their dependency. This is particularly the case when a BIG is seen as part of a developmental package, and not an end in itself.

The notion that grants will make poor people passive and unwilling to work is at odds with South African experience and the thrust of the BIG proposal. There is no evidence to suggest that a grant of R100 a month would make people *elect* not to work. If anything, international evidence tends to suggest that a BIG would facilitate employment and other forms of economic activity. Further, since a BIG would not be means-tested, there would be no disincentive to work; employment would not automatically disqualify one from receiving the grant.[12]

Capacity to deliver a BIG. Some officials who have recognised the value of a BIG in principle have raised doubts about the practical difficulties in putting it in place. A primary concern has focused on government's capacity to deliver a universal grant. Such objections tend to ignore important implications of universal delivery such as the effects of abolishing means testing, the use of South African Revenue Services (SARS) to administer recovery, the strengthening of public sector financial institutions, proposals for the phasing in of a BIG over several years, and the use of new technology to facilitate payment. Government is already committed to putting in place many of the necessary improvements to the delivery infrastructure as part of its plan to address deficiencies in the current social assistance system.

The State has ample capacity to recover a substantial portion of the gross cost of a BIG though the tax system, due to the efficiency in revenue collection of the SARS. The difficult task in this regard is not so much an administrative but a political one: to determine the structure of this recuperation (e.g. at what point people would have to return part or all of the grant and at what point high-income earners would have to cross-subsidise the value of one or more grants via additional income tax payments). However, this task would certainly be no more complex, from an administrative point of view, than any of a number of other highly complex tax structures, which SARS is administering effectively.

The expansion of public sector financial institutions, such as the Post Office Bank, would facilitate safe and convenient delivery of grants. Increasing people's access to affordable banking services would enable them to receive payments without facing long queues or the concurrent health and security risks. While the roll-out of this infrastructure would take time and resources, the advantages are many, both in reducing bureaucratic logjams and extending the economic benefits of banking services to the majority.[13]

Perhaps the most significant aid to delivery will be the introduction of the Home Affairs National Identity System (HANIS), which is currently being developed by the Department of Home Affairs and the SA Reserve Bank. HANIS will replace the present bar-coded ID book with a 'smart' Identity Card. Smart card technology can be used to deliver social grants in a number of ways. For people living in urban areas, the cards could be used to draw cash at ATMs. For those in more rural areas, the possibility of having remote points of access at local spaza shops will mean far less travelling and queuing. Post Bank public information terminals and the Department of Public Service and Administration's planned multi-purpose community centres could also play an important role in extending rural infrastructure for efficient grant delivery. Government is already planning to deliver existing social grants using the smart card capacity of HANIS.

Financing a BIG

Debates about the financing of a BIG have revolved around two key and interrelated issues: the cost of the grant and the strategy for covering these costs.

The *gross* cost of a BIG can be fairly easily calculated for any given year by multiplying the size of the monthly grant by twelve, and then by the total eligible population for that year. However, gross cost calculations do not reflect the actual amount that the State would need to raise to finance a BIG – the *net* cost of the grant.

The net cost of the grant would be dramatically less for two reasons. First, the Taylor Committee proposed that the BIG be understood as a foundational component of all existing grants. In other words, a person already receiving a social grant larger than the value of the BIG would not be eligible to receive any additional money. The extension of the Child Support Grant to poor children under the age of fourteen will further diminish the net cost of introducing a BIG.

Second, all proposals for a BIG envision that a certain proportion of the funds disbursed would be promptly recovered by the State through the tax system. The net cost of the grant would thus be reduced further by the amount recovered. The size of this 'clawback' will depend on the nature of the associated adjustments to the tax structure.

A number of different financing packages have been proposed involving various adjustments to a range of taxes. Each model has its own implications for the net cost of a BIG. In the last half of 2003, the Basic Income Grant Coalition brought together several of the economists who have developed the most detailed financing models to assess the implications of their model using a shared set of baseline assumptions.[14]

By varying the mix of tax adjustments, the economists generated a range of tax recovery scenarios that resulted in net costs ranging between R15 billion and R32 billion per year. The net cost of the grant also represents the net effective transfer of wealth from the rich to the poor.

Ultimately, the choice of a particular financing package is a political one. Each option has different implications for the redistributive impact of the grant and the effective tax burden on households in different tax brackets. However, the four economists at the 2003 meeting agreed on a number of key points.

The Basic Income Grant is an affordable option for South Africa. Although the four economists posited slightly different net costs for the BIG, there was agreement that the grant is affordable without increased deficit spending by government.

There are feasible financing options for a Basic Income Grant. The four economists modeled a variety of tax-based financing options for a BIG, each of which has different redistributive implications, but all of which represent feasible options.

The optimal financing package will involve a mix of tax sources. The economists agreed that a mixed financing package, involving revenue raised from adjustments to personal income tax, VAT, excise and /

or corporate tax rates, represented the most stable and sustainable financing package. A tiered VAT would raise the tax on luxuries while reducing it on a broader range of necessities, in order to avoid increasing taxes on the poor.

The evidence emerging from this project underscores the need for further, detailed consideration of the BIG in the context of a broader package of measures designed to achieve comprehensive social protection.

Government is already engaged in an ongoing, internal consideration of the Taylor Committee recommendations. In addition, it is gradually revising its fiscal framework to harness more resources for social delivery. It is critical to build broad social and political support for a comprehensive social protection strategy before government makes final decisions on any components of a social security package. This will require engagement on multiple levels, both within government and in multi-sectoral bodies, such as NEDLAC.

To lend coherence and continuity to this process, the People's Budget Campaign urges the establishment of a government / civil society forum to consider a range of practical questions related to the configuration and implementation of a comprehensive social protection package and to determine how legitimate concerns about the BIG and other components of the package can most appropriately be addressed.

Part Three

Building participation

Budgeting at a national level

Civil society interactions with Parliament are premised on an understanding that Parliament has the power to develop policy and make changes in policies developed by the Executive (Cabinet). The interaction between parliamentary social service committees and civil society organisations proves that this relationship can work. Of course, it results in both gains and setbacks for civil society organisations.

Parliament's power to amend budgets, as prescribed in the Constitution, has not, however, been given legislative effect. Section 77 of the South African Constitution states that:

- A Bill that appropriates money or imposes taxes, levies or duties is a money Bill. A money Bill may not deal with any other matter except a subordinate matter incidental to the appropriation of money or the imposition of taxes, levies or duties.
- All money Bills must be considered in accordance with the procedure established by section 75. An Act of Parliament must provide for a procedure to amend money Bills before Parliament.

In October 1997, the Ministry of Finance presented a draft money Bills amendment law to the Finance Portfolio Committee. The Committee rejected this first draft as it gave little power to Parliament to amend the budget. The ministry was asked to redraft the Bill. Six years later, no Bill has been tabled.

In this period, significant changes have been made in the budget process. The MTEF has lent greater predictability and transparency to the budget cycle. NEDLAC has begun to engage somewhat more strongly on the budget. A Parliamentary Joint Budget Committee has been established to improve MPs' engagement on fiscal issues.

Despite these improvements in transparency and participation, no Budget Reform Bill has been tabled to give statutory duties and powers to the Joint Budget Committee. In these circumstances, the National Treasury remains the overwhelmingly dominant force in the budget process.

From a civil society perspective, the inability of Parliament to amend budgets reduces the space to influence the budget process and limits opportunities for public participation. This has led some civil society organisations to consider legal action to enforce section 77 of the Constitution or the independent drafting of new money Bills amendment legislation. At present, though, Parliament's power to influence the budget remains limited. Presentations to parliamentary committees will not, therefore, result in substantive changes to the budget.

Underpinning this closure of space is the assertion that 'government should govern'. While few would dispute this assertion, there are competing ideas about *how* government should operate. On the one hand, most of the social service departments adopt a consultative approach in an effort to ensure that policies and implementation strategies enjoy popular support. On the other hand, some departments, including the National Treasury, have adopted a closed and top-down process.

This top-down management style explains, in part, why Parliament has not yet been given money Bill amendment powers and why civil society organisations have to resort to mechanisms like the People's Budget in an effort to influence the budget process.

The People's Budget Campaign has argued that the budget reform process at a national level must concentrate on two major objectives.

- **Enhancing the role of Parliament, and building capacity in Parliament to fulfil this role.** The key interventions that are required to achieve this objective are:
  - section 77 of the Constitution must be implemented fully and expediently so that Parliament is empowered to amend the budget;
  - Parliament must be given substantial and meaningful amendment powers – rather than being confined to tinkering with details – so

- that it can exercise its democratic mandate as an instrument of popular sovereignty; and
- Parliament must have adequate and appropriate research and analysis capacity to enable it to use its powers effectively.

• **Improving the budget system to ensure that civil society organisations have additional opportunities to engage government on the budget.** The central interventions include:

- NEDLAC and organs of civil society must have structured opportunities to make substantive input on the budget; and
- formal opportunities for input, both public and parliamentary, must be introduced throughout the budget cycle. They should not be confined to the final stages when substantial changes become difficult to incorporate without causing serious disruption.

Expanding on these principles, the People's Budget has endorsed a framework for reform of the budget process that involves substantial reconfiguration to enhance democratic oversight and input at all stages. This section of the report presents a package of interrelated proposals that would promote greater levels of transparency, accountability and participation in the budget process.

The proposals presented here focus on:

- the MTEF;
- amendment powers for Parliament; and
- enhancing parliamentary capacity.

The MTEF

The intention of the MTEF process is to cost major strategies and policies, enhance public understanding of the aims of fiscal policy and corresponding resource allocations, and give departments more stable allocations as an aid to medium-term planning. Unfortunately, the current MTEF system does not adequately meet these objectives. Instead, at the departmental level it has degenerated into a mere projection of annual budgets, with little link to strategic decisionmaking. This situation has arisen because:

- departments must draw up an MTEF for all line items in their budgets, which distracts managers from more strategic issues around resource allocation;
- the National Treasury feels free to vary MTEF allocations each year, typically in response to changed deficit targets, so that the intended stability has not been achieved; and
- the Medium Term Budget Policy Statement (MTBPS) is presented as a final document, leaving little scope for public input and critique.

To remedy this situation, the People's Budget Campaign proposes:

- that the MTEF focus primarily on major projects and strategies, leaving other, routine activities to annual budgets;
- that the MTEF be published as a draft, not a final document, to permit structured consultation at NEDLAC, Parliament and in other structures; and
- that the MTEF be released in June, instead of in late October or early November.

Amendment powers for Parliament

One of the most contentious debates about budget reform revolves around the scope and timing of parliamentary amendment powers. Those who emphasise budgetary stability and the importance of technical management of the budget are inclined to limit Parliament's capacity to alter the Executive's budget. They fear that giving Parliament wide-ranging powers to alter the budget would invite populist grandstanding and a 'pork barrel' mentality as individual members try to ensure that their pet programmes receive funding. They point out the technical complexity of budgeting and wonder if parliamentarians have the capacity to assess the impact that changes in one vote will have on the programmes of another department.

In contrast, others argue that one of the fundamental functions of government is the collection and allocation of public funds. Other policy decisions are meaningless if there are insufficient resources – both financial and human – to realise the stated objectives. Consequently, this camp would argue that the legislature must exercise budgetary and financial powers commensurate with its legislative and policy-making powers. This implies that Parliament must be able to make fairly substantial changes in the budget, including changes in total spending – changes that have unavoidable implications for macroeconomic policy.

The People's Budget Campaign has endeavoured to chart a middle course between these two extremes. On the one hand, its members acknowledge the legitimacy of the so-called technocrats' interest in defining a stable and efficient budgeting process that is not prone to being held hostage to political or other special interests of the legislature.[15] On the other hand, it is clear that Parliament must have substantial influence on spending priorities if there is to be meaningful democratic control over the deployment of public resources. This implies that Parliament must have the ability to amend the budget. The difficulty is balancing these competing objectives.

In an effort to do so, the People's Budget Campaign has proposed a three-tiered model for interaction between the Executive and Parliament on budget matters. It has distinguished, first, between revenue and expenditure matters. It has further identified different 'levels' of decisionmaking, each of which informs the parameters for the subsequent level. Level 1 decisions are of an overall macroeconomic nature. Level 2 refers to the broad composition of expenditure and revenue within aggregate amounts. Level 3 relates to the structure and composition of particular taxes and expenditure line functions.

Box 2 presents this break down schematically, identifying the types of decisions to be made at each level. The subsequent discussions propose appropriate locations, timing, and powers with respect to these decisions.

Key macroeconomic issues with respect to the budget include the appropriate revenue:GDP and expenditure:GDP ratios. As revenue is comprised of tax income and borrowing, this also involves decisions about the tax:GDP ratio and the deficit:GDP ratio. Apart from macroeconomic decisions that are clearly linked to expenditure or revenue, other macroeconomic issues – such as the level of inflation, interest rates, debt, and so on – also need to be determined at this stage.

There can be a fine line between projections and targets. A projection is simply a prediction of the resources required, based on past performance and the expected impact of any intervening policy decisions or programme adjustments. A target is a goal that usually requires policy changes and / or adjustment of resource allocations to ensure its achievement. In reality, setting macroeconomic variables involves a complex blend of projection and targeting. There is also an element of choice as to which variables are targeted (i.e., those that are implicitly prioritised by policy decisions) and which are allowed to be determined by other factors. Naturally government has greater capacity to achieve targets with respect to variables over which it has more direct control.

Decisionmaking with respect to level 1 parameters needs to balance:

- the prerogative of the Executive to take key decisions on macroeconomic policy;
- the right of the legislature to influence all areas of policy – including spending priorities – and to give direction to the bureaucracy; and
- the democratic right of stakeholders outside government to scrutinise, comment on and influence macroeconomic policy and budget priorities in a formal and systematic fashion.

Currently, macroeconomic policy is the preserve of Cabinet, the Department of Finance, and the South African Reserve Bank. More particularly, there is a sense that the Ministry and Department of Finance have virtually complete control over this area, to the extent that it is, in practice, elevated to the status of a 'superdepartment'.

Macroeconomic decisions should to be made prior to the presentation of, and debate around, the budget itself. If the only way to shape macroeconomic policy is by amending the budget, then there is the risk that every vote on an amendment to the budget, no matter how modest, will become perceived as a vote of no-confidence in the government. Unless there are two clearly separate mechanisms for commenting on macro-policy and amending the budget, neither is likely to happen as long as there is a ruling party with a clear majority. This would also give some certainty to the process and focus budget debates on level 2 and 3 decisions rather than on broad economic policy.

The MTBPS is the most appropriate vehicle for debating macroeconomic policy, provided that the debate is structured in a way that allows Parliament to be critical of the Department of Finance's proposals without appearing to be expressing a lack of confidence in the government. It is therefore proposed that the Department of Finance consult extensively during the drafting of the MTBPS, in the manner of a Green / White Paper. Rather than simply presenting Parliament with a final version, the Department should table a draft, enabling MPs to hold public hearings and to deliberate on it. The recently established Joint Budget Committee provides an ideal institutional vehicle for this debate. The Joint Budget Committee could then table a report in which it proposes amendments to the MTBPS.

Box 2: Budgetary decision matrix

Level	Revenue side	Expenditure side
Level 1	Revenue: GDP ratio, real change in total revenue, *e.g., 25% revenue:GDP ratio*	Expenditure:GDP ratio, real change in total expenditure, *e.g., 2% real total expenditure growth*
Level 2	Composition of tax revenue, *e.g., proportions of revenue to come from company tax, VAT, etc.*	Vertical and horizontal divisions of expenditure between functions, *e.g., proportions going to different provinces and functions*
Level 3	Tax rates, *e.g., income tax rates for different income brackets*	Allocation of expenditure within different functions, *e.g., spending within the education vote*

The Department would subsequently table a revised MTBPS in Parliament. The Department would also be required to table a corresponding response to Parliament's report in which it indicates which of Parliament's recommendations have been incorporated, which have been rejected, and the reasons for such rejection. Parliament would then need to assess the Department's response and decide if its concerns have been adequately answered.

If Parliament feels its concerns have not been addressed, but its only alternative is to reject the MTBPS (an effective vote of no confidence in the government) then this is likely to be a largely academic exercise. The Department could be fairly certain that it could ignore Parliament's objections with impunity. Consequently, the People's Budget Campaign has proposed a third option: Parliament should be able to vote simply to 'receive' the revised MTPBS. Such a vote would signal Parliament's unhappiness with the MTBPS and the failure of Treasury to incorporate its recommendations, but would stop short of outright rejection.

Should Parliament be satisfied with the revised MTBPS and vote to accept it, it would then be limited to exercising ordinary amendment powers with respect to subsequent (levels 2 and 3) budget decisions. In other words, it could shift within and between functions without revisiting macroeconomic policy by changing the overall (level 1) parameters.

Should Parliament vote to 'receive' the revised MTBPS, a different, lagged model would come into play. In year one (i.e. the when considering the budget of the following February), Parliament would still be confined to ordinary amendment powers and would therefore be prevented from altering the MTBPS parameters, even though it did not accept them. However, should Parliament feel that its concerns still have not been addressed in the next MTBPS, and should it vote to receive the MTBPS for a second consecutive time, then the following February it would have access to an expanded set of extraordinary budget amendment powers. These would permit it to amend all aspects of the budget, including altering the macroeconomic parameters by changing total spending.

The lagged model attempts to build stability into the system by limiting Parliament's overall amendment powers in a given year and promoting cooperative governance. It sets up a one year 'cooling off' period in which differences between the Executive and legislature can be resolved politically. The possibility of Parliament having access to a set of expanded amendment powers in a subsequent year would act as an incentive for the National Treasury to take seriously Parliament's views in the intervening period so that the MTBPS of the following year is accepted, and the extraordinary amendment powers would not be invoked.

Parliament would also have the option of rejecting the MTBPS outright. In this instance, Parliament would not be bound by the MTBPS parameters in the forthcoming budget and would have immediate access to extraordinary amendment powers, including amendments affecting macroeconomic parameters. In practice, such a scenario is probably highly unlikely.

Agreement at one level should establish boundaries for decisions at subordinate levels. For example, if Parliament approves the macroeconomic parameters of the MTBPS, it would not be able to make changes to the budget that failed to respect those boundaries.

As the MTBPS covers a three-year period, it would be necessary to establish precisely on which aspects Parliament would be voting. One scenario would be for them to vote only the parameters for the following year, but comment formally on the outer two years. This would allow the MTEF to retain an element of flexibility. There may also be a need for an 'escape clause' to be built into the model to cover exceptional circumstances, for example a natural disaster or major exogenous shocks between the MTBPS and the budget.

Decisions during the budget stage would focus on levels 2 and 3: the vertical and horizontal divisions of revenue and the pattern of allocation within functions. The People's Budget Campaign has proposed that Parliament be given unlimited amendment powers at these levels (i.e. to adjust expenditure allocations within the overall expenditure envelope without any Executive veto and without any ceiling on the number of amendments).

On the expenditure side, Parliament could put in selective bottom line claims on expenditure as part of its report at the MTBPS stage. For example, Parliament could insist on a 3% real *per capita* increase in health spending, and the onus would be on the Department of Finance to either juggle expenditure or adjust macroeconomic parameters to meet such claims. Possibly Parliament should be obliged to suggest mechanisms for funding such claims or tradeoffs.

Further discussion is needed on the concept of a qualified freeze on spending in specific programmes, which could potentially be a useful tool. It should be possible to target a freeze as specifically as possible to avoid unintended negative consequences. However, it must be noted that in many departments, contracts (especially with employees) account for the bulk of spending. A freeze could thus only be applied to spending that is discretionary month-on-month, unless a special provision is made, for example, for top-level management.

On the revenue side, decisions during the budget stage would focus on the composition of revenue (what proportion should come from individuals vs. VAT vs. company tax, etc.), and on tax rates (how tax rates should be set for different income brackets in order to generate a certain aggregate amount of revenue).

Enhancing Parliamentary capacity

Parliament will require enhanced research and analytical capacity if it is to exercise its budgetary amendment powers responsibly and effectively. While Parliament itself is best placed to determine what form this increased capacity should take, the following points are relevant:

- Expert capacity will be particularly essential in areas such as macroeconomic analysis and modelling, analysis of spending and identification of obstacles to spending, and accurate costing of alternative proposals on both the expenditure and revenue sides.
- A Parliamentary Budget Office could be an appropriate institutional mechanism for providing Parliament, and the Finance and Joint Budget committees in particular, with the necessary backup. Other Portfolio committees should also have access to specialised budgetary research and analysis (e.g. in health economics, transport economics, etc.).
- Research conducted by IDASA has suggested that a 58% increase in Parliament's budget could build a good skeleton service.

In addition, to fully engage budget issues, there must be a shift in emphasis (notably in terms of allocation of time) from debate in the House to committee deliberations. All Portfolio and Select committees will need to become more actively involved in the budget process, rather than leaving primary responsibility for budget to the Finance and Public Accounts committees.

While there is already some (uneven) interaction between departments and the relevant Portfolio committees, it is proposed that this be structured in a formal, uniform way as part of the budget process. This would include departments preparing reports to the relevant Portfolio and Select committees comparing their budget requests with their draft allocations and assessing the impact of any cuts. For example, the Department of Transport could set out what they had proposed and the motivations for this, what the Department of Finance proposes giving them, and how the difference between this would affect infrastructure, traffic enforcement, commuter subsidies and each of the other programmes and functional areas within its ambit.

In October 2001, Parliament established a Joint Budget Committee. The precise powers and responsibilities of this committee are not yet clear. However, through interaction with departments, the Portfolio and Select committees should be empowered to make informed inputs to the Budget Committee around functional budgets. These recommendations could then be debated, modified, and reconciled within the Budget Committee. There would thus be a direct relationship between committees' oversight and accountability roles and their input into the budget process. The Budget Committee would ultimately be able to table a set of specific proposed budget amendments (of a level 2 and level 3 nature) for discussion in the House.

Finally, the reform of the budget cycle should pay close attention to the role of the National Council of Provinces (NCOP) and, in particular, to making better use of the NCOP's unique role as a link between national and provincial structures involved in policy making and resource allocation. This is one aspect of the budget process that requires considerably more discussion and consultation. Some of the matters that should receive special consideration in that debate include the following:

- Currently, the structure of budgets as well as variations in provincial budgeting and reporting make it very difficult to monitor total spending on provincial competencies. This needs to be revised in a way that, while respecting provincial autonomy, ensures that the proportion of expenditure / total amount budgeted for a particular function is indeed spent on it, irrespective of which sphere of government has competency.
- The NCOP should hold hearings on provincial budgets, going through the major functions to make comparisons possible. These hearings should inform the decision on the division of funds between provinces and national budgets.
- Provincial Finance and Public Accounts committees should play a larger role in holding provincial governments accountable.
- Provinces should as far as possible use the same programme and portfolio structure. The Public Finance Management Act (PFMA) requires the National Treasury to provide these common formats but it is unclear what degree of uniformity will be required.
- Provincial budgets should preferably be tabled on the same day as each other, or at least within the same week.
- The Division of Revenue Bill should be tabled and passed before both national and provincial budgets.
- Parliament should try to ensure standard publication formats and timetables for parliamentary budgets, if at all possible.
- Steps should be taken to improve the capacity of both provincial exchequers and legislatures.

Creating opportunities for broader engagement

NEDLAC

NEDLAC should be able to engage substantively with the budget process in a way that complements the role of elected representatives.

The Public Finance and Monetary Chamber of NEDLAC (possibly with the addition of representatives from the Community Constituency for the purposes of the budget process) should engage with the budget throughout the cycle and should be able to deal with all three years of the MTEF. Both level 1 and level 2 decisions should fall within NEDLAC's ambit, as do certain level 3 decisions, such as tax rates and expenditure allocation within functions. NEDLAC should be involved in all important aspects of the MTEF, and specific sites of intervention in the budget cycle could include the following points:

- Prior to the presentation of the draft MTBPS, the Department of Finance could present its macroeconomic projections (growth rates, etc.) for the next three years to NEDLAC. NEDLAC, or its constituencies, could mandate independent analysis and projections, and there could be engagement within the chamber around what projections are realistic and / or desirable, with an emphasis on the coming year.
- The draft MTBPS could be tabled at NEDLAC. Constituencies would then table inputs focusing on macroeconomic parameters. At this point 'bottom line claims' could also be put in around level 2 and 3 aspects of expenditure and revenue. The onus would be on the Department of Finance to accommodate these. For example, constituencies – or at least labour, business, and community – could agree that spending on economic infrastructure should increase by at least 5% in real terms. The intention would be to negotiate constituencies' positions to reach, if not consensus, then agreement on the bands within which key parameters should fall. Such agreements would then inform the final MTBPS.
- The final MTBPS could then be tabled at NEDLAC. As in its presentation to Parliament, the Department could be required to indicate to what extent it has incorporated NEDLAC agreements / constituency proposals, and if not, why not.
- After the presentation of the budget, constituencies could table their inputs to NEDLAC focusing on level 2 and 3 decisions. Constituency proposals would be forwarded to the relevant portfolio committees and the Budget Committee to inform their deliberations.
- At some (early) point during the budget cycle NEDLAC could also address itself to significant definitional issues (for example the classification of personnel vs. current expenditure, or the definition of the deficit) and propose more appropriate standards of measurement and presentation.

NEDLAC's role should be explicitly spelled out in a Money Bills Amendment Procedure Act.

Civil society

In the medium to long term, opportunities should be created for the structured participation of civil society in the budget process along the lines of the poverty hearings. Organs of civil society (as well as individual community members) have valuable inputs to make in terms of their needs, expenditure priorities, and problems in current programmes. This information would not only improve the quality of the budget but also give people a sense of ownership of the budget. Interaction could take the form of hearings on particular functions in particular provinces on an annually rotating basis (e.g. one year the Eastern Cape could deal with health, the Northern Cape with water, Gauteng with education, etc. and the following year each province would deal with a different function).

In the short term, there would be two main ways that civil society organisations could influence the budget process if the People's Budget Campaign proposals are adopted. Firstly, they would be able to make submissions to Parliament itself at the various stages of the budget cycle. Once Parliament has meaningful amendment powers, this would become a worthwhile process. Secondly, there would be opportunities for input through NEDLAC. The youth, rural, disabled and women's sectors that currently sit only in the Development Chamber, should also be invited to participate in budget deliberations in the Public Finance and Monetary Chamber.

Municipal budget processes

Section 152 of the Constitution allows and encourages the involvement of communities and community-based organisations in matters of local government. It is the only sphere of government where legislation[16] allows for direct participation in the budget process of municipalities.

In particular, the recently enacted legislation on Municipal Finance prescribes the level of participation from communities. The official responsible for the budget should immediately make a copy of the draft budget available to communities and community-based organisations (CBOs) for comment and scrutiny.

However, the budget process limits public participation in the actual drafting and final approval phase. Furthermore, the participation of CBOs and the public in the budget process will require a general level of skill and knowledge of budgets. Without municipalities enhancing their capacity to participate in the process, the community participation provisions of our legislation become futile. It should be noted that to a large extent councillors who actually approve the budget do not really understand either the process or what is incorporated in the budget. Active encouragement, capacity building and transparency are a critical requirement in the budget process.

The Municipal Systems Act, 2000 makes provision for the development of an Integrated Development Plan (IDP) for each municipality. Municipalities are expected to develop IDPs at five-year intervals. IDPs serve a number of functions:

- They explain how the municipality plans to expand municipal services, build infrastructure, and initiate local economic development. All these roles are defined within a participatory paradigm.
- They show how the municipality will deliver during the next five years.
- They act as a guide to municipal budgeting. Municipal budgets must reflect how the Council is going to spend to achieve IDP objectives. The budget must be congruent and linked to the implementation of the IDP.
- They prioritise important development issues in a municipal area.

Most CBOs and NGOs have little experience in drafting and monitoring the implementation of municipal plans such as IDPs. Prior to 1994, many communities were engaged in the fight against apartheid. The local focus then was to take on apartheid-based local authorities. Today, our legislation is geared to enabling community participation and transparency at a local level, especially with regard to poverty and development issues. However, participation is hindered by:

- a lack of relevant skills, capacity and resources within many CBOs and NGOs;
- the highly technical nature of much of the information associated with this process;
- the lack of clear and regular opportunities for participation – regulations do not stipulate a standard process for engaging communities;and
- a narrow definition of ‘participation’ that excludes the most vulnerable sectors in the community, such as those who cannot read and write, people with disabilities and other disadvantaged groups.

The IDP process provides considerable scope for participation, but these opportunities have not been taken up in a serious and consistent manner in many communities. A concerted effort should be made to confront participation impediments at a municipal level.

In many municipalities there is no formal mechanism to involve communities in the budget process. In some instances, the budget is merely presented to the public, usually just before it is to be adopted by council. This approach precludes meaningful participation.

Improving community participation at the municipal level requires:

- building community level structures, through ward committees; and
- democratising the IDP process so that it ceases to be consultant-driven.

Part Four

Financing an integrated development strategy

In order to implement the expanded programmes proposed by the People's Budget Campaign, the State must increase its capacity to finance and manage the additional initiatives proposed above. This section discusses some of the changes that will be required. We first review developments over the last ten years before proposing mechanisms and strategies to improve the capacity of the State. Our proposals are informed by our vision of a developmental State, as described in Part 2.

This section:

- looks at the wider economic picture, focusing on economic and public expenditure trends;
- assesses expenditure trends over the last few years of national, provincial and local government;
- examines the State's revenue strategy; and
- proposes guidelines for increasing public spending.

Progressive taxation

We first review the overall trends in taxation, and then propose ways to ensure a more effective and progressive system.

Tax trends

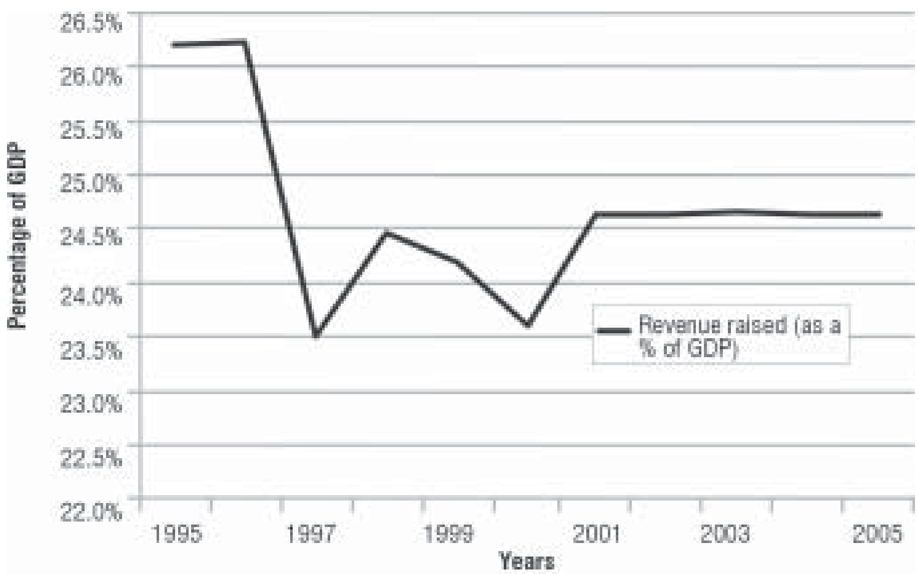
With the cuts in spending that GEAR brought about in the late 1990s, government also reduced its revenues. It cut taxes from over 26% of the GDP in 1995 to around 24% today, with particularly sharp declines in 1997 and 2001.

While the tax:GDP ratio has been diminishing, the South African Revenue Service (SARS) has substantially improved its tax collection capacity. As a result, in virtually every year revenues exceeded the National Treasury's projections, although this trend has stopped in 2003 / 4 projected revenue collection.

The apparent contradiction between improved tax collection and diminished public spending is explained by two related factors:

- Increased tax collection arose from improved compliance, not rapid economic growth.
- To keep the tax:GDP ratio under 25%, government granted substantial cuts in income tax, which effectively benefited companies and rich individuals. Personal income tax cuts between April 2000 and March 2004 reduced revenues by R46,5 billion. The percentage cuts were highest for the high income group – that is, the cuts as a whole were regressive.

Figure 5: Revenue raised (as a % of GDP)



Source: Budget Review, 2003.

Table 18: Personal income tax cuts, 2001-2003

Year	Amount saved by taxpayers
2000/01	R9,9 billion
2001/02	R 8,3 billion
2002/03	R15,0 billion
2003/04	R13,3 billion

Source: National Treasury: Presentation to Parliament, 2003.

Table 19: Estimated VAT burden on households, by income level

Annual household Income	VAT paid as a % of annual income	Total VAT paid in rands
R 18 000	10%	1 799
R 30 000	10%	2 910
R 75 000	8%	6 141
R 140 000	7%	10 241

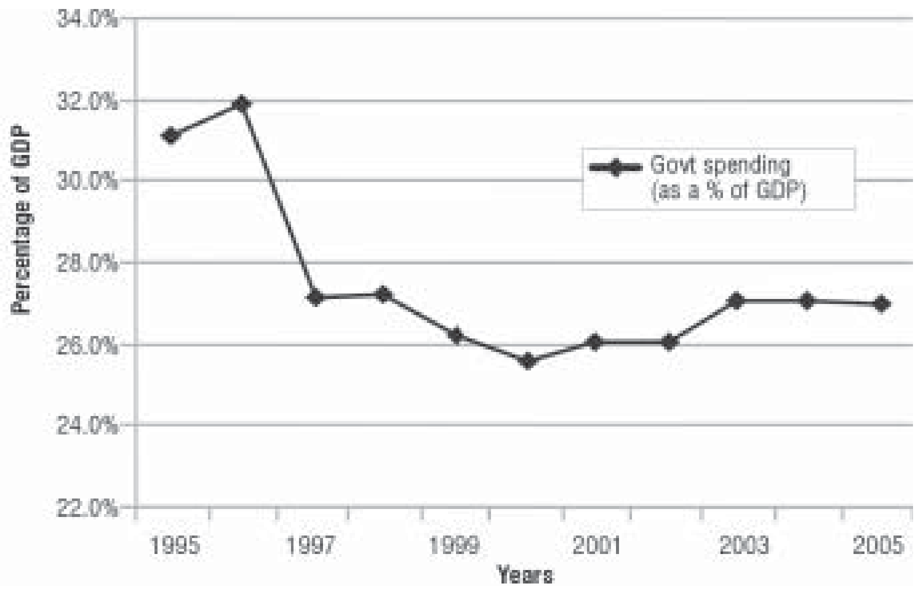
Source: National Treasury.

Overall, income tax cuts do not assist much with poverty reduction. On the one hand, they benefit the rich more. Less than half of formal workers earn enough to pay income tax, while the unemployed do not benefit at all. On the other hand, the tax cuts reduce the resources government has to address poverty.

Government has justified these changes in the tax regime by arguing that they would stimulate savings and capital formation, promote economic growth and provide incentives for business development. However, as noted above, the restrictive fiscal policy has, in fact, been associated with low growth and rising unemployment.

As a result of these policies, government spending as a percentage of GDP has declined from about 32% in 1996 to about 27% in recent years, as shown in Figure 6.

Figure 6: Government spending (as a % of GDP)



Source: Budget Review, 2003.

Introduction of multiple VAT rates

Value-Added Tax, or VAT, is a highly regressive form of taxation, which weighs more heavily on the poor than the rich. Table 19 indicates the VAT burden on households by income level. It shows that households earning R1500 a month pay 10% of their income on VAT, compared to 7% for those earning more than R10 000 a month.

In the past three years, tax cuts have concentrated on personal income tax and corporate taxes. As only those earning over R2 000 a month pay income tax, these reductions do not help the poor. Ironically, even the reduction of personal income tax has been regressive, with greater relief for the high income group.

Private capital and some opposition parties have called for a VAT increase, to expand the revenue base of government and fund a basic income grant. The People's Budget rejects the idea of funding programmes for the very poor by taxing the poor. This would not help to take our country out of the poverty trap or meaningfully address the fundamental inequalities of our economy.

To offset the regressive nature of VAT, many countries exempt necessities and impose higher rates on luxury goods. This is called a variable rate VAT. Although theorists often argue for a single, uniform rate, only eighteen countries have adopted this approach. (COSATU, 1999) Belize, Canada, Ireland, Jamaica, Kenya, Poland, Romania, Trinidad and Tobago and the United Kingdom zero-rate basic goods, while a further seventy-six countries have special low rates for basic foodstuffs. Many countries have two or more VAT rates.

The People's Budget proposes a combination of extension of zero-rating to basic necessities beyond those already zero-rated by government,[17] an increase in VAT on luxury goods, and a 1% decrease in the VAT rate on other goods.

The reduction of VAT from 14% to 13% is central to boosting the after-tax incomes of the poor. As Table 20 shows, the proposed reduction of VAT by 1% will be less than historic cuts on personal income tax to the annual reduction in

Table 20: Selected sources of national tax revenue as percentage of total tax revenue, 1996/97–2006/07

Fiscal Year	Personal Income Tax	Company Tax[a]	Value Added Tax	Excise Duties	Fuel Levies	Taxes on Trade
1996/97	40,4%	13,7%	24,4%	4,5%	7,1%	4,9%
1997/98	41,3%	13,8%	24,3%	4,8%	7,3%	3,4%
1998/99	42,1%	13,2%	23,8%	4,6%	7,4%	3,3%
1999/00	42,6%	12,0%	24,0%	4,7%	7,1%	3,4%
2000/01	39,2%	15,2%	24,7%	4,5%	6,6%	3,7%
2001/02	35,8%	19,6%	24,2%	4,2%	5,9%	3,4%
2002/03	33,4%	22,0%	24,8%	3,7%	5,4%	3,4%
2003/04	31,9%	22,7%	26,3%	3,8%	5,4%	3,1%
2004/05	31,8%	22,9%	26,3%	3,8%	5,4%	3,1%
2005/06	32,1%	22,8%	26,2%	3,8%	5,4%	3,1%
2006/07	32,2%	22,6%	26,3%	3,8%	5,4%	3,1%

Note: a. Includes taxes on mines and secondary taxes on companies.

Source: Calculated from 2003 Budget Review, 2003 Medium Term Budget Policy Statement; actual collections through 2001/02, thereafter estimates.

personal income tax and the reduction in company taxation. It would decrease tax revenue by R8 billion, which could easily be offset by higher VAT on luxuries and by leaving income tax levels where they are.

Raising tax:GDP ratio

As noted in the sections on spending, cuts in the 1990s came at the cost of sustainability of services. To reverse these cuts more rapidly requires that tax revenues increase relative to GDP. This would, in turn, involve a substantial shift in current fiscal policy.

The People's Budget Campaign proposes raising the tax:GDP ratio to 29% between 2005 / 2006 budget until the 2009 / 2010 budget. Assuming that GDP projections remain intact, this would release billions of rands over the next three financial years. In 2005 / 6 alone, with current revenue and GDP projections, the additional amount collected will be approximately R64 billion (calculated from Table 1.2, Budget Review 2003).

Dealing with the debt

The People's Budget Campaign has called for a slight increase in deficit spending in previous years. Since 1996, the deficit:GDP ratio has been diminishing, with a slight increase in 2003. The People's Budget has long called for an increase in the deficit to 5% of the GDP, which would provide an additional R16 billion for poverty programmes.

Some economists argue that South Africa cannot afford even a slight increase in the deficit, because they say we face a 'debt trap' – where interest costs rise so high relative to income that the country cannot ever pay them off.

South Africa's national debt, especially to foreigners, is low by world standards. Certainly we are nowhere near to the position of the Latin American and African countries that have faced a debt crisis. Our foreign debt is around half as high as that for other middle income countries. Rapidly growing countries like Malaysia and Singapore have much higher debt levels (relative to national income), and most industrialised countries have significantly higher ratios of public debt to national income than that of South Africa.

In spite of South Africa's relatively low debt levels, South Africa's debt burden is onerous by international standards. This paradox is explained by South Africa's domestic interest rates, which are higher than those of any industrialised country are and among the highest in the world. Because of high interest rates, relatively low debt levels impose a severe debt burden on society.

The government's economic strategy recognises this dilemma, but addresses the problem by focusing on debt reduction, low fiscal deficits, and austere social expenditure programmes. At the same time, the government maintains a commitment to restrictive monetary policy, with the aim of reducing inflation by keeping interest rates high. That, in turn, reinforces high interest rates.

This debt policy hampers employment growth, sharpens the sting of poverty, and undermines social welfare. The combination of reduced government expenditure and restrictive monetary policy has a contractionary impact on the economy, stifling job creation. In particular, the government has inadequately financed social investment in housing, health care, education, and infrastructure – failing to adequately address the legacy of apartheid that hampers job creation and socioeconomic progress.

In a market-oriented economy, public expenditure is the most effective mechanism for poverty alleviation and welfare enhancing economic redistribution. The government's current debt policy neutralises these instruments, allocating scarce resources in an environment supporting high interest payments while failing to mobilise resources through further borrowing to fund social imperatives.

To help reduce the cost of its borrowing, the government could adopt two far-reaching strategies:

- The South African Reserve Bank (SARB) could implement a prudent and managed programme of interest rate reduction, leading to a reduction in the interest payment on the government debt. A major reason for the high interest rates currently constraining the government is the SARB's policy of inflation-targeting, which requires high interest rates to reduce inflation.

- The government could issue bonds that pay lower interest rates than those that financial markets currently offer. In order to ensure that investors hold these bonds, the government can renew financial regulations prevalent during the 1970s and 1980s that required major financial institutions to hold minimum levels of government debt. These regulations (called 'prescribed asset requirements') were used by the apartheid government to ensure sufficient finance for their policies. As policy makers planned the process of democratisation in the late 1980s, the government eliminated these regulations, thus increasing the cost to future governments of financing not only the apartheid debt but also any future debt.

Managing the apartheid debt

A second proposal from the People's Budget Campaign is to ring-fence and renegotiate the debt – both domestic and foreign debt – that was incurred under the apartheid regime. Currently domestic debt is around 79% of the total State debt, making it easier for South Africa to negotiate this internally. These debts could then be replaced by special bonds at a reasonable interest rate.

Until South Africa's first democratic elections in 1994, the government borrowed to finance distorted development policies that benefited a small minority, skewing the nation's allocation of wealth and income, as well as employment and social services. After 1994, however, the government has funded all non-interest expenditure from tax revenue; borrowing has been used only to pay interest or retire the debt. The interest burden that South Africa now bears is thus virtually entirely a legacy of apartheid.

The apartheid debt burden continues to drain resources that are needed to redress imbalances in areas of health, education, housing, social development, and job creation. Rising debt levels and high interest rates significantly increased the share of the government's budget allocated to servicing the debt. The interest on the debt constitutes the second largest expense item for the government, absorbing nearly a fifth of the budget and diverting resources from social priorities.

South Africa's public debt has financed a skewed allocation of social capital, adversely affecting human wellbeing and undermining the capacity of the majority of South Africans to achieve socioeconomic upliftment. Historically, extraordinary resources were mobilised for social services and investments that improved the living standards of a privileged minority while promoting their control over economic resources and employment opportunities.

Within the current macroeconomic policy framework, debt constrains the government's ability to redress past imbalances. The disadvantaged majority must sacrifice essential social investment in order to repay the apartheid debt, which accrued to finance benefits for the minority. This predicament poses the twin-edged dilemma of the apartheid debt: how can the burden of the debt be shifted onto the beneficiaries of apartheid while mobilising resources for redressing past imbalances?

Church, labour and NGO leaders have identified the moral case for the cancellation of South Africa's apartheid debt, as well as the crippling foreign debt of developing countries. Economic analysis of the apartheid debt supports the moral case for this initiative. However, several economic factors specific to South Africa's situation mitigate the case for repudiation (non-payment) of the debt.

First, it will likely be met with severe hostility on the part of lenders, who will employ retaliatory defences to protect their economic interests. International financial transactions may be interrupted, foreign trade hampered, and the cost of additional borrowing will certainly increase – if it is available at all.

Second, most of the privately held debt is owned by major financial institutions, such as banks, private pension funds, and insurers. Cancelling this debt could lead to the collapse of South Africa's financial system, with adverse consequences across the socioeconomic spectrum. Debt repudiation would not necessarily increase resources available for redressing the imbalances of the past, and those who profited from apartheid would not necessarily incur the cost. The present holders of marketable debt are not necessarily the same individuals who benefited from the apartheid debt, since this debt is frequently traded.

For this reason, instead of simply repudiating the debt, the People's Budget Campaign argues that it should be ring-fenced and, as far as possible, renegotiated. The process would have to analyse who ultimately benefits from government repayment of the debt and ensure that the overall impact remains progressive.

Releasing funding through pension fund reform

A major strength of the South African economy lies with its institutional investors, with total assets of R1000 billion or 50% of South Africa's total asset value. Pension funds account for R600 billion of institutional investor assets and own 60% of the equity listed on the Johannesburg Stock Exchange. Pension fund contributions from the 80% of the formally employed amount to over R54 billion a year – 14% of total personal remuneration in South Africa. As a result, South Africa ranks fourth in the world for *per capita* pension fund assets, after the UK, Switzerland and the Netherlands; in terms of the ratio of private pension fund assets to GDP, South Africa is first in the world.

In the post-apartheid era, the presence of a powerful pension fund industry is positive for three reasons. Firstly, the future income of a significant proportion of citizens is well provided for. South Africa is more able to focus on the elimination of poverty and job creation, without having to compensate for bankrupt social security systems, unlike many developing economies, such as those in Eastern Europe. Secondly, the financial services sector has developed substantial skills and expertise that can prove useful in the growing global economy. Thirdly, the fully funded status of private pension funds has resulted in the accumulation of a tremendous stock of assets. This stock of assets could be a potential source of capital to finance reconstruction and development, much like such assets were used to finance the apartheid State prior to the mid-1980s (when 40% of pension fund assets had to be invested in apartheid government bonds).

The potential of the pension fund industry in promoting socially targeted investments, this time for RDP purposes, has become critical in light of the low levels of investment discussed above. There is a clear logic to getting pension funds to boost domestic growth, development and job creation.

Firstly, pension fund assets belong to citizens of South Africa, and the accumulated capital should be invested in benefiting citizens and the local economy.

Secondly, there is a strong correlation between employment levels and the stability of pension funds. When the economy is in recession, more jobs are lost and the funds pay out more than they receive. When jobs are being created, funds pay out less and receive more by way of increased membership and contributions.

Thirdly, pensioners require individual and community assets (such as housing and local infrastructure) and not just retirement incomes. So there is a role for massive pension fund investment in such asset creation without compromising adequate retirement incomes.

In light of these benefits to pension fund members, the labour movement has called for increased investment of pension resources in employment-creating projects. At the recent Financial Sector Summit as well as at the GDS, the unions agreed with business and government to work to achieve this aim.

A major obstacle to the proposal remains the lack of guidance from the State. Often, projects to address poverty do not make much in the way of profit. If the government does not indicate a clear development strategy, it becomes very difficult for pension funds to take the associated risks.

Redirect arms spending

The US$4,8 billion strategic arms procurement programme, approved by Cabinet in 1999, is the single largest investment package approved by the democratic government. Currently predicted to cost nearly R53 billion over the next eight years, the purchases effectively shift spending from the social wage to defence. Yet the arms procurement package is the least developmental of all spending.

No one can accurately forecast the ultimate cost of the arms deal. When Cabinet was initially considering the largely dollar-denominated package in 1998, its cost estimates were based on a predicted annual depreciation in the rand of 5%. This would have resulted in an exchange rate of R7,76 to the US dollar in 2006. More rapid devaluation compelled the Treasury to revise the cost estimates ever upward: from R30.3 billion at the end of 1999 to R43.8 billion in 2001 and R52.9 billion last year (see Table 21). The rand’s recovery over the past two years has stabilised the effective short-term cost of our weapons bill, but the foreign loans raised to finance much of the deal will leave South Africa vulnerable to unfavourable exchange rate movements for some time to come.

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

- **Inflation**. The arms contracts contain escalation clauses that allow price adjustments to offset the effects of inflation, either in South Africa or the relevant supplier country.

Table 21: 2001 and 2003 estimates of strategic defence spending by year

R million	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
2001 Est	2 849	4 220	5 078	5 828	5 533	5 793
2003 Est	2 899	4 223	6 476	6 889	5 454	7 838
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
2001 Est	4 712	3 635	2 863	1 194	1 041	1 027
2003 Est	5 800	4 386	3 499	1 606	1 378	1 385
Total 2001 Est		43 776			Total 2003 Est	52 944

Source: Budget Reviews, 2001 and 2003.

- **Interest rates**. A renewed rise in interest rates could increase the cost of servicing the debt incurred to finance the weapons purchases.
- **Hidden costs**. To be fully functional the weapons purchased require additional equipment, excluded from the original package in order to satisfy the Cabinet's cost criteria. In December 2001, the Auditor General put the cost of these additional purchases at roughly R2 billion.

Further growth in the cost of the weapons package could 'crowd out' spending on social services and infrastructure. Shortly before the defence contracts were signed, government anticipated that defence spending would increase by an average of 3,5% per year in the three years from 1998 / 99 to 2001 / 02. (1999 Budget Review) In fact, defence spending rose from R10,6 billion in 1998 / 99 to R16,1 billion in 2001 / 02 – an average annual increase of 14,9%. Over this same period, the consolidated spending on welfare grew by an average of 10,3% per year, health by 8,7% per year, and education by only 7,9% per year. (2002 Budget Review, 136 & 148) The government has made a welcome decision to relax its austere deficit target, but more of the additional funds generated should be available for social investment.

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

Although outright cancellation of the contracts could expose South Africa to penalties, legal action and other damage, government has missed opportunities to reduce the overall cost of the deal. The procurement contracts call for the weapons to be supplied in three stages or 'tranches'. Government had the option to decline to purchase the latter two tranches, provided they did so by certain deadlines.

Regrettably, the first of these deadlines passed in March 2002. However, South Africa has until 2004 to decline its option on the third tranche – 19 fighter jets with a price tag of more than US$850 million. Although the manufacturer has discounted the cost of the fighters in this latter tranche to discourage South Africa from opting out[18], government could still save roughly R8 billion (and possibly much more, depending on cost escalations and financing charges) by declining this tranche.

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

Building capacity

Finally, it is important to improve the capacity of the State to use its resources. "There is no capacity" has become the standard answer by senior public servants when quizzed on their inability to spend or implement effectively. Institutions like the Umsombuvo Youth Fund and the National Development Agency have all failed to spend funds that have been allocated to them. These are funds that should have been allocated to poverty eradication programs.

At the other end of the spectrum is the equally worrying trend of 'fiscal dumping' – that is, the year-end rush by some government departments to spend their budgets, often on programmes and projects that were not well planned or could not deliver value for money. Overlaid over the inability to spend and fiscal dumping is the fact that most public spending does not lead to sustainable poverty eradication.

These trends indicate that the basic budget question which economists have traditionally defined as 'on what basis to allocate x rands to activity A instead of activity B' needs to be widened. At the centre of redefining the question is a recognition that eradicating poverty requires government to both spend more and spend well.

Improving the ability of public institutions to spend, and more importantly, spend well, is thus a central challenge facing South Africa. The excuse of 'capacity constraints', however, is an opaque way of defining the problem, and thus leads to poor solutions to problems. 'Capacity constraints' is really a shorthand for the consequences of sustained under-investment in building governmental capacity.

- **Inadequate staffing and skills.** The recent decision to increase the number of nurses and police persons indicates that certain areas of the public service are indeed understaffed. Similarly there exists a shortage of skills in certain areas of the public service (e.g. maths and science teachers, project managers for infrastructure projects).
- **Inability to monitor contracts.** The recent reports of corruption in the low-income housing sector provides a sharp reminder that government lacks the ability to monitor contracts with the private sector. The Department of Housing must be commended for instructing the Public Prosecutor to pursue these matters. Yet, without building capacity a perpetuation of these types of corruption will continue.
- **Systemic weaknesses.** This relates to the delivery of funds from national to provincial and local government on time, particularly on conditional grants. Anecdotal evidence indicates that the delivery times are too near the end of financial year to ensure good quality spending. The current

system of conditional grants cannot support rapid and effective spending. The problem is not with the concept of conditional grants, but rather with the system's operation. The procedures used for conditional grants are extremely complex and time-consuming. Although the budget is announced in February every year, conditional grants are often only disbursed between April and June. This shortens the period in which departments must use the grants.

- **Application of cost-recovery model.** Cost-recovery systems (fee for service, etc.) have become common in public sector service delivery. This is largely due to insufficient funds being made available for roll-out and the reluctance to structure stronger cross-subsidises from the rich to the poor. Cost-recovery systems have run into the predictable problem of non-payment. While some ideological advocates for cost-recovery argue that this is due to the 'culture of non-payment', this appears largely false. Grinding income poverty, which is also rising significantly, is leading to the 'economics of non-payment'. Cost-recovery systems are generally undermining the sustainability of government roll-out. For example, while government has showed impressive results in water roll-out, many of these service delivery projects have collapsed due to non-payment.
- **Procurement systems**. Procurement is plagued by similar delays. The government tender process can delay major expenditures by three to six months or more. In 1998, the Presidential Review Commission had to terminate all its work and start it over because the Tender Board argued it had not followed the proper tender procedures in hiring consultants. Usually, just getting a tender announcement in the Gazette takes a few weeks. Similarly, it takes months to fill a management position in the public service, making it very difficult to start new programmes quickly.
- **Culture of under-spending**. The heavy fiscal restraint applied to public service institutions has become another barrier to spending. On the one hand, departments tend to see any saving as good, even at the cost of overall delivery. On the other, budget cuts have led to employment freezes and even untargeted cuts in employment. This has reduced capacity, without improving efficiency. As a consequence, the capacity of the public service is further reduced. Ironically, under-spending often leads to further budget cuts.

Important steps have however been taken by government to build capacity. The following measures should be supported:

- **Strengthening the financial management capacity of government.** The introduction and implementation of legislation to improve financial management systems and capacity are a step in the right direction. Both the Public Finance and Management Act and the Municipal Financial Management Act provide a solid base for increasing probity in the public service. The next set of reforms to financial management must however focus on the efficacy of spending on the poor, if a truly developmental public service is to emerge.
- **Matching skills and resources.** The Public Service Bargaining Council has agreed to a process of matching skills and resources. The agreement seeks to align organisational structure to strategic plans, and is thus a welcome initiative. However, the short period for implementation (only twelve months) means that much work will be left to do after the agreement has run its course. A more deliberate strategy has been to increase employment in crucial areas of the public service. The Medium-Term Budget Policy Statement (2002), for instance, makes strong arguments for increasing the number of health professionals and police. Yet we find it problematic that government continues to outsource particular functions to private companies in the grade levels 2-4 in the public service.
- **Attacking corruption.** Efforts at reducing and exposing corruption are critical to building efficient and effective government spending. Recent exposures in the low-income housing and developmental welfare sectors indicate that government is making progress in protecting its fiscal resources on behalf of all South Africans. Similarly, the efforts by the South African Revenue Service to build tax compliance are beginning to yield results. A coordinated national campaign between government and civil society would provide a base for a longer-term campaign to attack poverty.

Improving the efficacy and effectiveness of spending is a central challenge facing government. Solving the triple problems of underspending, fiscal dumping and unsustainable delivery requires us to move beyond the catch-all term of 'capacity constraints'. As some case studies in the public service indicate, solutions to these problems can be realised. It is time for us to ask the rest of the senior managers why they have not replicated these success stories.

Conclusion

The revenue and spending proposals contained in the 2005/2006 People's Budget comprise a sustainable, affordable and developmental package, capable of promoting job creation, poverty eradication and social justice. We believe that the measures outlined above would:

- **Put resources – and therefore power – in the hands of the poor.** The People's Budget proposals would benefit poor households directly by increasing their access to income, assets and services. This, in turn, would enhance their capacity to participate more actively and effectively in policy debates at the local and national levels and to challenge economic practices inimical to their interests. Our proposals for a more open and democratic budget process offer further scope for broader popular engagement.
- **Represent a comprehensive and integrated assault on poverty.** Our proposals include complementary measures to tackle different aspects of poverty in a holistic fashion.
- **Strengthen the sustainability of existing programmes.** The People's Budget proposals work in harmony with existing government initiatives by increasing the incomes of the poorest households and expanding their capacity to access other public services, such as water and electricity, education and health services. The proposed policies would also reduce extreme economic inequality, which is frequently cited as an impediment to growth.
- **Improve the prospects for economic growth and the likelihood that the poor will benefit from growth.** Extreme social inequality impedes economic growth. By accelerating redistribution of income and assets, reorienting infrastructure spending and diminishing inequality, our proposals will facilitate economic growth and better equip poor households to participate in growth.

These proposals do not offer a quick fix, but a longer-term strategy for achieving poverty eradication within one generation. The proposals are not meant to be exhaustive, and we acknowledge that greater specificity on costing is still needed. However, taken as a package the proposals represent a way forward for the government.

We urge government, business, civil society and ordinary citizens to discuss our proposals. In essence, these recommendations constitute our contribution to the formulation of a 'People's Contract for Jobs and Poverty Eradication'. We look forward to discussing our proposals with the third democratic government in South Africa, and call on our constituencies to undertake voter education, to campaign and vote in the coming election.

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Endnotes

1 According to large-scale household surveys by StatsSA, employment in this period grew slightly faster, although still less than the population. But these data are probably even less reliable than the Census. See, Makgetla, 2004, forthcoming.
2 R440 million expenditure on land in settlement of restitution claims (CRLR, 2003b) and R1,28 billion expenditure on land redistribution and tenure reform (National Treasury, 2003a) up to March 2003.
3 Mbeki, T, President's Speech in Tshwane, 10 February 2001.
4 Interview – Don Early, Manager, Technical Services Electricity Division, Cape Town Municipality.
5 Portfolio Committee on Provincial and Local Government, Report on Study Tour of Municipalities, 15 April 2003. Each of three multi-party study teams of five MPs visited three provinces, covering forty-one municipalities.
6 Ibid.
7 Interview conducted with Capricorn District Municipality Communications Officer.
8 Section 27 of the Constitution states: "Everyone has the right to have access to … social security, including, if they are unable to support themselves and their dependants, appropriate social assistance." The legal implications of this imperative have been discussed in detail in light of the Constitutional Court's Grootboom decision in the Basic Income Grant Coalition's 9 June 2003 submission to the public hearings on the Taylor Committee report convened by the Portfolio Committee on Social Development. Government's political commitments are articulated in a number of documents, including the 1997 White Paper on Social Welfare, which states: "The Government is committed to the provision of a comprehensive national social security system and the Government's Growth, Employment and Redistribution strategy recognises the importance of a broad social security net comprising social payments and targeted welfare services. ... There will be universal access to an integrated and sustainable social security system. Every South African should have a minimum income, sufficient to meet basic subsistence needs, and should not have to live below minimum acceptable standards." [Ch. 7, paras. 26-27]
9 Committee of Inquiry into a Comprehensive System of Social Security for South Africa, Transforming the Present – Protecting the Future, Consolidated Report, March 2002, p.62.
10 *Intergovernmental Fiscal Review* 2003, Chapter 6 - Social Development.
11 This section and the one that follows are adapted from 'Breaking the Poverty Trap': Financing a Basic Income Grant in South Africa, a presentation made by the BIG Financing Reference Group to a conference on financing held in Johannesburg, 24 November 2003.
12 For this reason, a BIG is radically different from a 'dole'. However, as a household's income rises and its living standards improve, a growing portion of its BIG benefits will be recovered through the tax system. Recovery rates will have to be determined in a way that does not create perverse incentives (in other words, so that no one incurs a net penalty for earning additional income).
13 These include the obvious benefits of savings, the extension of affordable credit, including the use of low interest rates to assist people with cooperative and other ventures, housing, etc. This is broadly in line with government policy, but the extension of the public sector has ironically been resisted by the private sector financial institutions, despite the fact that the vast majority of black South Africans are unbanked (over 70%).
14 The participating economists were Prof. Pieter le Roux (University of the Western Cape), Prof. Charles Meth (University of Natal, Durban), Dr. Michael Samson (Economic Policy Research Institute) and Dr. Ingrid Woolard (Human Sciences Research Council). They modeled net cost scenarios for 2005 – the first year in which it was thought to be realistic to implement a BIG – assuming universal eligibility, full take-up, and a monthly grant set at R100 of purchasing power in terms of 2000 prices. They also assumed that a BIG would be a foundational component of all other social grants.
15 One scenario that the People's Budget Campaign has considered, for example, is the future possibility of a coalition government or hung Parliament. If Parliament enjoys extensive budget amendment powers, the budget could become mired in party political disputes, leaving government paralysed.
16 The Municipal Systems Act of 2000 and Municipal Finance legislation allows for direct community participation in the budget and other municipal process.
17 Basic food items that are zero-rated are paraffin, brown bread, maize meal, samp, mealie rice, dried mealies, dried beans, lentils, pilchards/sardines in tins, milk powder, dairy powder blends, rice, vegetables, fruit, vegetable oil, milk, cultured milk, brown wheaten meal, eggs, edible legumes and the pulses of leguminous plants. The number of zero-rated items has varied from time to time. The present list was drawn up in tandem with an increase in the VAT rate from 10% to 14% in April 1993.
18 The unit costs for the aircraft were 'front loaded', meaning that the price on units in the first tranche were inflated and the those in later tranches discounted, supposedly due to the lower marginal production costs of additional units. If government declines the option on the third tranche, it will end up paying a total premium of about US$161 million on the nine Gripens in the first tranche (average cost US$71,2 million each), as compared to the overall average unit cost of the 28 jets in both the first and third tranches (US$53,3 million).