COSATU Submission on Economic Governance and Management as a Review Mechanism for the African Peer Review Mechanism for South Africa

Submission to the Joint Ad Hoc Committee on Economic Governance and Management

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Introduction

COSATU wishes to thank the Honourable Chairperson and members of the Joint Ad Hoc Committee on Economic Governance and Management (the Committee) for the invitation and opportunity to comment on South Africa's readiness for economic governance and management as part of the African Peer Review Mechanism (APRM).

Several recent submissions to a range of organs of State, including government departments (notably the National Treasury, Joint Budget Committee, the DTI and NEDLAC) contain perspectives, recommendations and concerns of COSATU. In addition to specific issues we wish to discuss with the Committee, some of these submissions are selectively drawn upon to complement our input.

We would however attempt to focus our response on:

- Standards and codes relating to efficient economic governance;
- Prior economic evaluations and assessments as well as forecasts
- The extent to which South Africa's macro-economic policies support sustainable development;
- The extent to which South Africa's economic policies are sound, transparent and predictable;
- The status of South Africa's public finance management;

It is necessary to first provide the context and a summary of the current issues with regards to the process of the APRM thus far, particularly with regards to the inputs from civil society.

A substantial part of this submission uses recommendations emanating from the People's Budget Campaign Submission on the MTBPS 2005 to the Joint Budget Committee on 2 November 2005, since many of the concerns we have, have a direct bearing on COSATU's concerns and perspectives.

Macroeconomic developments

There have been several shifts in macroeconomic policy. The most significant changes are:

1. GEAR as a strategy formally ran between 1996 and 2000. There has been no major economic policy statement abandoning GEAR, but what has occurred was a moderately expansionary budget (in real terms), a realisation and shift in approach by government regarding the role for state owned enterprises in the economy, and a frank admission of the challenges facing government in the "Towards a 10-Year Review".

   a) The moderately expansionary budget has been evidenced by post-2000 budgets growing quicker than inflation. This growth was due to increased tax compliance, growth in certain sectors of the economy and increased government spending over the past few years. This may signal a shift from the fiscal conservatism that characterised GEAR. It should also be noted that growth in the economy and employment remained far below GEAR's expectations.
   b) Reconceptualisation of GEAR: During an ANC policy conference in 2000, a resolution was taken that GEAR was necessary for development, but not sufficient. This signalled a major reconceptualisation of GEAR within the ANC. GEAR thus was no longer seen as a strategy that could lead to rapid growth and job creation, but rather a platform on which future development strategies would be built.
   c) Review of position on state owned enterprises - Government has changed its position on state owned enterprises substantially. While still seeing a role for the private sector, it no longer supports a large scale privatisation programme. Elements of commercialisation and corporatisation are still contained in current policy, but it firmly sees the SOE's as public entities. It now argues that parastatals must play a strategic role in investment and ensuring overall competitiveness in the economy.

2. Focus on development of "first" and "second" economies. In developing the idea of the 'Two Economies', the President has argued for a focus on developing the informal economy. Moreover, programmes such as public works and establishing multipurpose community centres have received policy priority and budget allocations, the latter being far less that what is necessary to address the backlogs rapidly. This is different from the GEAR

approach, which focussed on growing the formal economy, and did not extensively support the informal sector.

3. The increasing importance of the National Spatial Development Perspective has in the last 2 years impacted on selective and geographic allocation of resources and incentives for business development and infrastructure investment. At the same time there is growing recognition that previous planning has reinforced apartheid geography, and settlement patterns. A new approach is emerging on the need for sustainable settlements which integrate working people into the core centres of economic activity.

FISCAL AND MONETARY POLICY

The trajectory of fiscal and monetary policy has a profound impact on virtually every area of policy one can think of. A developmental and interventionist state is not consistent with a conservative fiscal and monetary policy, most obviously because such a policy denies the state access to resources to drive its agenda. Given, too, that the state is a key actor in the economy, such a conservative stance acts as a brake on economic development.

These observations are doubly applicable in the South African context, where the fiscus has been historically used to drive a skewed path of development (aimed at benefiting the minority); and excluded the majority from equitable access to public resources.

The RDP (although with some contradictions), and the policies espoused by COSATU, anticipated a qualitative leap in the fiscal and monetary policy stance of the democratic state, when compared to the apartheid order. In relation to fiscal policy, therefore, it was clearly stated that the stance of a democratic state could not be confined to incremental, or gradualist, improvements, on fiscal allocations in the previous era. Put more simply, the yardstick couldn't be the apartheid budget. Appropriate policies dictated by the reconstruction challenge required a quantum shift in all areas of fiscal policy whether taxation (redistributive and progressive); expenditure (geared towards redressing historical backlogs, and therefore both expansionary and redistributive); and the deficit (dictated by the imperative of reconstruction, obviously within sustainable parameters).

In relation to monetary policy, a stance was required which supported and actively facilitated the overall development strategy which needed to be pursued. This required a shift in the mandate, functioning and culture of the Reserve Bank; and the pursuit of monetary policies which ensured access by the poor to affordable credit, as well as policies which actively promoted the objectives of economic development and employment, and aligned regulation of money supply, inflation etc. to these objectives. It also required measures to support a state led development path, help protect the economy from the vagaries of the market, discipline SA capital, and regulated its movement, and protect the economy from international speculators. This implied a particular approach on issues such as exchange controls, the value of the currency, interest rates, and inflation targeting.

It is common cause that in general, the fiscal and monetary policies pursued by government and the reserve bank, particularly from 1996 until 2000, and in many respects until 2003, have not followed this trajectory. The Gear trajectory, with monetary, fiscal, and industrial policy at its core, have played a decisive and determining role in all other areas of policy, whether in relation to the public sector, social policies etc. Probably the only area which was to a large extent protected from the logic of the Gear framework was the issue of labour market policies, and this was largely as a result of labour's struggles.

The overall picture shows the impact of Gear policies in relation to a series of key indicators identified in Gear itself. Contrary to the notion of successful 'stabilisation', these indicators show the volatility, and chronic underperformance, of key macro-economic indicators. Significantly, the only targets that Gear consistently met, or 'improved' on, were core fiscal and monetary policy targets: i.e. the budget deficit and inflation. All the other critical targets- growth, investment, employment, and interest rates were consistently missed.

Context of inputs for the review mechanism

The launch of the African Peer Review Mechanism Governing Council, at a conference held at Gallagher Estate, Midrand on 28-29 September 2005, and events that happened shortly thereafter is an indication of the tensions and challenges between civil society and the State with regards to the extent to which this process is truly participatory.

Firstly, the very short notification was problematic and prevented adequate preparation, engagement and perspectives to be tabled at the Conference. COSATU insisted that APRM developments be discussed and negotiated in detail with civil society – a responsibility that now rests with the Governing Council of the APRM of South Africa (the majority of whom consist of ECOSOCC members). Subsequent to the inauguration of the Council, the problematic "appointment" of the Secretariat of this Council by government (in the form of the Minister of Public Service as the "focal point"), has exacerbated our concerns regarding genuine public participation, as defined by members of the Governing Council.

During the conference several important statements and commitments including those from the Premier of Gauteng, and the President must be taken at face-value. These include "Village-to-village; door-to-door consultation" and an approach of "nothing about us, without us." Failure to honour these commitments will perpetuate the sense of government "talking the talk, but not walking the walk".

Despite our proposal to delay the appointment of the Governing Council until further consultation with civil society institutions could be conducted in a more thorough manner, the Governing Council was launched. As a result, COSATU strategically chose to serve on this Governing Council body with certain reservations (see Appendix 1).

Whilst there is a detailed account of the proposed way forward with regards to engaging in participatory processes, we remain concerned that this process appears to be led by Government and fails to take into account several concerns, prior to these processes being rolled out further. We commend the commitment to “2 national consultative conferences, nine provincial consultative conferences, district and local level consultations led by ward committees, 90 Community level discussion groups involving the Community Development Workers (CDWs), sectoral input sessions and other consultative events.”

This level of commitment to a “participatory process” may look good on paper, yet the statement:”the overall objective is to build consensus and ensure **buy-in** to a national programme of action”[1] confirms our persistent concerns. Participation is not about road-shows or buy-in. COSATU remains adamant that some space be afforded to the Governing Council, independent of the focal Point and a government-driven process which increasingly appear to be calling the shots. These key issues and questions include:

- What does civil society get out of the process? Much effort, time and resources will be committed by civil society, into a process that worrisomely was driven by government (to this point) and by ECOSOCC representatives. For example, COSATU has strongly insisted that time need to be negotiated with employers whereby shop-stewards must engage on the APRM in the workplace. In addition, access to farmworkers and seasonal workers remain an important challenge and COSATU would insist that this important sector be engaged.

- Would the outcomes of the Conference and Peer Review Mechanism feed into policy review and transformation? Failure to do so would result in merely developing an impressive report to the AU without the process contributing to further engagement with civil society and genuinely reflecting the concerns of the people.

- The 88-page questionnaire distributed and drafted (by government) is both substantially and procedurally flawed. The nature and content of this questionnaire needs to be further developed by the Council and published in all official languages. Of great concern to COSATU, is that the questionnaire has little or no questions on employment and incomes – which goes to the heart of assessing development programmes and outcomes on the African continent.

[1] Presentation by the Focal Point of South Africa’s African Peer Review Mechanism (APRM) to the Representative of Panel of Eminent Persons - www.info.gov.za/speeches/2005/05111108151001.htm

- Whilst a statement by the focal point has outlined the research strategy (but not research plan) of the APRM Governing Council's work, it remains unclear how reports will be drawn up in the final document. Clarity is needed with regards to who will appoint "moderators" that will oversee the research reports in each of the thematic areas[2] "to ensure credibility and integrity". What would happen if debates have significant differences from various sectors?

- Several NGO's and CBO's, particularly those attached to research institutions and universities appear to have been excluded from the General Council, given the hurried manner in which the Council was established. This remains a source of concern – the challenge for civil society is to work together in a manner that must constructively realise several developmental goals – these include the RDP, Millenium Development Goals and the Freedom Charter.

- The CEC of COSATU will be deliberating on a report on the launch of the APRM in the next week. Here we will clarify the way forward in responding to the questionnaire, amendments, processes and how we are to engage in the APRM process.

Measuring and reviewing the goals of the APRM

Governance issues in NEPAD are overly focussed only on monetary and economic targets. Insofar as the APRM is linked to the targets of NEPAD, many of the aims of NEPAD are geared to tight tax-ratios and deficits. It is our view that economic policies are too restrictive. These must be linked integrally to must be social, political and economic sustainability.

We believe therefore that considerable scope exists for greater flexibility to allow for appropriate and responsible levels of deficit, tax policy and expenditure which is required for social and political stability. The impact of GEAR, particularly during the 1990's, coupled with the huge challenge to address the inherited inequities of the apartheid regime has left its mark. The current macroeconomic moderately "expansionary" phase requires further aggressive investments that would lead to equity and an eradication of poverty and inequality. The growth in the economy over the past few years has not dented the huge challenge of unemployment, despite gains made by government interventions.

Since 2000, COSATU has made detailed proposals to the Treasury and Parliament, as part of the People's Budget Campaign (COSATU, SANGOCO and the SACC). With regards to economic governance and management of the APRM the following proposals and arguments are equally applicable.

The PBC proposals aimed to:

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[2] The 4 themes are : Democracy and Good Political Governance, Economic Governance and Management, Corporate Governance, Socio-Economic Development

- Meet basic needs, especially by restoring and enhancing the public sector and social spending.
- Ensuring the retention and creation of quality jobs in the context of economic growth.
- Assisting the majority of people with access to assets and skills.

It is therefore equally important to locate the work of this Committee within a macroeconomic and fiscal policy aimed at rapid poverty eradication. This is necessary since, eleven years after liberation; South Africa continues to face the economic challenges of mass poverty and inequalities to which the Freedom Charter pointed some 50 years ago.

The democratic government has made extraordinary efforts to redirect spending to the poor. But since 1994, job creation has consistently lagged far behind both economic growth and the rate of increase in the number of adults seeking paid work, whose ranks are constantly swollen by new entrants to the job market. As a result, unemployment has risen, and improvements in government services did less than expected to raise living standards. Further, growing levels of inequity has led to excesses, both in terms of disproportionate consumption by the wealthy and deepening poverty of the working poor.

Table 1: Economic status and incomes by race, gender and region, September 2003[1]

	African women		African men		Coloureds/ Asians	Whites
	Former homeland[2]	Other areas	Former homeland[2]	Other areas		
% of adults:						
Not economically active	51%	33%	43%	26%	35%	36%
Unemployed	30%	34%	27%	29%	18%	5%
Employed	19%	33%	30%	45%	47%	59%
– Formal sector	7%	18%	18%	36%	41%	55%
– Informal sector	8%	6%	11%	9%	3%	4%
– Domestic work	4%	9%	0%	1%	2%	0%
% of employed earning under R1 000/month[3]	53%	81%	30%	60%	11%	2%
% of working-age adults	20%	21%	16%	20%	12%	10%

Notes: 1. The former homeland areas are here represented by the rural areas of KwaZulu-Natal, Mpumalanga, North West, Limpopo and the Eastern Cape. This area also includes some commercial farming areas. Virtually no Coloureds, Asians or Whites live in the former homeland areas. Gender is not shown for these groups due to lack of space, but the gender differences are much lower than for Africans. 'Not economically active' means neither earning an income nor trying to. 2. As noted, the data refer to an area largely but not perfectly contiguous with the former homeland areas. 3. In US dollar terms, R1 000 fluctuated between $76 and $166 between 2002 and 2004, depending on the exchange rate.

Source: Statistics South Africa, 2003. *Labour Force Survey*, September 2003. Database on CD-ROM. Pretoria.

A developmental approach to economic governance and management:

As per the People's Budget Campaign proposals, we would urge that this Committee to support policies that promote development by:

• Maintaining levels of spending sufficient to improve services to poor communities and stimulate overall economic growth.
• Driving government programmes that can make the formal economy more inclusive, on the one hand by giving the poor greater access to resources, skills and other services, and on the other by guiding the economy toward sustainable, employment-creating activities.

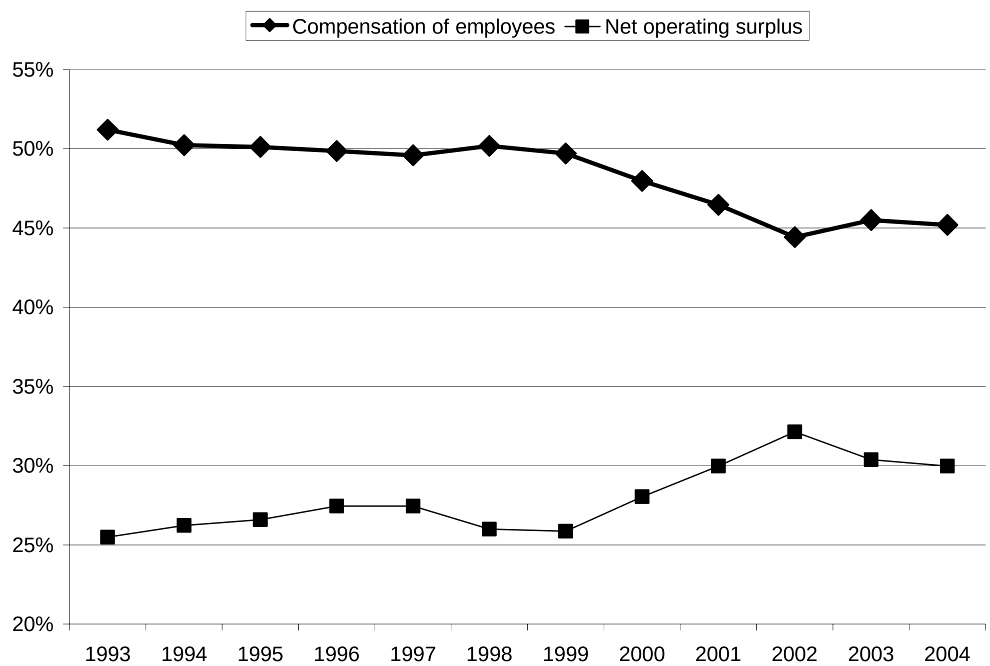
The work of this Committee again affords government the opportunity to develop partnerships with civil society. South Africa requires a development partnership to ensure that we meet the aims of poverty eradiation within one generation. During the 2005 MTBPS speech, Minister Manuel called for a development partnership, which we fully support. We are willing to engage government around achieving accelerated and shared growth. At the centre of such a partnership must be the recognition that improving equity and accelerating growth are complimentary, not competing objectives.

Standards and codes relating to efficient economic governance

With regards to the Accelerated Shared Growth Initiative of government, it remains critical that the Committee consider factors that contribute to economic growth that creates jobs and shares the benefits of growth in an equitable manner.

The graph below highlights the current, unacceptable trend, whereby economic growth has negatively impacted on the compensation of workers. Growth has therefore not been shared, in fact, the opposite has happened.

Increasing surplus with falling compensation of employees



These trends mean that the bulk of the benefits from growth have been captured by business, rather than workers and the poor. As the table shows, the share of wages and salaries in the national income has generally declined over the past ten years, while the share of profits, reflected as net operating surplus, has risen.

Underlying the data are the harsh realities faced by working-class families. Two thirds of young people are unemployed, and most have never had a job since they left school. Older people who have relatively decent jobs in manufacturing and services feel perpetually threatened by retrenchment. In these circumstances, government's roll out of services and grants in poor communities improves the quality of life, but cannot fully offset rising numbers living off a few incomes. In this light, the targets of halving poverty and unemployment within the next decade should inform the attempts at accelerated and shared growth. Yet, there are few details contained in the 2005 MTBPS on attaining broader social targets. It remains imperative therefore, for this Committee to refocus the attention of government and the APRM process on this critical need.

Furthermore, the APRM Governing Council and government must provide more information on how, for example, the objectives of halving poverty and unemployment by 2014 and the attainment of Millennium Development Goals (MDG) will be realised. In this regard, key recommendations of this Committee should provide details on how this critical challenge can be addressed.

We would therefore argue that indices such as regional Gini coefficients (a measure of income inequality); human development indices (HDI) be reported alongside economic data.

Improvements in tax administration have been a significant contributor to substantial upward adjustments to expected revenue. This coupled with economic growth are important in ensuring that sufficient resources are available to realise many development goals.

National Budget Revenue 2004/5 – 2008/9

R billion	2004/5 Audited outcome	2005/6 Revised Estimate	2006/7	2007/8	2008/9	MTEF Ave % of main budget revenue
			Medium Term Estimates			
Taxes on income and profits	**199.7**	**225.4**	**250.7**	**272.5**	**297.6**	**55.68%**
Persons and individuals	111.0	125.2	138.6	152.0	166.5	31.01%
Companies	70.8	79.1	87.0	94.0	102.6	19.2%
Secondary tax on companies	7.5	10.2	13.0	13.5	14.2	2.76%
Other	10.4	10.9	12.1	13.1	14.3	2.68%
Taxes on property	**9.0**	**11.0**	**12.4**	**13.6**	**15.1**	**2.79%**
Domestic taxes on goods and services	**131.9**	**152.4**	**166.8**	**182.1**	**199.9**	**37.23%**
Value-added tax	98.2	115.0	127.0	139.5	154.0	28.53%
Specific excise duties	13.1	14.7	15.9	17.1	18.5	3.49%
Levies on fuel	19.2	20.6	21.7	23.0	24.7	4.71%
Other	1.4	2.1	2.3	2.5	2.7	0.51%
Taxes on international trade and	**13.3**	**16.3**	**18.4**	**19.8**	**22.1**	**4.09%**

R billion	2004/5 Audited outcome	2005/6 Revised Estimate	2006/7	2007/8	2008/9	MTEF Ave % of main budget revenue
			Medium Term Estimates			
transactions						
Stamp duties and fees	**1.2**	**1.0**	**1.0**	**1.1**	**1.1**	**0.22%**
Total tax revenue	**355.0**	**405.9**	**449.3**	**489.0**	**535.8**	**-**
Main budget revenue	**347.9**	**400.1**	**437.0**	**479.0**	**527.2**	**100%**
Percentage of GDP	**24.7%**	**25.9%**	**25.8%**	**25.8%**	**25.9%**	**-**
Changes from 2005 Budget						**-**
Total tax revenue		33.2	35.1	35.3		-
Main budget revenue		30.2	31.6	34.4		-

Source: calculated from Table 4.2 p.41, 2005 MTBPS – National Treasury

The above table points to the policy choices with regards to the tax regime over the MTEF period, ending 2008/9. Clearly, PAYE will remain the tax type generating the largest percentage of revenue (31%), followed closely by VAT (28.53%). The contribution by the business sector, paying company and secondary company tax, averages around 22% of total revenue.

Yet, this sector of South Africa's community benefited most from economic growth, and recorded huge profits (some unprecedented), particularly in the finance and economic services sector. In our 2006/7 People's Budget Campaign proposals, as part of an integrated developmental fiscal package to fund our proposals, we suggested raising additional resources through increased taxation, whilst lessening the tax burden on the poor. Whilst government has performed well on the income side, it remains problematic that the tax burden has not shifted away from the poor.

With regards to the structure of tax rates, we hold that "most taxes can be made more progressive by shifting a greater share of the tax burden onto wealthier taxpayers. Income tax, for example, can be applied to everyone at a flat rate, but typically income tax is progressive because top earners are expected to pay a much higher percentage of their income in tax than middle-income households, while poor households are not expected to pay at all."[3]

As explained in our PBC 2006/7 proposals, the structure of taxation changed significantly since 1981. The last 10 years saw significant and repeated cuts in personal income tax rates, though this has stabilised in the past 2-3 years, the companies share of the total tax burden during the apartheid era was around 40% (now around 20%), whilst personal income tax and taxes on goods and services (GST/VAT) now became increasingly important sources of revenue (from about 30% in 1981 to around 60% today).

In short, tax relief accrued to middle-income households, yet less than half of all formal workers earn enough to be liable for income tax. Furthermore, the unemployed realised no direct benefit from income tax cuts – and may even suffer if tax cuts reduce government's capacity to deliver basic services. Yet, those in the top income bracket have enjoyed a substantial reduction in their tax rate from 45% to 40% over the past few years.

[3] Ibid p.44-46

Simultaneously, corporate taxes were reduced. Thus, though companies contributed a larger proportion of total tax revenue than they did in 2000 mainly because it has efficient collection, their contribution is relatively small and the effective rate of taxation on companies remains relatively low, despite attempts to increase the *effective* rate of tax for large corporations (which is currently between 4-14%, despite the nominal rate being 29%)..

The response of government to these proposals has been disappointing. Whilst there has been some, but limited shifts in this regard, the tax regime continues to disproportionately favour higher income earners. We therefore continue to motivate for the above demands. This is based on the principle that economic growth cannot be redistributive, let alone equitable, unless these interventions are implemented.

Examples of slight shifts and lacklustre interventions include changes to VAT. The only significant adjustment to VAT in the past decade (that in our view directly benefits all poor households), has been the zero-rating of illuminating paraffin in 2001 – an effective tax cut of R400 million for poor households.

The recent tax provisions largely benefit formally employed workers and business. However the MTBPS is silent about the much needed fundamental restructuring of a key tax instrument, namely VAT which can provide major relief for the poor. We find this unacceptable and demand that more progressive tax policy mechanism be introduced, including those of the PBC, in order to contribute significantly to the narrowing of income gaps, maximisation of using disposable income and much-needed relief for lower income households.

Tax: GDP Ratio

The People's Budget Campaign welcomes the increase in the tax: GDP ratio from over the MTEF period, although this is too moderate. Planned expenditure also increases to 28% in 2008/9. The overall increase in expenditure (i.e. financed through both taxes and deficit) is welcomed, and will provide the stimulatory impacts for shared economic growth, if utilised properly.

Taxation as a percentage of GDP increases moderately by about 1%, from 24,7% in 2004/5 to 25.9% in 2008/9. The People's Budget Campaign welcomes the increase in taxes as a % of GDP, but has proposed even more robust increases.

Similarly, the deficit is increased moderately to just over 2% of GDP, while we believe that a quicker, but prudent increase in the deficit is possible, responsible and consistent with our goals of accelerated growth and poverty eradication. Instead of cutting taxes when revenues go up, the government should use the money to stimulate the economy, fund new investment thereby crowding in private investment, and increase human capital investment through improving services and social grants for the poor. A 1% increase in taxes relative to the GDP would provide an additional R30 billion to improve services for the poor over the MTBPS period.

The increase in the Tax:GDP ration, though slight, indicates a shift away from the rigid ceiling set by GEAR. We feel this ratio could be increased still further given the social deficits left by apartheid and the massive inequalities in income that remain.

Deficit

The downward revision of the deficit for 2004/5, from an estimated 3.1% of GDP to the preliminary figure of 1.5% is completely unacceptable. Many countries in the EU complain that they struggle to maintain their 3% deficit target because of pressing social expenditure needs. For government to claim that downward revision of the deficit is a feasible strategy to accelerate transformation within the current context of backlogs and inequalities is completely unacceptable.

The PBC is pleased that government, international financial institutions and some private sector analysts today no longer see moderate increases in the deficit as 'economic populism' but rather part of a strategy of reducing the social deficit. Government has to invest resources in the public sector to address the capacity bottlenecks.

Another factor for reduced deficits is that SARS has consistently outperformed in terms of tax estimates. This year alone, the overrun is around R 30 billion. Whilst we fully support SARS efforts at tax compliance and tax morality, we believe that a more accurate system of estimating tax revenues is needed. Better estimates mean better planning within the Treasury and other government departments. We believe that through increasing capacity as well as better estimates the possibilities of effective deficit spending would increase.

The table below indicates the projected figures of the main budget framework. Whilst the "stabilisation" of the tax:GDP-; expenditure:GDP- ; debt service cost:GDP- and deficit figures would impress even the most conservative economists, we believe there is sufficient space to accommodate our recommendations in order to accelerate the development agenda, with an emphasis on redistribution and narrowing of inequalities. In particular, it is not clear how these projections will realise the Millenium Development Goals.

Main budget framework 2004/5 – 2008/9

R billion	2004/5 Outcome	2005/6 Estimate	Medium-term estimates		
			2006/7	2007/8	2008/9
Total Revenue [4]	**347.9**	**400.1**	**437.0**	**479.0**	**527.2**
% of GDP	24.7%	25.9%	25.8%	25.8%	25.9%
Deficit	**-20.6**	**-15.7**	**-37.0**	**-39.3**	**-41.5**
% of GDP	***-1.5%***	***-1.0%***	***-2.2***	***-2.1***	***-2.0***
Total Expenditure	**368.5**	**415.8**	**474.0**	**518.3**	**568.7**

[4] Includes provision for RSC Levies of R7 billion in 2006/07; R 8 billion in 2007/08 and R 9 billion in 2008/9

R billion	2004/5 Outcome	2005/6 Estimate	Medium-term estimates		
			2006/7	2007/8	2008/9
% of GDP	26.2%	27.0%	28.0%	27.9%	28.0%
Debt service cost	48.9	51.8	53.9	54.8	56.6
% of GDP	3.5%	3.4%	3.2%	3.0%	2.8%
Non-interest expenditure	319.6	363.9	420.0	463.5	512.1
% of GDP	22.7%	23.6%	24.8%	25.0%	25.2%
Real growth (non-interest expenditure)	8.8%	8.8%	9.9%	5.3%	5.7%
Contingency Reserve	-	-	2.0	4.0	7.0
Gross domestic product	**1 405.5**	**1542.2**	**1693.7**	**1856.7**	**2033.3**

Source; p. 32,Table 3.3 – 2005 MTBPS, National Treasury

The measurement of real social and economic progress, must take into account social and development indicators, not merely the pursuit of economic targets. *The development agenda should drive fiscal, economic and trade policy, not the other way around.*

Expenditure trends

The PBC welcomes the increase in total expenditure as a key aspect (but not condition) for addressing the challenges of poverty and inequality in our society. The increased levels of expenditure are consistent with the proposals from PBC, although we still believe that there is significant space for increased spending by government, and that such spending can be spent effectively.

Since 2000, we have seen a welcomed shift from the deflationary impact of budget cuts in the late 1990s, the more relaxed fiscal strategy of recent years has been associated with relatively robust economic growth. Regarding expenditure, we note the 9% growth in overall government spending, with the highest growth rate of 15% in the economic infrastructure and services sector. However, we await details of the Accelerated Shared Growth Initiative (ASGI-SA) to see the extent to which increased economic spending will translate into benefits for the majority of South Africans.

Education

The PBC Proposals made three proposals on education spending. These were:

- increasing education spending as a percentage of total spending, without cuts to other forms of social spending;
- Increasing spending on Early Childhood Development (ECD) and Adult Basic Education (ABET)
- Adopting a policy of scrapping school fees in line with government's commitment to provide free and universal access to children.

Health

The R 67 million not spent on antiretrovirals (rolled over) in the Health Budget is scandalous. Whilst there may be some constraints regarding the readiness of provinces and financial compliance, this effectively meant that only 10% of people living with HIV/AIDS have access to ARV's. Government must seriously address this problem, intervene and respond the HIV/AIDS pandemic with the urgency it deserves.

We maintain that the public health sector is probably the most under-funded. Yet it has faced rising demands, both due to the HIV/AIDS pandemic and the improved access of poor black communities. As per the table on p11, the allocation, as a percentage of total expenditure remains constant at 12.2% over the MTEF period, amounting to R48.2 billion for 2005/6. This is approximately half of the education budget. We therefore believe that the health budget is inadequate.

We reiterate our rejection of a Social Health Insurance (SHI) and reiterate our support for an NHI as endorsed by the ANC Conference, since it would impose huge costs on working people, raise the overall cost of healthcare, with potentially serious consequences for the economy and unemployment; and effectively constitute the privatization of healthcare for at least a substantial minority. SHI, at least for some workers, would compel them to use private health care or pay private rates for public facilities. This would, in effect, mean that health would become a commodity rationed by the market, rather than a basic need and, as the Constitution requires, a fundamental socio-economic right.

Free Basic Services

No mention has been made in the MTBPS on the rollout of free basic services, critical for indigent households in municipalities. However, additional funds to replace the loss of income to district municipalities as a result of the scrapping of RSC levies have been provided for over the MTEF period.

The additional R311 million proposed on the Provincial and Local Government vote to contribute to water supplies in municipalities affected by drought and R40.7 million is for emergency infrastructure repairs in the Western Cape and Eastern Cape. Whilst we welcome these allocations, they do not come near the resources required to assist municipalities that are cash-strapped as a result of poor households being unable to pay for services.

The indebtedness of certain municipalities cannot be blamed for poor management or revenue collection, although this has merit in some cases. Recent briefings to the PC Provincial and Local Government revealed the extent of indigency and poor capacity and performance of some municipalities (especially rural) to provide essential services. Project Consolidate has had some impact in empowering selected municipalities.

However, as per the findings by Dr. David Hemson of the HSRC, for rural municipalities “considerable additional resources are needed to make these services [free basic] available to the rural poor”. The existing horizontal and vertical division of revenue allocations will simply not ensure that free basic services are delivered to all South Africans. We therefore proposed, as a mechanism to extend free basic services:

- Increasing funding and subsidies (from equitable shares and conditional grants)
- Improving the capacity of local government
- Improving accountability

These interventions are crucial in addressing capability and asset poverty challenges facing our country.

Extending Social Security

The PBC welcomes the publication of the Provincial Budgets and Expenditure Review for 2001/02 to 2007/08 which gives details regarding the progress and identification of challenges in meeting education, health and social development needs, which together account for nearly 60 per cent of consolidated non-interest expenditure.

However, in welcoming this review, it is imperative that the needs of South Africa, particularly those of the poor informs the resources necessary to address backlogs, realising Constitutional socio-economic rights and fulfil political promises, not the other way around. In measuring progress, economic and social, human development data should together inform programmes, strategies and timeframes to roll out services and projects.

We note that the administration of grants will in future fall under a national Social Security Agency. It must ensure that information systems and management reforms will yield significant returns in future. We find the information too scanty regarding increased allocations for provinces to expand on social welfare services. Therefore, the following statement is vague and deserves clarification:

“expansion of income support for the vulnerable has been the priority of the past five years. These programmes will continue to be responsibly financed and managed. But for the decade ahead, we *need to give particular priority to strengthening and improving public health care and education.*”

We reassert our call to government to have more serious consideration of the initiatives of ACCES and the BIG Coalition. Specifically these include the extension of child support grants to 18 years of age and the rollout of a Basic Income Grant must have serious consideration. We still await a serious response to the detailed research presented to government on the financing of a Basic Income Grant.

The future role of the State

We are however concerned, in the absence of detail, and a clear elucidation of the future role of the State (particularly national government) by statements such as:

“ Health care, education, retirement provision and welfare services are not exclusively the responsibility of the state – we will continue to encourage private sector development and to seek partnerships that contribute to improved service delivery and more efficient management and use of resources. Changes in the tax environment and regulatory reform also play their part in promoting fairness, transparency, equity and long-term development.” [5]

It clearly points to “partnerships” with an emphasis on the public-private type. However, several countries have shown that public-public partnerships and public- CBO/NGO partnerships, particularly in the arena of social services are choice options, rather than the private sector, which would exclude the unemployed and indigent from their services.

Other expenditure

Over the MTEF period ahead, additional allocations of R31,5 billion are proposed for infrastructure projects, including significant increases in spending on national and provincial roads and refurbishment of passenger rail services. Hospitals, schools, water resources, industrial development zones, scientific research capacity, courts and police stations and public administration will also benefit from further growth in capital spending and allocations. We note the progress made in identifying municipal transport improvement projects, several of which relate to the requirements for the 2010 World Cup, totalling and infrastructure transfer to municipalities and the Department of Sport and Recreation of R483 million.

However, we are disappointed in the infrastructure allocation of R580 million for further work on the demonstration plant of the Pebble Bed Modular Reactor Project. We think this is an expensive and unwise expenditure. We proposed in February that these resources could better be used to extend the electrification programme.

Our rationale was that:

- The project involves high risks and unpredictably high costs with the prospect of limited returns;

[5] p.8, MTBPS 2005 Budget Speech, Minister of Finance

- Subsidises private participation in industries that create few jobs;
- The reactor is not critical to plans to build generation capacity

Further objections include concerns regarding the storage of nuclear waste, health concerns and that there has been a lack of attention to safe, renewable technologies.

Economic governance and employment claims

We believe that the MTBPS statement exaggerates progress in ameliorating unemployment in recent years. Claims that “the official unemployment rate has declined from nearly 30 per cent in 2001 to 26,5 per cent in March this year,” whilst acknowledging that “government does not yet know enough about the dynamics of employment” understates the extent of the unemployment crisis in South Africa.

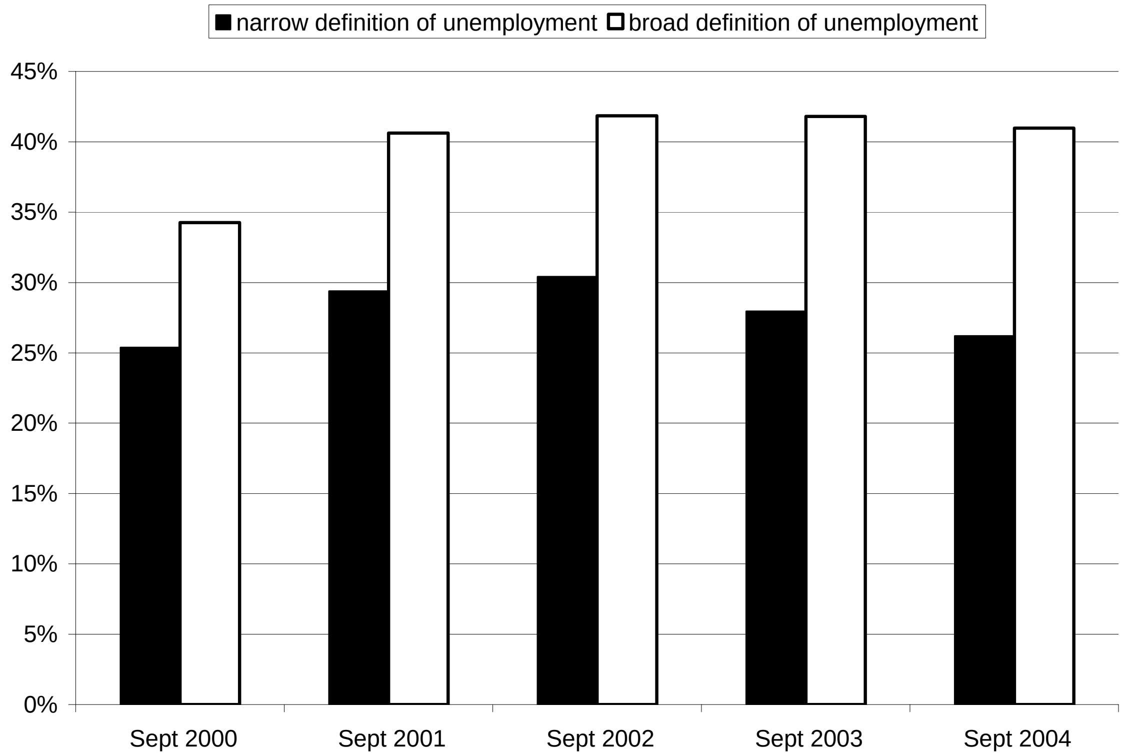
The decision by StatsSA to drop the expanded definition of unemployment shifts emphasis away from the need to take into account the unique structural unemployment challenges, particularly of youth, and must, as a matter of urgency establish the reasons why people are too “discouraged” to find work.

High unemployment remains the main reason that growth has not been shared. The main reason remains slow employment growth in the past four years. The reweighting of the Labour Force Survey data indicates that earlier estimates of job creation were probably exaggerated. As a result, it now seems that employment growth was slower than hoped even in 2003 and 2004, and that formal employment declined in first half of 2005.

Unemployment in South Africa is extraordinarily higher when compared to equivalent middle-income countries. Using the narrow definition, which counts as unemployed only those actively seeking work, the unemployment rate was 26% in March this year.
The broader definition, which includes as unemployed any adult who would immediately take a job, gives an unemployment rate of about 41%. In contrast, according to the World Bank’s *World Development Indicators,* the unemployment rate in middle-income countries, on average, was between 5% and 10% in the early 2000s.

The rate of unemployment, narrowly defined has declined somewhat in the past three years, after increasing in the early 2000s. But the main reason was that workers stopped looking for jobs. Thus, there been no significant drop in the broad rate of unemployment. But the narrow unemployment rate dropped from two thirds of all the unemployed in 2000 to half in 2004.

Table 1. Unemployment rates, 2000 to 2004



Source: Calculated from, Statistics South Africa, *Labour Force Survey September 2000 to March 2005, Historical Series of Revised Estimates.* Pretoria. September 2005. Downloaded from www.statssa.gov.za in October 2005.

For reasons explained earlier, the moderate growth of the past five years has not been associated with substantial improvements in most working class communities. Instead, we have seen persistent high unemployment and poverty. The failure to ensure shared growth has led to deepening frustration in communities. It is therefore important that policy changes under ASGI-SA translate urgently into improvements on the ground.

Conclusion

We hope that the above perspectives would contribute to shaping the report from this Committee and that due regard be given to the range of proposals we have made with regards to economic governance and management of the APRM process.

We remain of the view that this process is too fast, to the exclusion of real civil society participation and call for a process whereby genuine consultation can be facilitated.

The timeframes for the whole process (9 months) remains too short and requires an additional period for consultation. An alternative timeframe should be proposed by the Governing Council.

Appendix 1:

Members of the APRM Governing Council

Chairperson:
* Ms Geraldine Fraser-Moleketi: Minister of Public Service and Administration

Members:
* Mr Bheki Sibiya: Business Unity South Africa
* Mr Looks Matoto: Disabled People South Africa
* Ms Zanele Twala: South African Non-Governmental Organisation Coalition (SANGOCO)
* Ms Nomonde Mqhyai: SA Youth Council
* Ms Thabisile Msezani: SA Council of Churches
* Mr Randall Howard: South African Transport and Allied Workers Union (SATAWU) / Congress of South African Unions (COSATU)
* Dr Mongane Wally Serote: Arts and Culture
* Mr Master Mahlobogoane: South African National Civics Organisation (SANCO)
* Ms Laura Kganyago: National Women's Coalition
* Mr Moemedi Kepadisa: National Council of Trade Unions (NACTU)
* Dr Essop Pahad: Minister in the Presidency
* Mr Trevor Manuel: Minister of Finance
* Mr Mandisi Mpahlwa: Minister of Trade and Industry
* Ms Brigitte Mabandla: Minister of Justice + Constitutional Development

Appendix 2: The Short Version of the APRM Questions tabled at the Conference of September 2005

Objective	Question
Section 1: Democracy and Good Political Governance	
Prevent and reduce intra and inter state conflicts.	1.1 How does fighting or violence affect you?
Promote a Constitutional Democracy, including periodic political competition and opportunity for choice, the rule of law, citizen rights and supremacy of the Constitution	1.2 what is fair and unfair about our political system? 1.3 Do the existing structures and forums created by government enable democratic participation?
Promote and protect economic, social arid cultural rights, civil and political rights as enshrined in African and international human rights instruments	1.4 To what extent is South Africa promoting: • Socio-Economic Rights • Cultural Rights 1.5 To what extent are South African citizens adhering to these rights?
Uphold the separation of powers, including protecting the independence of the judiciary and an effective legislature.	1.6 On whose side are lawmakers and judges? 1.7 Are we making sure that there is justice far all?
Ensure accountable, efficient and effective public office holders and civil servants.	1.8 How well does Government work? 1.9 And the people who work in it?
Fight corruption in the political sphere.	1.10 What is the state of corruption in politics? 1.11 What else should be done about it?
Promote and protect the rights of women	1.12 Are women given enough of the support they need to be free?
Promote and protect the rights of children and young people.	1.13 How well are children protected?
Promote and protect the rights of vulnerable groups including displaced people and refugees.	1.14 How fairly are refugees and homeless people treated? 1.15 And people with disabilities?
Section 2: Economic Governance and Management	
Promote macro economic policies that support sustainable development	2.1 How well is the economy managed overall?
Implement sound transparent and predictable government economic policies	2.2 How well does Government coordinate its activities?
Promote sound public financial management	2.3 How well does the Government management manage its money?
Fight corruption and money laundering	2.4 How are you affected by corruption in Government?
Accelerate regional integration by participating in the harmonisation of trade, monetary, trade and investment policies, countries?	2.5 Are we doing the right things to trade and work more with African countries?
Section 3: Corporate Governance	
Promote an enabling environment and effective regulatory framework economic activities	3.1 How easy it is to do business in South Africa?
Ensure that corporations act as good corporate citizens with regard to human rights, social responsibility and environmental sustainability. Ensure that corporations treat all their stakeholders in a fair and just	3.2 Do big companies respect people and society? 3.3 To what extent do employers respect their employees?

Objective	Question
manner.	
Promote adoption of codes or good business ethics in achieving the objectives of the corporation.	3.4 Do big companies act honestly and fairly internally?
Provide for accountability of corporations. directors and officers	3.5 How well do the rules and laws controlling the way companies act work?
Section 4: Socio-Economic Development	
Promote self-reliance in development and build capacity far self-sustaining development.	4.1 Where do we get our ideas about the future? 4.2 Who pays for development?
Accelerate socio economic development to achieve sustainable development and poverty eradication.	4.3 Are we doing the right things to end poverty?
Strengthen policies delivery mechanisms and outcomes in key social areas including education and combating of HIV/AIDS and other communicable diseases. Ensure affordable access to water, sanitation, energy, finance, markets, CT shelter and land to all citizens especially the rural poor.	4.4 How well does the Government deliver services, especially basic services like water and shelter?
Encourage broad based participation in development by all stakeholders at all levels.	4.5 How seriously are the views of citizens like you taken by the people in power?