2006 – 2007

People's Budget

Proposal from COSATU,
SANGOCO and SACC

2006 – 2007

People's Budget

Proposal from COSATU, SANGOCO and SACC

Sponsored by the Foundation for Human Rights,
South African Catholic Bishops Conference, South African Council of Churches and
National Labour and Economic Development Institute

Published by

NALEDI

NATIONAL LABOUR & ECONOMIC DEVELOPMENT INSTITUTE

NALEDI
NATIONAL LABOUR & ECONOMIC DEVELOPMENT INSTITUTE

6th Floor, COSATU House, Leyds Street, Braamfontein, Johannesburg 2001
PO Box 5665, Johannesburg, South Africa 2000
Tel: +27 (11) 403-2122/3, Fax: +27 (11) 403-1948
E-mail: peoplesbudget@naledi.org.za

ISBN: 1-875043-66-7

Published on behalf of the People's Budget Campaign by the
National Labour and Economic Development Institute.

First published 2005

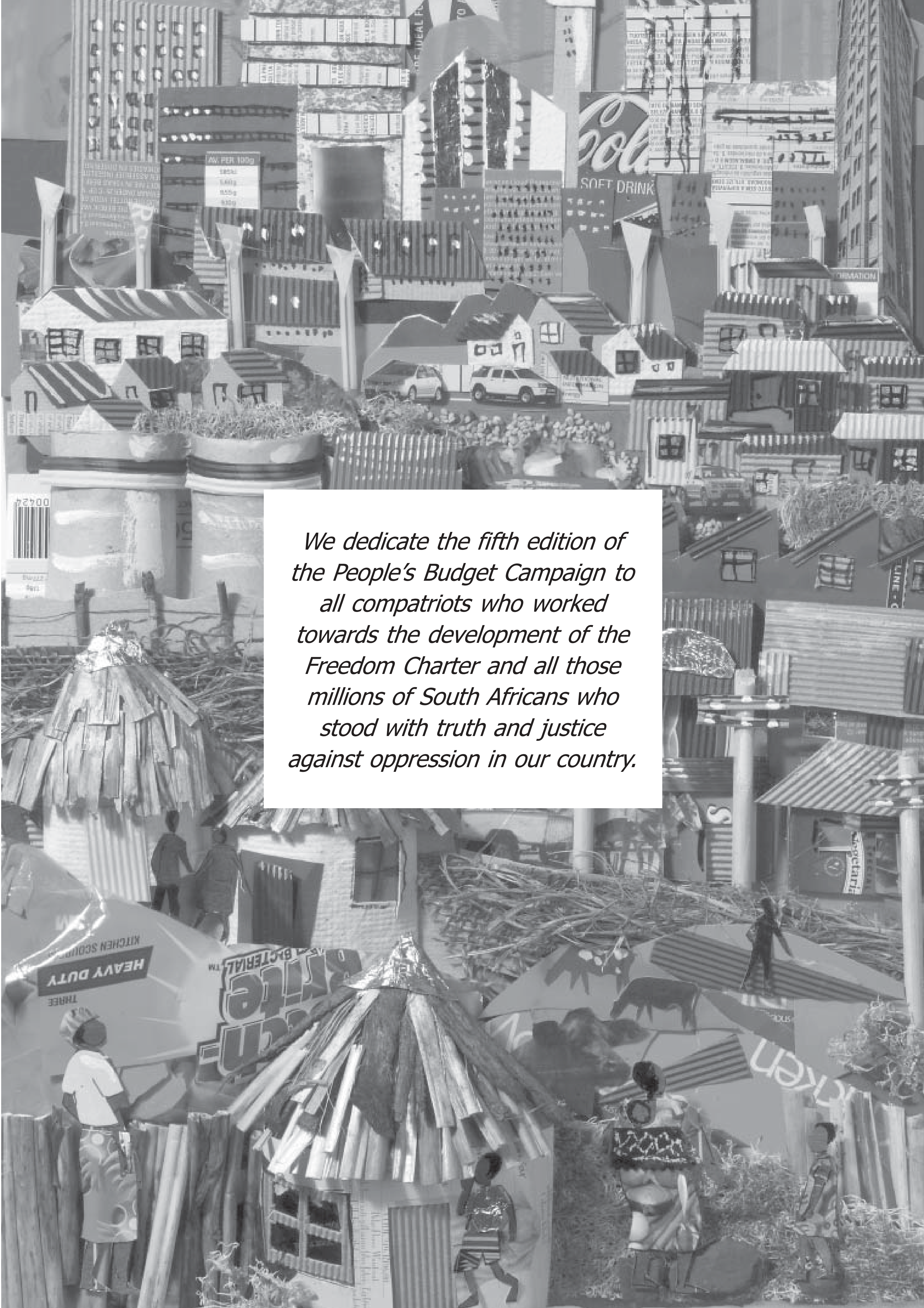
FOUNDATION FOR HUMAN RIGHTS
SACC
Justice and Peace
NALEDI
NATIONAL LABOUR & ECONOMIC DEVELOPMENT INSTITUTE

Sponsored by the Foundation for Human Rights,
South African Catholic Bishops Conference, South African Council of Churches and
National Labour and Economic Development Institute

COSATU
SANGOCO
SACC

Proposal from COSATU, SANGOCO and SACC

Cover Design and Typesetting by Crazy Cat Designs
Cover Artwork by Chantelle and Burgen Thorne
Copy editing by Brigitte Billings
Printed by CPD



We dedicate the fifth edition of the People's Budget Campaign to all compatriots who worked towards the development of the Freedom Charter and all those millions of South Africans who stood with truth and justice against oppression in our country.

Contents

List of Tables

List of Charts

List of Boxes

Acknowledgments

The National Steering Committee would like to extend its appreciation to all organisations and individuals who participated in the drafting of this budget framework.

The research for this publication has been funded by the Foundation for Human Rights (FHR). The People's Budget Campaign extends its appreciation to the FHR for their constant support of this programme, and for their support of our evaluation processes. This publication was funded by the FHR, SACC, Justice and Peace and NALEDI.

The assistance of the following organisations and individuals has been particularly important:

- Programme for Land and Agrarian Studies (PLAAS)
- Basic Income Grant Coalition (BIG Coalition)
- Economic Policy Research Institute (EPRI)
- Centre for the Study of Violence and Reconciliation (CSVR)
- Treatment Action Campaign (TAC)
- Global Campaign for Quality Education

In developing this budget framework, the commitment of participants at the consultative conference was critical.

In addition, we would like to thank various government departments who have provided access to information, and have been willing to engage with the People's Budget Campaign. Several parliamentarians have also been willing to engage on previous years' proposals, and we look forward to strengthening this relationship.

The print and electronic media have always had an interest in the campaign. We thank them for their reporting on the campaign, and look forward to engaging with them on the current document.

The National Labour and Economic Development Institute (NALEDI) has coordinated the research process, provided logistical support and undertaken research for the campaign. A special word of thanks to the outgoing Director of NALEDI, Ravi Naidoo, who in the initial stages of the campaign ensured that the campaign had research and funding support.

Thanks also to the decision-making structures of COSATU, SACC and SANGOCO for the important role they play in finalising the People's Budget Campaign proposals.

A final word of thanks goes to the reader of this document. We look forward to engaging with you on the proposals contained in this document.

National Steering Committee, People's Budget Campaign

February 2005

Introduction

2005 marks the 50th Anniversary of the Freedom Charter. The Freedom Charter provided a common set of demands and a vision for a democratic and non-racial South Africa. Fifty years later the courage of activists gathered in Kliptown for the Congress of the People still resonates in our society. The Freedom Charter reminds us that there is so much that binds all progressive people in South Africa who share a common view on the need for social and economic transformation.

The proposals we present here are our views on how the vision and intent of the Freedom Charter can be realised through fiscal policy. We are, however, conscious that development as a construct itself is contested, and we propose that progressive forces in our country congregate during 2005 in a format similar to the Congress of the People in order to recommit ourselves to the development challenges that we face.

In this spirit, our proposals are submitted one year in advance and target the 2006/2007 budget. During 2005 we will initiate discussions on our proposals, and call on all sectors in our society to discuss our proposals with us.

The impact of civil society

The People's Budget Campaign is a coalition of the South African Council of Churches (SACC), South African Non-Governmental Coalition (SANGOCO) and Congress of South African Trade Unions (COSATU). The campaign was launched in 2000.

At the start of the campaign, our aims were that the following would be achieved through effective use of the budget as a tool for reconstruction and development.

- Meeting 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.
- Supporting increasingly democratic and participatory governance.
- Protecting the environment and ensuring sustainable development throughout the southern African region.

It seeks to achieve these aims through:

- Giving a voice in debates on the budget to major constituencies in civil society;
- Supporting a broader understanding of how the budget works and how it affects our communities; and
- Providing research into key programmes for transformation, and improving our understanding of development strategies and their resource needs.

Five years into this campaign we are often asked what impact we have had on the budget process and on the specific allocations. While there is a long way to go before these aims are realised, the last five years has seen progress in a number of areas. However, the People's Budget Campaign cannot claim to have made changes to the budget on its own. It is rather the work of many civil society campaigns and organisations, and a government that is able to respond to our proposals.

The key changes that we have called for and that have been implemented are summarised in Box 1. However, on many areas, including amendment powers for Parliament on the budget, greater resources for land redistribution and more robust spending by government, there are still substantive areas of disagreement between ourselves and government.

In each of the areas that we see progress, there may still be areas of disagreement between ourselves and government. However, the broad thrusts of these changes indicate that our proposals are credible and have had an impact on public policy. Once again, the role of our partners in NGOs, churches, trade unions, government and community-based organisations has been vital for affecting these changes.

Box 1: Changes in the budget since 2000

- **Moderately expansionary budget:** Since 2000 we have seen a moderately expansionary stance by government. This has seen budgets grow in real and *per capita* terms. We believe that more fiscal space exists for the budget to grow even more quickly, in order to address key development issues and the needs of the poor. From our very first submission in 2000 we called for a range of measures that would stimulate growth and potentially create jobs. The main measures we called for were a larger deficit and increased taxation to boost government spending. On both the deficit and taxation levels government has adopted a moderately expansionary stance. We believe that this is the right direction, but would support an even more robust strategy aimed at changing the cycle of moderate growth characterised by high levels of unemployment.
- **Free basic services:** In 2000, the People's Budget Campaign called for the extension of free basic services. To date government has allocated resources for this purpose and restructured the municipal equitable share grant in this regard. Much work remains in this area, as we discuss in the report, but effected changes have been beneficial to the poor.
- **Zero-rating of paraffin:** In 2000, the People's Budget Campaign called for the zero-rating of paraffin and other goods that are primarily consumed by the poor, such as maize, bread and transport. Government has zero-rated paraffin, but has not zero-rated other goods.
- **Reduced tax cuts:** During the 2004 Medium Term Budget Policy Statement, the Minister of Finance indicated that tax cuts during this year's budget (2005/2006) will be lower than in previous years. In the past few years,tax cuts benefited the rich disproportionately and reduced resources needed for development.
- **Increased deficit spending**: Government has projected a deficit of 3.1%, which is higher than previous years. The responsible increase in the deficit means more resources for social spending and infrastructure, and a potential to kickstart economic growth.
- **Anti-retrovirals**: Government remains committed to the provision of free anti-retrovirals. Once again we applaud government on this, but still believe we have a long way to go to implement a comprehensive response to HIV/Aids.
- **State-owned enterprises**: In previous People's Budget proposals, we called for SOEs to play a developmental role, and not be sold off to reduce the deficit. Today government agrees with this, despite ongoing pressure for them to proceed with the restructuring from institutions such as the IMF.
- **Expansion of the social security system:** The extension of the Child Support Grant is a positive step for our country that we fully support. However, much needs to be done to provide for a comprehensive social protection system, including introducing a universal Basic Income Grant and the National Health Insurance system.

Sometimes our proposals have, however, been opportunistically appropriated by conservative sections in our society. The Democratic Alliance's complicated proposal for its own version of a Basic Income Grant (BIG) is one such example.

Methodology

A participatory research process informed this input. The methodology for producing this report was as follows:

- The National Consultative Conference in 2003 identified several areas of research. The areas of research identified were:
  - National health insurance
  - Education budget
  - Health budget
  - Review of the macroeconomic model
  - Tax capacity in South Africa
  - Monetary policy and development
  - Gender focused research, which focused on the implementation of the Domestic Violence Act
- Research papers in these areas were commissioned or conducted by the National Labour and Economic Development Institute (NALEDI).
- A national consultative workshop was held on the 7-8 December 2004 in Johannesburg, which was attended by delegations from COSATU, SACC and SANGOCO. One of the innovations of the consultative conference was to have representatives from the three organisations lead discussion on the papers.
- Based on the resolutions from the consultative conference this report was developed, with representatives from the three organisations providing comments on several drafts.

Aims

The aims of this document are to:

- Locate fiscal policy within a programme of rapid poverty eradication.
- Motivate for the adoption of specific spending proposals.
- Provide revenue and expenditure proposals that translate our vision into practice.
- Outline strategies to improve the capacity of the public service to deliver services more effectively and efficaciously.

Structure of the report

The report has six sections:

- Section one contextualises our proposals through a review of poverty, delivery and budget indicators.
- Section two motivates for spending proposals on key programmes.
- Section three outlines a developmental fiscal package.
- Section four looks at proposals for budget reform.
- Section five looks at building capacity in the public service.

Limitations

There are several limitations that we recognise in the development of our proposals, including the following contextual factors:

- A budgetary process that is characterised by a closed process, coupled with limited powers for Parliament to impact on budget decisions.
- No uniform official poverty line exists as yet in South Africa, which leads to different actors using different measures for poverty and absolute poverty. In addition, we generally speak about measures of poverty to the exclusion of discussions on the causes of poverty.
- There is limited space for civil society to engage with government on issues pertaining to the budget due to a money law amendment bill still not tabled for discussion.

In terms of the report itself the following limitations should be noted:

- On some of the proposals we have been unable to provide detailed costing. This is due to costing requiring detailed information that we have been unable to obtain, and due to the complexities involved in developing models to cost all the proposals.
- The scope of the proposals is limited to key areas of intervention. The aim of the report has never been to provide a line-by-line alternative budget to the national budget tabled in Parliament, but instead to explore alternative policy potentials in specific critical areas, which would strengthen our collective efforts to eradicate poverty.

Development context

The Budget is important for three primary reasons:

- Fiscal policy sets the level of government spending. This affects the availability of funds for developmental efforts as well as economic expansion and employment creation. When the People's Budget Campaign was established in 2000, government spending per person, in real terms, had been falling for three years. A core aim of the Campaign was to lobby for a more expansionary fiscal policy, which would both improve services for our people and support and encourage more rapid economic growth. Since 2000, this aim has, to a large extent, been met by increases in spending on most programmes.
- Engagement on the budget is a way to monitor and improve implementation of national development strategies. This is particularly important in South Africa, where government spending has historically been shaped by apartheid policies and thinking. Before 1994, the state consistently directed resources to benefit the white minority. In the leafy suburbs, it built up social services and infrastructure, and it ensured a large budget for the security forces. Meanwhile, black communities and in particular the homelands remained starved of resources. The challenge for the democratic movement has been not only to develop more appropriate policies, but to ensure that public resources are systematically redirected and policies that benefit the majority are implemented.
- The budget provides a useful framework for analysing government policies. Unless we are sure that appropriate policies drive government spending, we cannot discuss whether resources are properly allocated. However, monitoring the implementation of budgets is particularly important.

Each year, the People's Budget publishes a document to assist the Campaign to engage in all three of these areas. This section provides an overall perspective by exploring the implications of different development strategies for overall fiscal policies. It points to the crucial importance of maintaining the current expansionary trend in the budget. In addition, sustainable development requires a stronger effort to restructure the economy to ensure more equitable, employment-creating growth. The chapters following this one explore specific government functions in terms of both basic policies and resourcing.

The budget and development strategies

The People's Budget Campaign has always argued that the budget must be assessed in terms of its contribution to sustainable improvements in the lives of our people. We first review South Africa's progress in addressing poverty and inequalities since 1994, and in that context consider current debates on fiscal policy.

Progress and challenges

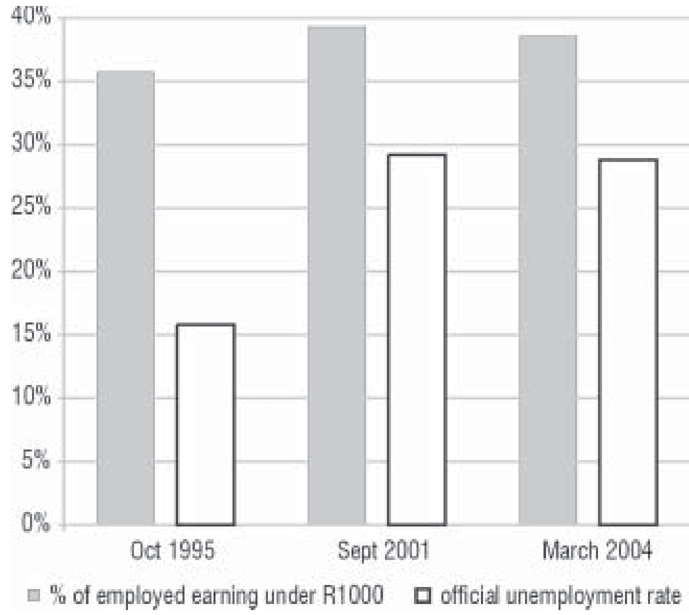
Ten years after liberation, South Africa continues to face the economic challenges of mass poverty and inequalities to which the Freedom Charter pointed some 50 years ago. The democratic government has made extraordinary efforts to redirect spending to the poor. But since 1994, job creation has consistently 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.

Chart 1 indicates the extent of poverty and unemployment. In March 2004, unemployment was at 29%, using the 'narrow' definition that does not count as unemployed people who want paid work but are too discouraged to actively seek it. Using the broad definition of unemployment, which counts discouraged workers as unemployed, the unemployment figure rises to 41% of the labour force. After a decade of rapid and steady increases in the unemployment rate, unemployment had declined slightly over the previous year.

While unemployment has risen, wages have declined. In 2004, 39% of the population earned under R1 000 a month, virtually the same number as ten years earlier. Yet in this period, the purchasing power of R1 000 fell by well over half. Both of these factors have increased the poverty levels of the working poor. There has also been increased pressure on the disposable income of the poor – these include school fees and increased transportation costs, effectively diminishing the potential for capital accumulation and savings. This has had the effect of entrenching earning patterns and income disparities.

Table 1 demonstrates that poverty continues along the lines shaped by apartheid. Africans, especially African women and especially in the former homeland areas, experience higher unemployment and lower incomes.

Chart 1: Unemployment and incomes, 1995, 2001 and 2004



Note: The official definition of unemployment, used here, classes workers who want paid jobs but are too discouraged to seek it as 'economically inactive,' rather than as unemployed.

Source: Figures calculated from Statistics South Africa, *South Africa in Transition* (Pretoria: 2001) for 1995; and from Statistics South Africa, *Labour Force Survey*, September 2001 and March 2004, downloaded from www.statssa.gov.za

Joblessness for African women in the former homelands stood at 51% in 2003, the highest for any of the groups we looked at in our analysis.

Nationally, unemployment was particularly high for young people. In September 2003, of those aged under 30 years old who wanted a job, 60% could not find one, compared to 30% for older people. As long as this situation persists, the majority of young adults have no hope of an independent existence or family life. Instead, they remain dependent on support from their parents and relatives long after they finish school.

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.

As Chart 2 shows, access to water and electricity improved steadily, especially after total government spending began to grow from 2000. However, improved government services, including services through the social wage in poor communities, only went part of the way in alleviating the effects of higher unemployment and falling incomes.

Chart 3 illustrates similar improvements in access to housing. The share of people living in RDP housing rose from 13% in 1996 to 26% in September 2003. However, as government has acknowledged in its ten year review, the backlogs for housing continue to grow, as indicated by the growth of informal settlements.

Finally, as Table 2 demonstrates, access to social grants improved dramatically. By 2003, over a third of the population had access to a social pension, compared to well under a fifth in 1996.

Challenges facing poverty eradication

Despite these successes, various factors limited the impact of government services and pensions on poverty.

First and most obviously, in the decade after 1994 household incomes declined as unemployment rose and incomes from work dropped. Families struggle to support more unemployed young people. Social pensions help, but old people in particular often end up supporting large families.

Secondly, rural-urban migration rapidly increased demand for services in the metropolitan areas, especially in Gauteng. Thus, the share of the population in informal housing remains virtually unchanged despite the housing programme, while the share in traditional rural housing has fallen.

Third, the spread of HIV/AIDS reduced many households' earning power and increased the burden on government services. For instance, studies suggest that over half of all hospital beds were occupied by people with Aids.

Fourthly, the government's policy of requiring user fees means that many poor households cannot maintain access to services and a large percentage increasingly fall behind with payments, fuelling municipal debt. This phenomenon emerged dramatically through the housing programme. Until 2001, poor households received new RDP houses free of charge, but had to pay for improved electricity and water. Because they could not afford the service charges, many ended up renting out or selling the houses, in some cases even facing eviction.

Chart 2: Access to water and electricity (1996, 2000, 2003)

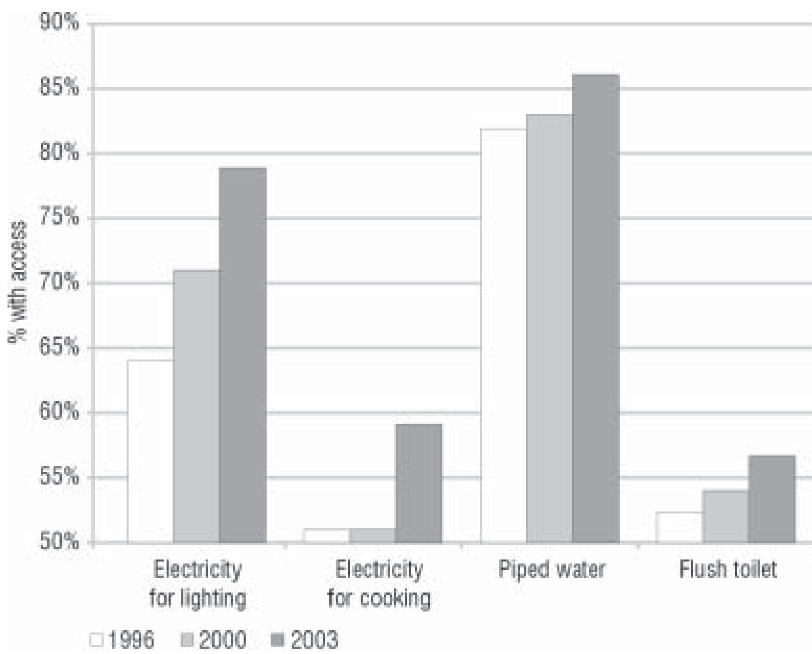
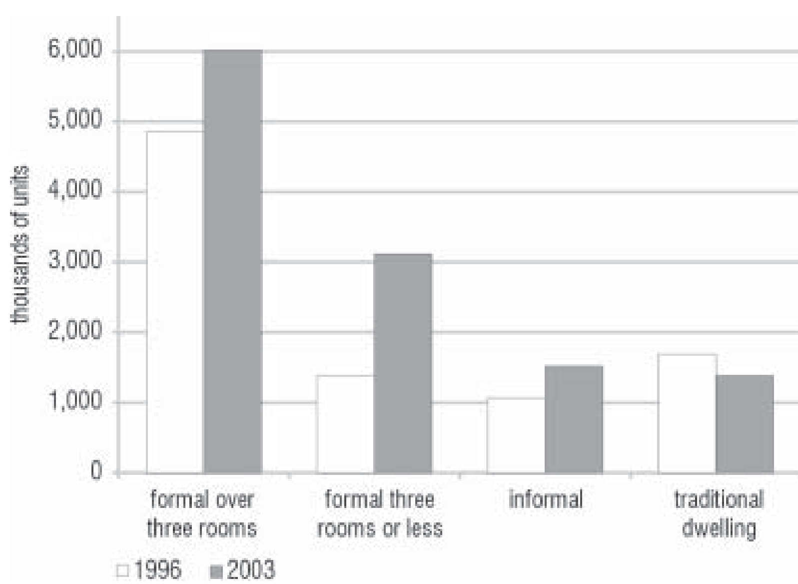


Chart 3: Access to housing, 1996 and 2003



Source: Calculated from Statistics South Africa, October Household Survey, 1996, and Labour Force Survey, September 2003. Pretoria. Databases on CD-ROM.

The situation is even worse for telephones. In the late 1990s, government required Telkom to provide three million new landlines. But the parastatal cut off 80% of the new lines within five years, mostly because the new recipients could not pay for them.

To describe the persistence of mass poverty and unemployment, the government has adopted the metaphor of the 'first' and 'second' economies. In this description, the 'first' economy comprises the formal economy, which is characterised by modern technologies and legalised economic relationships. The 'second' economy comprises those excluded from the formal sector, either unemployed or engaged in the informal economy or subsistence agriculture. However, even in the 'first' economy, the majority of workers are poor – with many formal sector workers earning under R1 000 a month. Even for union members, half have wages of less than R2 500 a month.

Table 2: Share of population receiving state pensions and social grants

	African	Coloured/Asian	White
1996			
State pensions (includes civil service pensions)	15%	13%	8%
Social grants	2%	8%	1%
Total	**17%**	**21%**	**9%**
% in group earning under R1 000 in 1996	46%	36%	8%
2003			
State old-age pension	19%	18%	16%
Disability grant	5%	6%	5%
Child support grant	14%	12%	14%
Total	**38%**	**36%**	**34%**
% in group earning under R1 000 in 2003	51%	26%	4%

Source: Calculated from 1996 October Household Survey and September 2003 Labour Force Survey. Statistics South Africa. Pretoria. Databases on CD-ROM.

Table 3: UNDP poverty headcount

Population below the national poverty line		International poverty line			
		Population below $2 per day		Population below $1 per day	
2002	1995	2002	1995	2002	1995
48.5%	51.1%	23.8%	24.2%	10.5%	9.4%

Source: UNDP, 2003.

The first/second economy description may be useful as a metaphor to point to the structural roots of inequality in the economy. But the division between the two sectors does not form a rigid divide. The so-called second economy is in fact entirely dependent on the formal sector for inputs, income transfers and markets. It can be argued that the first economy depends on people who contribute to the economy – but it grows and thrives to the detriment of the 'second economy'. The latter is defined, not by autonomy from the formal sector, but rather by its exploited and impoverished position. Moreover, many workers in the formal sector, such as domestic and taxi workers, have only casual and mostly poorly paid work.

Finally, reviews of our progress on eradicating poverty indicate that despite government's efforts, a bolder strategy for poverty eradication is still needed.

Estimates of poverty in South Africa are politically charged, especially because the democratic government has an explicit agenda to eradicate poverty. Government ministers have therefore often been extremely critical of reports that have suggested that poverty has either remained stable or has increased since 1994. The United Nations Development Programme (UNDP) in its 2003 Human Development Report on South Africa is one such report that has come under criticism. The report provides figures using the poverty headcount and poverty gap measures, but also uses three poverty lines. The poverty headcount measures the number of people below a poverty line. Table 3 shows the poverty line, and the results from several studies, and includes the UNDP calculations based on $1 per day and $2 per day.

From Table 3 we can argue that:

- Based on the national poverty line of R354 per month per adult, poverty remains very high at 48.5% of the population, but has decreased moderately from 51.1% in 1995.
- Based on the $2 per day line there has been a slight decrease in terms of poverty.
- However, looking at those surviving on less than $1 per day we see that poverty has increased by about 1%.

Several government ministers responded to these statistics, questioning their validity. Among the issues raised were the following:

- That the results do not adequately take into account the goods and services government provides in the form of the social wage.
- That the data does not take into account the changes in household structures in South Africa.

Table 4 looks at the HSRC calculations for poverty.

More recently, the Human Sciences Research Council (HSRC) shows that the proportion of people living in poverty in South Africa has not changed significantly between 1996 and 2001. However, those households living in poverty have sunk deeper into poverty and the gap between rich and poor has widened (HSRC, 2004).

Table 4: HSRC poverty headcount

Province	No. of poor persons (million)	% of population in poverty
Northern Cape	0.5	61%
Western Cape	1.4	32%
Free State	1.8	68%
North West	1.9	52%
Mpumalanga	1.8	57%
Limpopo	4.1	77%
Gauteng	3.7	42%
Eastern Cape	4.6	72%
KwaZulu-Natal	5.7	61%
South Africa	25.7	57%

Source: HSRC, 2004.

According to the HSRC, approximately 57% of individuals in South Africa were living below the poverty income in 2001, unchanged from 1996. Limpopo and the Eastern Cape had the highest proportion of poor with 77% and 72% of their populations living below the poverty income respectively. The Western Cape had the lowest proportion in poverty (32%), followed by Gauteng (42%).

Taken together, the data from the HSRC and UNDP provide us with the following important information on poverty in South Africa:

- Based on the different poverty lines developed by the UNDP and HSRC we can see that the number of poor people in South Africa is between 48.5% and 57% of the population.
- However, when using the international poverty lines, this declines to between 10.5% (US$1 per day) and 23.8% (US$2 per day).
- Even though there has been a slight decline in the number of poor people, there has been an increase in the number of people who are chronically poor. In 1995, 9.4% of people lived on less than US$1 per day, but this increased to 10.5% in 2002.

Thus far we have only looked at the poverty headcount for the whole country. This helps us to gain a wide picture of poverty in South Africa; however it is not particularly helpful in designing programmes to eradicate poverty. To pursue poverty eradication strategies we need a better understanding of who the poor are and where they live. This can be done by looking at race, gender and regional comparisons of poverty.

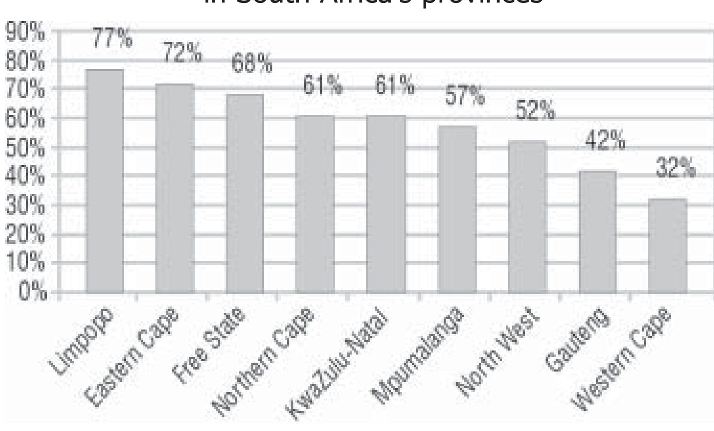
Table 5: Poverty by race and gender (1995 and 2002)

Population groups	Population below the national poverty line	
	2002	1995
Male	45.9%	48.9%
Female	50.9%	53.4%
African	56.3%	62%
Coloured	36.1%	38.5%
White	6.9%	1.5%
Indian	14.7%	8.3%

Source: UNDP, 2003.

To gain a better picture of poverty we can disaggregate poverty by race and gender. Table 5 provides the results of the UNDP looking at poverty headcount among different race groups and between men and women.

Chart 4: Poverty as a percentage of population in South Africa's provinces



Source: HSRC, 2004.

Disaggregating the statistics presents us with a clearer picture of what is going on in terms of poverty. Table 5 shows that:

- 50.9% of all women in South Africa live below the poverty line, while 45.9% of men live below the poverty line.
- Poverty is worst among Africans, followed by Coloureds, Indians and Whites.

Looking at the statistics in this way tells us a great deal more about who the poor are. We may also look at the poverty rates across provinces to get a sense of the geographical spread of poverty. Using the HSRC data graph in Chart 4, the distribution of poverty across the different provinces is demonstrated.

This brief overview of the first decade of democracy points to the need for redoubled efforts to overcome the mass poverty and inequalities left by apartheid. The following section explores debates about the role of the budget in that process, using the evolution of fiscal policy since 1994 to illustrate this need.

The budget and development

Arguments about the budget and development centre on two interlinked issues.

First, a critical debate relates to how high government can raise its spending before the negative effects outweigh the benefits of diminishing poverty and inequality. Generally, increased government spending will stimulate growth by raising demand for products so that enterprises can sell more. But if government spends too much it can cause inflation, unsustainably high taxes and increased cost of borrowing.

Second, the structure of government spending affects its impact. Higher government spending can become sustainable if it accelerates economic growth and employment creation as well as raising living standards. A central question thus becomes how best government can combine anti-poverty programmes with economic development.

Three perspectives underlie debates on these issues. They are reflected in the evolution of fiscal policy since 1994. The government's 1996 Growth, Employment and Redistribution policy (GEAR) (National Treasury 1996) embodied a restrictive, free-market approach. Since 2000, however, a more liberal, interventionist approach has essentially shaped the national budget. We contrast both these views with the developmental

Table 6: GEAR targets and actual performance of the economy, 1996-2003

	GEAR projections			Actual performance			
	1996	2000	Average	1996	2000	Average	Actual 2003
Model characteristics							
Fiscal deficit (% of GDP)	5%	3%	4%	-5%	-3%	-3%	-3%
Real bank rate	7%	3%	4%	14%	8%	12%	
Real government investment growth	3%	17%	7%	14%	-6%	-2%	9%
Real parastatal investment growth	3%	10%	8%	11%	-20%	-1%	17%
Real private sector investment growth	9%	17%	12%	8%	6%	1%	1%
Real non-gold export growth	9%	10%	8%	12%	10%	5%	-2%
Outcomes							
GDP growth	4%	6%	4%	4%	4%	3%	2%
Inflation (CPI)	8%	8%	8%	6%	7%	6%	0.3%
Employment growth (non-agricultural formal)	1%	4%	3%	0%	4%	1%	6%
New jobs per year ('000s)	126	409	270	20	256	83	650
Real export growth, manufacturing	10%	13%	11%	8%	22%	9%	-7%
Gross private savings (% of GDP)	21%	22%	21%	21%	18%	19%	17%
Government dissavings (% of GDP)	3%	1%	2%	5%	2%	3%	1%
Resource envelope (1995 billions)	161	179	167	161	162	160	193
Change in resource envelope	n.a.	6.1%	2.1%	n.a.	3.5%	0.1%	6.5%

Sources: GEAR projections: National Treasury, *Growth, Employment and Redistribution: A Macroeconomic Strategy*, p. 7 and, for resource envelope, Appendix 9 (unnumbered pages). Pretoria, 1997 (downloaded from www.treasury.gov.za in December 2004). Actual results: Fiscal deficit: Budget Review 2000, Table 3.3, p. 46; Budget Review 2001, Table 3.3, p. 45; MTBPS 2004, Table 1.2, p. 10; real bank rate – predominant nominal interest rate from SARB, *Quarterly Bulletin,* June 1999, p. S-28; December 2002, p. S-28, deflated using CPI; investment figures – SARB long-term data series on national accounts, downloaded from www.resbank.gov.za in December 2004; real non-gold exports calculated using volume indices for exports from SARB, *Quarterly Bulletin*, December 2002, p. S-87 and December 2004, p S-89; GDP growth from long-term data series on national accounts, downloaded from www.resbank.gov.za in December 2004; CPI from Statistics South Africa, long-term data series on inflation, downloaded from www.statssa.gov.za in November 2004; employment growth from Business Trust, *Employment and Unemployment In South Africa: A Brief Description,* Johannesburg, 2004, Table 4, p. 27, and Statistics South Africa, *Labour Force Survey,* March 2004, downloaded from www.statssa.gov.za in January 2005; manufacturing exports from TIPS EasyData, nominal values for manufacturing exports, deflated using CPI, downloaded from www.tips.org.za in June 2004; figuring for savings from SARB long-term data series on national accounts, downloaded from www.resbank.gov.za in December 2004; figures for resource envelope are nominal total expenditure from National Treasury, *Budget Review 2002*, Table 1, p. 190 and *Budget Review 2004*, Table 1, deflated using CPI for March recalculated with 1995 = 100. Downloaded from www.treasury.gov.za in December 2004.

perspective historically adopted by the democratic movement and articulated in the Freedom Charter.

GEAR and the budget

The fundamental argument in GEAR was that government had to reduce its borrowing relative to the GDP (that is, the economy as a whole) without increasing taxes. GEAR contended that this fiscal policy would free up resources for the private sector, in turn causing higher investment and growth. With faster growth in the economy, it held, government spending would increase in real terms even as borrowing declined relative to GDP.

GEAR did not discuss in detail how the state should use its funds. It essentially assumed that any increase in formal-sector investment would, in turn, create employment and help overcome poverty. To use the first/second economy metaphor, it expected growth in the first economy automatically to improve conditions in the second economy. In effect, GEAR typified the fiscal policy associated with free-market policies. These policies hold that any growth in the private sector will ultimately benefit workers as well as the marginalised in the 'second economy'. By extension, the state should limit taxes and borrowing in order to leave more resources in private hands.

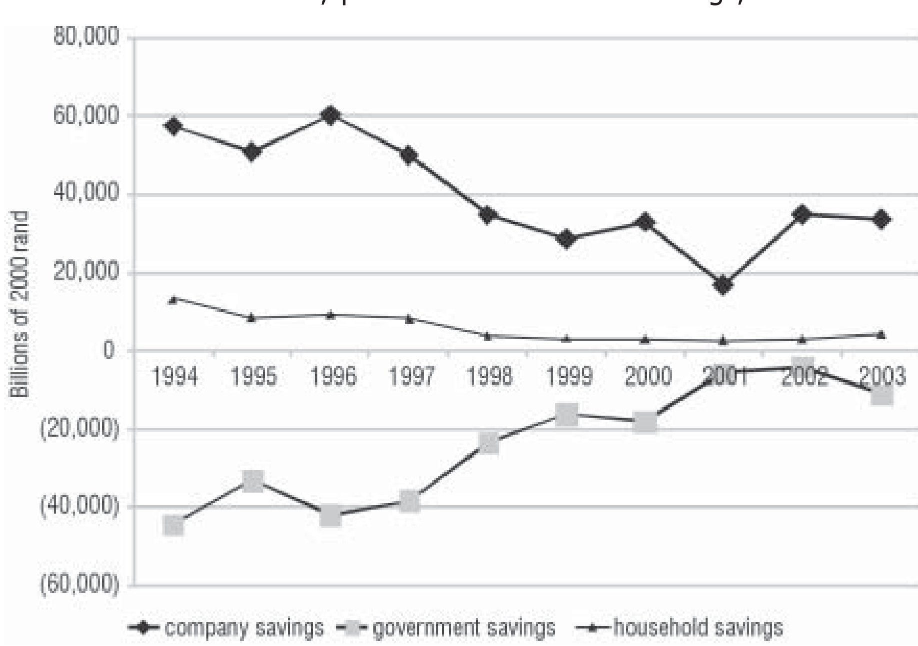
This view ignores three structural factors that mean the market will not necessarily lead to equitable development:

- Apartheid deprived the majority of South Africans of the resources, skills and access to financial and retail networks required for self-employment. In most cases, only government intervention can overcome this deficit – through programmes such as land reform, provision of infrastructure and housing, and access to credit and education.
- Historically, the South African economy has focused on heavy industry – minerals, petrochemicals and auto. As a result, it has generally created jobs at a relatively slow rate. This situation has been aggravated since 1994 by the shift from gold to platinum mining, the decline in food processing and clothing production, and rising capital intensity in the public sector and large-scale agriculture.
- Cuts in government spending mean a smaller market for business as well. Under GEAR, falling government spending reduced demand for goods and services, which depressed economic growth.

In any event, government cut the deficit even faster than GEAR expected, aggressively pursuing a self-imposed 'fiscal discipline'. But growth in the economy and employment remained far below GEAR's expectations, as Table 6 shows. In these circumstances, government spending declined, leading to cuts in services and public-sector employment.

In particular, instead of responding to the budget cuts as hoped, the private sector reduced its savings and investment through the late 1990s. As Chart 5 shows, private savings dropped by 45% from 1996 to 2000, then rose 2% between 2000 and 2003. Meanwhile, total investment remained far below the 20% to 25% required for sustainable growth.

Chart 5: Government, private and household savings, 1994-2004



Source: SARB long-term data series on national accounts, downloaded from www.resbank.gov.za in December 2004. Deflated using CPI.

It seems probable that the budget cuts contributed directly to slow economic growth in the 1990s. Certainly the more relaxed fiscal stance since then has been associated with relatively rapid expansion in the GDP, as Table 7 indicates.

Strengthening anti-poverty and competitiveness programmes

Since 2000, the government has expanded the budget substantially, as Chart 6 shows. The current economic upswing certainly results, in part, from the relatively rapid increase in government spending in the past few years. Moreover, a virtuous

Table 7: Average annual change in government spending and GDP, in real terms, 1994-2003

	% change in:	
	Government spending	GDP
1994-1997	9.6%	3.4%
1997-1999	-0.3%	1.4%
1999-2003	4.6%	3.3%

Source: GDP figures from SARB, long-term data series, downloaded from www.reservebank.co.za in February 2005; government spending from National Treasury, *Budget Review 2004,* Annexure B, Statistical tables, Table 1, and *Budget Review 1998,* Annexure B, Statistical tables, Table 4.

cycle has emerged (as the People's Budget predicted over the past few years) with growth in the economy fuelling stronger budgets.

The increase in government spending has come primarily from anti-poverty programmes, especially welfare, infrastructure and health. General administration and security functions rose fairly rapidly after 1998, in part as a result of the arms deal. In contrast, government spending on sectoral economic programmes and transport has grown only slowly in real terms.

This structure of spending means that social services, security and administrative functions absorb the bulk of government spending (see Chart 7).

In contrast to the GEAR period, the government now argues strongly that it must maintain spending on infrastructure and poverty programmes in order to ensure a more competitive economy. But it does not yet have a programme for accelerating growth in employment-creating areas, although the Presidential Communications and Advisory Services (PCAS) is exploring this type of initiative. Thus, the low spending on sectoral programmes – mining, manufacturing, the services and agriculture – essentially reflects the continued reliance on the market to define the structure of the economy.

This approach aligns with recent orthodoxy in multilateral institutions like the OECD and World Bank. They now argue that while free markets must shape the economy, they may not necessarily overcome poverty. It follows that while governments should not intervene to shape economic decisions, they should put more money into anti-poverty programmes. That will cushion the poor from the worst effects of market adjustments, which could lead to falling employment or incomes.

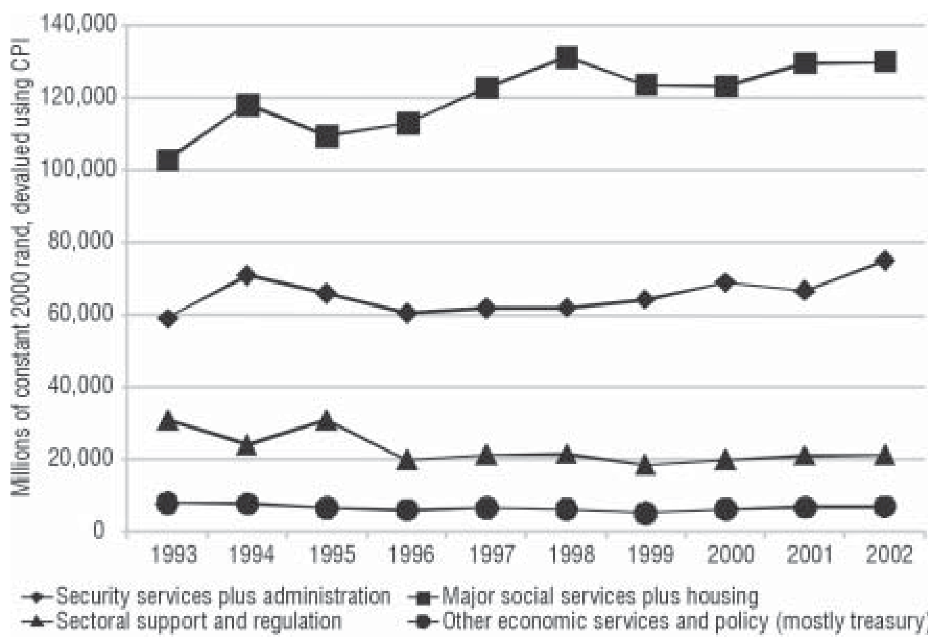
In its latest World Development Report, 2004, the World Bank takes this approach further. It argues that governments should improve competitiveness by improving economic infrastructure, defining and protecting property rights, attacking corruption and supporting skills development. It argues that these broad measures are effective and desirable because they leave basic economic decisions to the market – that is, to business.

In contrast, targeted measures that support particular enterprises or industries require the state to promote activities that the market would not spontaneously support.

In effect, the competitiveness approach accepts higher spending and a stronger state only within the limits set by free-market beliefs: that is, to provide public goods and protect property rights. It contrasts with the earlier free-market views embodied in GEAR in that it accepts the need for substantial state activity. But it does not expect the state to guide the economy toward a particular structure of production or ownership in order to ensure more sustainable growth or equity.

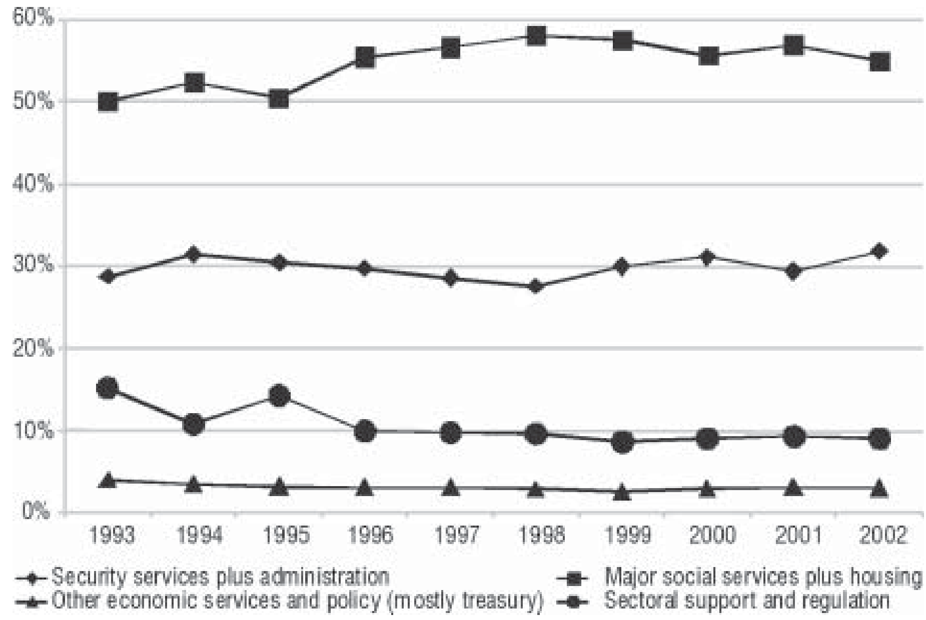
In South Africa, the competitiveness approach is associated with a problematic division of labour in the

Chart 6: Government spending by function in 2000 rand, 1993-2004



Source: Current figures from SARB, long-term data series on public expenditure, deflated using CPI. SARB data downloaded from www.resbank.gov.za in December 2004.

Chart 7: Share of main government functions in total spending, 1993-2002



Source: Budget Review, 2004.

state. The social service departments focus on fighting poverty while the economics departments, with few exceptions, see their role as driving exports and economic growth. In this context, social programmes do not explicitly prioritise economic engagement by the poor. Meanwhile, economic strategies do not aim primarily to restructure the formal sector to overcome marginalisation and poverty.

The social service departments seem to aim narrowly to improve living conditions, rather than ensuring that improvements in basic services help people earn an income themselves. A host of examples illustrate this tendency. For instance, new housing settlements are usually located far from economic centres and jobs; many historically black schools still do not teach science and technology, computer or cultural studies. Of late, there have been statements by the Department of Education that poorly performing schools will not receive state support, classically demonstrating this 'competitive mindset', but devoid of the contextual challenges. The limited access to anti-retroviral treatment in the public health system means workers with HIV become ill and unproductive earlier than necessary.

The mandate of the economics departments seems unchanged since before 1994: to drive economic growth. The only substantial difference is the effort to increase black ownership in some sectors. This approach does not challenge the dependence of the formal sector on heavy industry, especially minerals. In the absence of vigorous government support, it is difficult for business to branch out in new directions that could do more to create sustainable growth and jobs.

The risks of not substantively changing the growth path are clearly present in the current economic boom. It arises from the combination of strong gold and platinum prices, relatively high interest rates by international standards, and rapid growth in government spending. These factors have led to a substantial inflow of short-run investment, which has largely reinforced the dominance of the minerals sector. In 2003, mining accounted for a third of all foreign investment other than loans, and the financial sector for around a quarter.

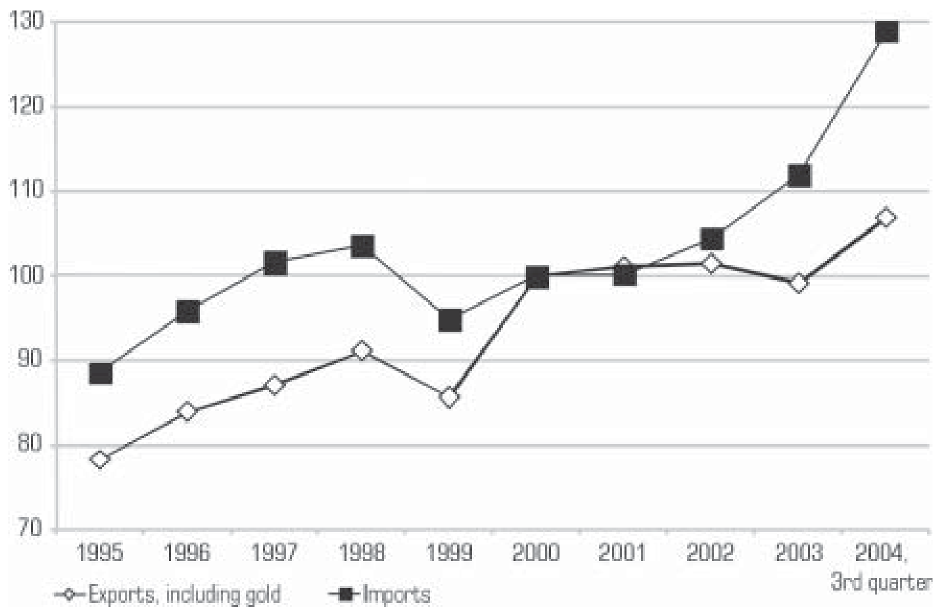
The inflow of portfolio investment has led to rapid appreciation of the rand against other currencies. As a result, exports have stagnated while imports have soared. Manufacturing in particular has lost ground.

Table 8: Investment by sector at year end, 2003

	Direct investment	Portfolio investment	Loans	Deposits	Total foreign liabilities
Financial and business services	29%	24%	37%	100%	*31%*
Mining and quarrying	34%	31%	4%	0%	*27%*
Manufacturing	25%	13%	11%	0%	*17%*
Community, personal and social services	0%	23%	34%	0%	*15%*
Other	13%	9%	14%	0%	*11%*
Total Percentage	100%	100%	100%	100%	100%
Billion rand	**R303 bn**	**R307 bn**	**R115 bn**	**R29 bn**	**R755 bn**

Source: Calculated from SARB, *Quarterly Bulletin,* December 2004, p. S-94. Downloaded from www.reservebank.co.za in December 2004.

Chart 8: Exports and imports by volume, 1995 to third quarter 2004



Source: South African Reserve Bank, *Quarterly Bulletin*, December 2004, p. S-89. Downloaded from www.reservebank.co.za in December 2004.

Meanwhile, in the absence of government intervention, the bulk of the new imports appear to be consumer goods, largely for the higher-income group (See Chart 8).

The danger, then, is that the current boom actually deepens dependence on commodity exports, especially gold and platinum, and vulnerability to global market vagaries. If commodity prices fall or international interest rates increase, the capital inflows could reverse. That, in turn, would lead to a fall in the rand – which would be useful for exporters and cut back on imports, but require difficult adjustments.

The experiences of other African states point out the risks. Colonial rule shaped most African economies into narrow dependence on a few commodity exports. When the world prices of those commodities were high, they expanded social services but did not develop alternative industries. When commodity prices fell, their economies plunged into crisis. Governments had to cut back on anti-poverty programmes just when they were most needed.

South Africa's economy is far more diversified than the rest of sub-Saharan Africa. Still, it remains relatively dependent on a few capital-intensive heavy industries. A critical challenge for fiscal policy is to use the budget, not only to stimulate overall growth, but to support development of agriculture, light industries and services in ways that both provide employment on a large scale and protect the economy from fluctuations in world markets.

A developmental approach to the budget

The People's Budget has long argued that budget policies should support 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.

In effect, as the RDP argued, South Africa faces a vicious cycle of poverty. The formal sector does not provide enough jobs, while the unemployed do not have the resources, skills or services they need to get jobs or support themselves. The poor cannot pay for the services or inputs they need, and the market will not break the vicious cycle. Instead, government must use its resources to achieve these aims.

From this standpoint, the expansion in the budget and improvements in government services for the poor are a critical improvement. But they are not in themselves sufficient to bring about more equitable development or drive sustainable growth. For that, all government programmes must do more to prioritise employment creation in both the formal economy and the historically marginalised areas, especially the former homeland regions.

A developmental approach requires a broad long-term strategy – a vision – that identifies the industries, structures of ownership and regions that should grow in order to provide more livelihoods. That would provide a framework to guide the economics departments toward more developmental measures. In addition, the social departments should review their programmes to direct anti-poverty measures more consistently to support the integration of marginalised communities and people into the economy.

Spending proposals

The People's Budget Campaign seeks, through its spending proposals, to identify areas of intervention that accelerate the process of poverty eradication. The spending proposals thus do not present a line-by-line analysis of the budget. Moreover, we recognise the important steps government has taken since 1994 in reallocating expenditure to programmes aimed at eradicating poverty. We believe that a robust programme of poverty eradication is not only desirable, but attainable in South Africa. These programmes taken together not only would realise the Millennium Development Goals, but would exceed these targets.

This section elaborates upon key proposals that we argue for. These proposals are:

- Extension of social security system, including the introduction of the Basic Income Grant;
- Increased spending on land redistribution to meet the targets set by government, which are, however, not ambitious enough;
- Extension of free basic services;
- Increased funding to implement the Domestic Violence Act;
- Increased investment in education and systemic improvements to achieve greater educational effectiveness; and
- Reconsideration of government's Social Health Insurance plans.

During the current financial year we will be developing proposals for economic services, with a focus on utilising the budget to support trade and industrial strategies that are job-creating.

The section on our revenue proposals outlines ways to finance such an expanded programme.

Extending Social Security

Government has both a political commitment and a constitutional obligation to ensure that everyone in South Africa has access to social security.[1] 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 completely 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.
- Calculated that, even with full take-up of existing grants – in other words, if all people eligible for grants in 2002 received the full benefits to which they were entitled – the social security system only had the capacity to close 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 healthcare, 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 Taylor 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%.[2]

Consistent with the Taylor 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 South Africa, 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.
- Be delivered primarily through public institutions.

Table 9: Number of social grant beneficiaries by type of grant, 2001-2004

Grant type	April 2001	April 2004	Average annual change, 2001–2004	% of total, April 2004
Child Support Grant	974 724	4 309 772	64.1%	54.3%
Old Age	1 877 538	2 060 421	3.1%	25.9%
Disability	627 481	1 270 964	26.5%	16.0%
Foster Care	85 910	200 340	32.6%	2.5%
Care Dependency	28 897	77 934	39.2%	1.0%
Grant-in-Aid	9 489	18 170	24.2%	0.2%
War Veterans	6 175	3 961	–13.7%	0.0%
Total	**3 610 215**	**7 941 562**	**30.1%**	**100%**

Source: Department of Social Development.

Table 10: Social grant beneficiaries by province, 2001-2004

Province	April 2001	April 2004	Average annual change, 2001–2004	% of total, April 2004
Eastern Cape	722 440	1 501 031	27.6%	18.9%
Free State	205 003	503 063	34.9%	6.3%
Gauteng	425 615	976 533	31.9%	12.3%
KwaZulu-Natal	792 144	1 836 935	32.4%	23.1%
Limpopo	491 680	1 152 621	32.8%	14.5%
Mpumalanga	250 849	580 684	32.3%	7.3%
Northern Cape	100 271	169 102	19.0%	2.1%
North West	304 075	637 312	28.0%	8.0%
Western Cape	318 136	584 241	22.5%	7.4%
Total	**3 610 215**	**7 941 562**	**30.1%**	**100.0%**

Source: Department of Social Development.

This section first reviews trends in spending on and coverage of current social grants. It then examines the impact of the current system of social grants before assessing the potential impact of a BIG on poverty and development. It considers common objections to a BIG and, finally, it reviews some possible 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 five million by 2003, as seen in Tables 9 and 10.

Most of this increase is attributable to the phased extension of the Child Support Grant (CSG). Initially available to poor children under the age of seven, the grant will, from 2005/06, be extended to include all poor children under the age of 14. In April 2001, fewer than one million children were receiving the CSG, even though the eligible population was estimated to be 3,6 million. A high-profile registration drive by the Department of Social Development, together with the extension of eligibility to age 11, added 3,4 million beneficiaries by April 2004. The total number of children receiving the CSG is expected to rise by a further 1,5 million to a total of 6,8 million by the end of the 2005/06 financial year, by which time all poor children under the age of 14 should be eligible to receive the grant.[3]

Overall, the People's Budget Campaign welcomes the extension of the CSG. However, the decision to exclude children between the ages of 14 and 17 seems arbitrary and may therefore even be Constitutionally dubious.

The impact of the current system of social grants

Government's review of programme implementation during the first decade of democracy highlighted the importance and effectiveness of social grants as a mechanism to alleviate income poverty. Two-thirds of the income received by the poorest 20% of households comes in the form of state transfers.[4]

This assessment has been confirmed by recent research, commissioned by the Department of Social Development, which examined the effects of social assistance on poverty, household development, labour market participation and the national economy.[5] The extensive study found:

- South Africa's system of social grants effectively reduces poverty, regardless of which of several methods is used to determine the poverty line. The size of the impact varies depending on the poverty line selected, but with full take up of the State Old Age Pension, the Disability Grant and a CSG extended to all poor children under 14, the poverty gap closes by between 24% and 40%.
- Social grants are effective in reducing hunger and in enabling households to meet their basic needs. Households that receive grants tend to spend more on basics like food, fuel, housing and household operating costs, and less on tobacco and interest charges on debt. Members of households that receive grants are less likely to experience hunger, even when compared with households that have similar incomes but do not receive grants.
- Social grants are developmental. Children in households that receive grants are more likely to attend school. Grant-receiving households have better access to piped water and tend to spend less on healthcare.
- People who live in households that receive social grants are more likely to find jobs and, once employed, tend to earn faster wage increases than those who live in households that do not receive grants. The report's findings support the view that social grants increase both the supply of and the demand for labour.
- 'On balance, the macroeconomic impact of South Africa's social security system is largely positive. These positive macroeconomic effects support higher rates of economic growth, which are reinforced by the social security system's positive effects on income distribution and education.'[6]

The impact of a Basic Income Grant

A BIG would amplify the poverty-alleviating benefits of the current system of social grants by providing **all** households with a minimum level of income to enable them to meet their basic needs more fully. At the same time, it would stimulate equitable economic development, promote family and community stability, and affirm 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.) The result would be a fair distribution of the costs of meeting the basic needs of poor households.

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 healthcare 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 healthcare.

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. The BIG could even act as a form of general reparations, along the lines proposed by the Truth and Reconciliation Commission.

Common objections to a BIG[7]

Grants vs. work: A false dilemma. Social grants are often misunderstood as an alternative to employment. For example, following the July 2003 Cabinet, Lekgotla, 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 paid 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* fortunate enough to have these categories of people qualifying for such grants, while excluding millions who do not. The notion of targeted grants in this context is thus a fiction.

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 *per se* 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.[8]

Capacity to deliver a BIG. Some officials who have recognised the value of a BIG in principle have raised doubts about the practical difficulties of 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 the tax system 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, thanks to the efficiency of the South African Revenue Service. 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 manifold, both in reducing bureaucratic logjams and extending the economic benefits of banking services to the majority.[9]

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 South African 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 government'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 12, 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. Firstly, 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 CSG to poor children under the age of 14 will further diminish the net cost of introducing a BIG.

Secondly, 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. [10]

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. In most of the configurations considered, however, the vast majority of the population would be net beneficiaries if a BIG is introduced. The analysis of one of the participating economists, for example, found that everyone in the six poorest deciles – 60% of the population – and most of the people in the seventh and eighth deciles would be better off. Between a half and a third of those in the ninth decile would benefit, and only a tiny proportion of those in the wealthiest 10% of the population.[11]

Despite some differences of opinion on details, the four economists involved in the project agreed on a number of key points:

The BIG 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 BIG. The four economists modelled 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, introduction of a tiered 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.

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, and 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;
- Develops proposals for a more expansionary land budget.

Developments in land policy

Although land reform policy has evolved considerably over the past ten years, it continues to be defined by four key trends. First, the programme's vision, budget and impact on patterns of land ownership are all extremely limited. Land reform in South Africa is no longer about a rapid reversal of past dispossession, but rather a gradual and modest redistribution of land through consensual, market-based methods. The total amount of land transferred to black ownership through all aspects of the land reform programme up to September 2004 amounts to 4,2% of total agricultural land – still far short of the official target of 30% to be achieved by 2015.

Second, 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 been severely curtailed, as in the case of the Settlement/ Land Acquisition Grant (SLAG) and municipal commonage. Others, such as the food safety-net programme promised under the Land Redistribution for Agricultural Development (LRAD) programme, have simply failed to materialise. 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 Department of Land Affairs (DLA), but also by the Land Bank and the National Department of Agriculture.

The Agricultural Broad-Based Black Economic Empowerment Framework (AgriBEE) unveiled by the Minister of Agriculture and Land Affairs in July 2004 seems largely consistent with this new direction, despite its use of the term 'broad-based'. The framework is to be commended for setting clear and ambitious targets throughout the agricultural value chain (i.e. not just at farm level, but also in agricultural processing industries), for recognising the need to transform land ownership patterns and for its commitment to making 10% of agricultural land available to farm workers. However, the targets set by the charter continue to be focused primarily on deracialising the demographics of shareholding, management and procurement, indicators most relevant to larger farms and agribusinesses. The framework does not posit a new vision of agrarian transformation in which farm workers and the rural poor are seen as central stakeholders, participants and beneficiaries; in fact, it makes no mention of poverty whatsoever. It reiterates government's existing target for land redistribution without identifying any new mechanisms for realising that objective. The establishment of targets designed to make additional high-value agricultural land available for lease by black farmers is welcome, but is likely to have limited impact on economic transformation in the industry, especially with respect to poorer communities.

Third, the land reform programme has resisted interfering with existing property rights, despite clear constitutional support for transformation. This is most evident in the 'willing seller, willing buyer' 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. The Restitution of Land Rights Amendment Act, enacted at the end of 2003, may signal a move away from this highly conservative policy. The Act empowers the Minister of Agriculture and Land Affairs to expropriate land for land reform purposes and streamlines the expropriation process. However, the Act has not yet been invoked, and it appears likely that it will be applied very selectively, so its overall impact on land reform may be limited.

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. Hopefully, the new Comprehensive Agricultural Support Programme (CASP), for which R750 million has been allocated over the next three years in the form of conditional grants to provinces, will provide more effective post-transfer support to beneficiaries, but it is still too early to assess the impact of this initiative.

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.

The unreliability of data on land transfers and numbers of beneficiaries makes it difficult to assess progress on land reform with any certainty. 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 of redistribution will need to increase dramatically, probably as much as fivefold. According to official figures, the amount of land delivered by all land reform programmes jumped enormously between March and October 2004, from 2,5 million to 3,5 million hectares, an amount equivalent to 4,2% of total commercial agricultural land. However, this figure includes non-agricultural land, such as protected areas; land under existing, but newly secured black tenancy; and close to 800 000 hectares of state land that was not included in some previous reports. About 30% of the remaining 2,7 million hectares has been transferred through restitution, while most of the rest has been allocated through the SLAG and LRAD programmes of redistribution.

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.

Land redistribution

By 31 August 2004, a total of 1 877 754 hectares (ha) of land had been transferred under the land redistribution programme to 153 545 households plus 39 221 individuals.[12] 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 2002, there was a fairly steady increase in both the amount of land being transferred and the number of projects implemented. Since then, there has been a decline in the transfer of land per year, as well as a marked decline in the land area per project, reflecting a shift from larger group projects to smaller, often family-based schemes. Such projects typically have fewer beneficiaries, but the DLA's failure to distinguish consistently between household and individual beneficiaries makes it difficult to identify any clear trend or determine conclusively the total number of beneficiaries (See Table 11).

The recent shift to smaller projects with fewer beneficiaries can be attributed in part 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.

Table 11: Land redistribution, 1994-2004

Year	Total hectares	No. of projects	Average project size (ha)
1994	71 656	5	14 331
1995	26 905	12	2 242
1996	72 416	49	1 478
1997	142 336	97	1 467
1998	205 044	236	869
1999	245 481	156	1 574
2000	222 351	236	942
2001	249 302	400	623
2002	299 969	742	404
2003	158 668	502	316
2004 (to Sept)	183 625	251	732
Total	**1 877 754**	**2 686**	**699**

Source: Ministry of Agriculture and Land Affairs, cited in *Umhlaba Wethu* 2 (December 2004)

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 five years. Of the 79 694 claims that have been validated by the Land Claims Commission, 56 650 claims had been settled by the end of August 2004. The vast majority of these were urban claims that were settled by means of financial compensation, as seen in Table 12.

Relatively little land – just over 800 000 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. Given the complexity of these rural claims, it is highly unlikely that the government will achieve its stated goal of settling all outstanding claims by the end of 2005.

Table 12: Settled restitution claims by province as of 31 August 2004

Province	Claims	Households	Hectares	Land cost (R)	Total award (R)
Eastern Cape	15 886	40 358	45 738	204 526 881	868 450 250
Free State	1 674	3 442	45 748	16 909 206	55 800 449
Gauteng	11 932	11 748	3 555	62 537 367	616 080 815
KwaZulu-Natal	10 551	26 307	187 583	487 986 253	998 480 348
Limpopo	1 314	19 886	121 466	236 061 308	373 350 135
Mpumalanga	1 546	20 973	97 983	377 785 091	514 597 858
North West	2 498	13 822	71 484	93 992 542	256 158 485
Northern Cape	1 792	5 564	233 634	69 753 602	146 564 827
Western Cape	9 457	12 685	3 101	8 096 187	384 854 965
Total	**56 650**	**154 785**	**810 292**	**1 557 648 437**	**4 212 338 132**

Source: Ministry of Agriculture and Land Affairs, cited in *Umhlaba Wethu* 2 (December 2004)

Tenure reform

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

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 the DLA, it is not possible to say how many labour tenants have acquired ownership of the land they use.

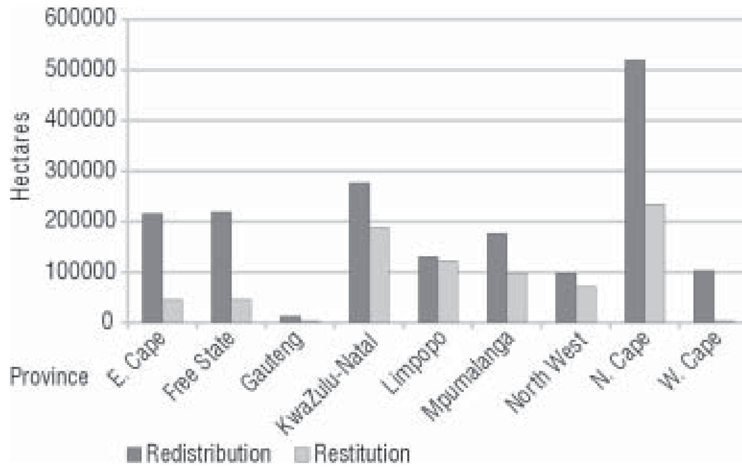
Measures to protect people with informal rights to land in communal settings in the former homelands are particularly problematic. This area of policy is meant to be addressed by the Communal Land Rights Act (CLRA), enacted by Parliament in early 2004, but many organisations have expressed grave doubts about the capacity of the legislation to enhance tenure security for most people living on communal land.

Reform of communal tenure has, however, progressed somewhat in the 23 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. During 2003/04, the state consulted 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 Chart 9, which graphs the two main types of land transfer – redistribution and restitution.

Chart 9: Land transferred, 1994-2004



Sources: Redistribution as of March 2004, DLA: M&E; Restitution as of August 2004, *Umhlaba Wethu* 2 (December 2004).

The DLA stopped providing provincial statistics for land redistribution after 2002, so it has not been possible to update Figure 2. Nonetheless, it illustrates the broad trends in land redistribution. 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. The largest quantity of land transferred has been in the semi-arid Northern Cape. Performance has been relatively good in KwaZulu-Natal, where more than 300 000 hectares, including substantial areas of good quality land, have been transferred.

General comment

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. Other 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 the DLA to spend its land reform budget; and
- The creation of implementing partnerships with statutory and non-statutory agencies.

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

Chart 10 shows the long-term trend for the two main line items of the land reform budget: land reform (i.e. land redistribution plus tenure reform) 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 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 15 years (i.e. by 2015) – requires an average yearly transfer of more than two 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. Below, 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 items.

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

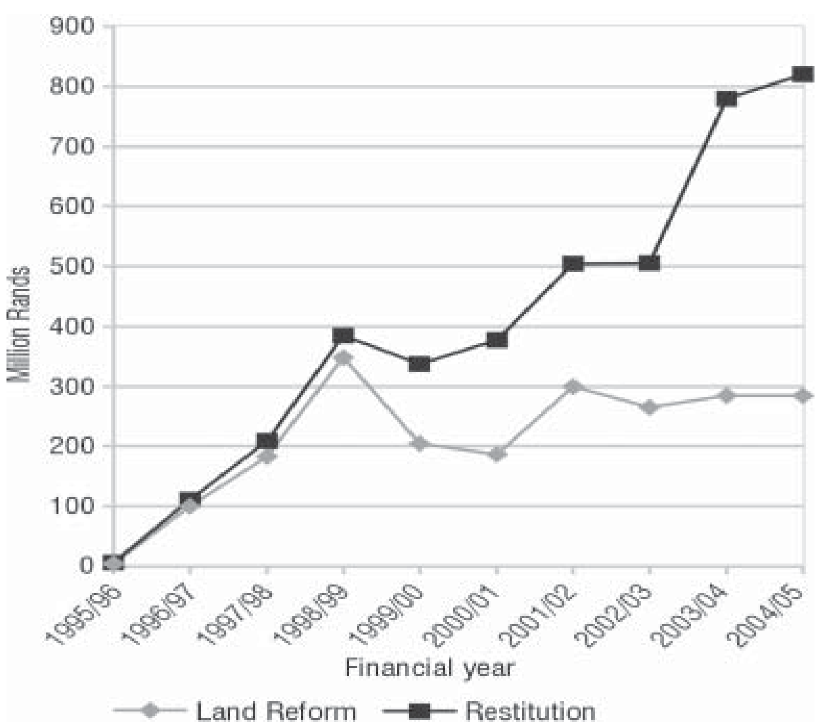
Increased allocations for the purchase of land. The total value of land and fixed assets on South African farms was estimated at R57 billion in 2002 (NDA 2002). To purchase 27% of this would cost R15,4 billion which, if spread over the next 10 years at constant prices, would cost roughly R1,5 billion per year. The total projected budget for land acquisition through 'land reform' for the 2005/06 financial year is R444 million. At current land prices, this is likely to finance the purchase of less than 0.8% of agricultural land, a relatively minor contribution to the overall aim of land reform. If government's target of redistributing 30% of agricultural land by 2015 is to be met through the land reform programme, then the land reform budget would have to triple.

When the restitution budget is factored in, the total allocation comes closer to what is needed. In the 2004/05 budget, the transfers and subsidies portion of the land restitution budget is close to R1 billion in 2005/06. Also according to MTEF projections in 2004/05, the combined budgets total R1,4 billion in 2005/06 and R1,8 billion in 2006/07. However, a substantial portion of the restitution budget is spent on cash compensation for restitution claimants, rather than on land purchases.

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 order to achieve this, the land reform programme would require a capital budget of at least R1 billion per year, more than double the current allocation.

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 agricultural land up to 2003 was R1,72 billion (in nominal terms).[13] 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

Chart 10: Budget for the Land Reform Programme, 1995/96 to 2004/05



Source: National Treasury 2004, cited in PLAAS Policy Brief No. 13 (August 2004). (Adjusted for inflation using CPI, 1995=100) 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 R1,72 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 R994 million to restitution in 2005/06 and R1 198 million in 2006/07. 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 being settled by cash compensation or other means, as well as restitution discretionary grants and settlement planning grants, and possibly in the region of R1 billion to settle the estimated 25 000 outstanding urban claims. Indeed, the Commission on Restitution of Land Rights estimates that it will require approximately R13,5 billion to settle all outstanding restitution claims.

The official target of settling all outstanding claims by the end of 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, in excess of 100%.

A more realistic target would be to settle half of the currently outstanding claims by 2010. In terms of the 2005/06 estimates, this would require an increase in the budget for restitution from R994 million to R1,67 billion.

Earmarked funds to support tenure reform. The Communal Land Rights Act has implications for millions of people residing in the former homelands. The DLA has estimated that it will cost at least R1 billion a year over the next five years to implement the legislation, and yet the current budget does not specifically allocate funds for this purpose. Funds are needed to finance support service related to land administration, land management, rights enquiries and the provision of alternative land in terms of the Act's comparable redress mechanism. In addition, resources are required to settle the claims of 20 000 labour tenants, most of which are still outstanding, and to secure their rights through various means, including legal representation and alternative dispute resolution mechanisms.

The People's Budget recommends that a realistic amount – in the order of R2 billion per annum – be earmarked specifically for tenure reform, over and above the existing land reform budget.

The Department of Land Affairs faces a dual challenge in the coming years. On one hand, it must develop realistic costings for different aspects of land reform and must secure funding on a scale sufficient to meet government's redistribution targets. On the other hand, it must reassess the merits of the current market-based approach in light of the slow and costly progress achieved over the past ten years.

Domestic violence

Box 2: The reality of domestic violence

Mrs A lives with her 19-year old daughter Margaret and her daughter's boyfriend Tshepo. The couple has a small baby. Over the last year Tshepo has become increasingly threatening to Margaret and has also assaulted her. Margaret and her mother have both reported the assaults to the police. Mrs A also laid a charge against Tshepo. He was never arrested and the matter never prosecuted. Margaret has obtained a protection order against Tshepo. After he threatened Mrs A as well, she also obtained a protection order against Tshepo. When he violated the protection order, Mrs A reported the matter. Again the police did not respond. Tshepo threatened to come back and hurt both Mrs A and Margaret. When he tried to enter the flat later that night, Mrs A threw boiling water over him and burnt him. She had been keeping the pot on the boil the whole day, thinking that if the police were not going to protect her and Margaret from Tshepo then she would have to take action instead. Mrs A has been arrested and charged with assault with the intention to do grievous bodily harm.

The connection between crime and poverty is well-established, but more so is the connection between vulnerability and crime. Poor women and children are more likely to be victimised as they enjoy fewer protection services in their homes and places of work. The state must intervene to protect those at risk of violence and to promote equitably the rights of all citizens.

The Domestic Violence Act

The Domestic Violence Act (DVA) was introduced in 1998; it replaced the Prevention of Family Violence Act (No. 133 of 1993). Significantly, the DVA introduced a broad definition of domestic violence that includes physical, sexual, emotional and economic forms of abuse, and also recognises that such behaviours can occur in a range of familial, inter-personal and domestic relations. The DVA also places specific, legislated responsibilities upon the police for the first time, stipulating how they should deal with domestic violence. It also places monitoring and oversight functions associated with the Act's implementation upon the Independent Complaints Directorate (ICD) and Parliament – although Parliament has been slow to request the semi-annual reports required of both the ICD and SAPS.

Since the enactment of legislation in 1998 and its operationalisation in 1999, the Department of Justice has made attempts to clarify the roles and responsibilities of the various line departments and the courts in the implementation of the legislation. Monitoring of the implementation of the DVA in the Western Cape has highlighted the following problems:

- Attitudinal problems among police officers regarding their perceptions of domestic violence;
- Under-resourced courts and police stations;
- Fragmentation in the administration relating to service provision in the courts, the police and the health sector;
- Poor administration of DVA applications and access to information;
- Police negligence;
- Limited resources available to issue documentation, police staffing limitations, etc.;
- The Department of Justice's inability to pre-cost legislation and allocate resources accordingly;
- The inherited apartheid landscape resulting in under-resourcing of rural areas, infrastructure and access to police stations; and
- As a consequence poor households are often unable to afford transport costs to courts and police stations in order to report domestic violence or apply for protection orders.

Although the growing number of Saturday courts and the establishment of local courts in sub-economic areas such as Khayelitsha have improved legal efficiency, budget limitations and administrative burdens still prevent the courts from operating at an optimal level.

The research suggests that too few resources have been allocated to the implementation of the DVA, thereby compromising abused women's access to justice. However, costing the DVA is complicated by the need for both intra-departmental and inter-departmental cooperation and budgeting. Further, current performance indicators for the Department of Justice and Constitutional Development and SAPS do not measure their success (or lack thereof) in implementing the DVA.

It is proposed that:

- Government undertake a detailed costing of the implementation of the Act, including budgeting for training to familiarise criminal justice system personnel with the DVA and to enhance their understanding of domestic violence, and for funds to reimburse poor clients who must travel substantial distances to access the criminal justice system;
- The Department of Justice's budget must explicitly indicate the amount of money allocated to the implementation of the Domestic Violence Act;
- All departments involved with the implementation of the DVA must develop indicators specific to the DVA against which their performance may be measured; and
- Parliament exercise its legally-mandated oversight function in order to identify problems and strategies for their resolution.

Free basic services

The provision of free basic services is crucial to addressing capability and asset poverty. In previous years, the People's Budget Campaign proposed the free provision of a basket of basic services that includes water, electricity, telecommunications and refuse removal in order to establish minimum living standards below which no-one should fall. We believe that the provision of free basic services is necessary to extend services in a sustainable and affordable manner to the majority of South Africans. We have also called for the pricing of the basket of services used as the benchmark for municipal subsidies to be increased, and for a greater proportion of nationally raised revenue to be allocated to local government.

The challenges for local government to provide free basic services are indeed great. First, delivery levels and capacity across municipalities differ greatly. Project Consolidate is developing a profile of local governments in South Africa and has identified the municipalities requiring support based on the variables in Table 13.

According to government, the profiling exercise showed that 'government has, in the last decade, made significant progress with regards to poverty alleviation and job creation … [yet] there are still a number of municipalities, who are located in specific geographical areas, who continue to face challenges in the delivery of basic services'. It committed itself to 'accelerate the provision of services to communities and households that were excluded before 1994, particularly in areas that have the greatest need'. It would also improve the quality of services that were provided.

Government aims to undertake the project by:

- Establishing a Support Unit and associated deployment mechanisms to identify and unblock bottlenecks inhibiting the acceleration of service delivery and institute sustainability measures;
- Establishing complementary project management units and support structures to enable the

Table 13: Profile of challenges and backlogs in South African municipalities

Profile	No. (out of 284)	% of total
No. of municipalities with more than 30% of their earning population earning **income** less than R1600 per month	241	84.9
No. of municipalities with an **unemployment** rate greater than 35%	135	47.5
No of municipalities with more than 50% of their households considered **indigent** (with a monthly income of R1600 or lower)	226	79.6
No. of municipalities with less than 60% of their households with access to **refuse removal** (weekly pick up by municipality or agent thereof)	182	64.1
No. of municipalities with less than 60% of their households with access to **sanitation** (flush toilet, chemical toilet or septic tank)	203	71.5
No. of municipalities with less than 60% of their households with access to **electricity** (at least for lighting)	122	43.0
No. of municipalities with less than 60% of their households with access to **water** (in dwelling or in the yard);	155	54.6
No. of municipalities with less than 60% of their households living in formal **housing**	116	40.8

Source: Calculated from pp.12-13 – Project Consolidate, DPLG 2004.

province to play its constitutional role with regard to local government;

- Having municipalities develop a practical programme that will recognise the results of the municipal profiling exercise and work together with national and provincial government to address these challenges;
- Interacting directly with municipalities and local communities in partnership with state-owned enterprises, private sector organisations, labour organisations, civil society and development agencies to implement this project.

Through Project Consolidate, the municipal support is envisaged to occur in the form of, among others:

- Public empowerment;
- Participation and community development;
- Integrated human settlement development;
- Free basic services which target poor households,
- Appropriate billing systems;
- Reduction of municipal debt;
- LED, job creation, public works programme and municipal infrastructure; and
- Special interventions in rural and urban development nodes.

It is also envisaged that Project Consolidate will contribute to the Millennium Development Goals, which include reducing unemployment and poverty by half.

Second, municipalities face challenges in their relationships with water boards and electricity generators (i.e. Eskom). At the heart of these challenges lie the contradiction between providing free basic services and a narrow business logic. Some suppliers of water and electricity have, in fact, slowed down the process of extending free basic services through tabling contractual obligations that effectively render the system of free basic services unworkable. There are, however, several models where the implementation of free basic services has worked. The People's Budget Campaign calls on government to develop a detailed set of agreements with water boards and Eskom to support the delivery of free basic services.

Third, the costs of providing free basic services require additional funding. In a recent paper commisioned by National Treasury (Jan 2004), published by the HSRC, findings around the backlogs of free basic services are noteworthy.[14] While the focus of the study is on rural areas, the conclusions point to an overall picture.

The paper correctly describes the challenging context for realising free basic services. It asserts that over the past 10 years, 'delivery has not been in a straight line' and attributes this to the 'constantly changing institutional framework (from RDP to GEAR, from loosely managed systems to the production of key performance indicators, from national to local government delivery, etc.)', leading to differing levels of success.

The author concludes that:

- Perpetuating existing expenditure trends (roughly based on the previous year's spending, plus inflation) is an inadequate approach to ending destitution in the rural areas. He indicates that 'considerable additional resources are needed to make these services available to the rural poor'.

- The paper also notes that the 'easy part of delivery has been the investment in infrastructure to the more accessible communities on the basis of line function departments and public institutions'. The investment strategy was an incremental growth in infrastructure of water services and of electricity to the unserved poor in the order of 0.33% and 0.36% respectively of total state expenditure in 2003/4.
- The current targets of accelerated delivery in water and sanitation are designed to clear the backlog in water delivery by 2008 and that of sanitation by 2010. It is not clear whether these are attainable.
- There has been less emphasis on electrification, although a general goal would be to extend the grid or develop alternative sources so that the rural poor can enjoy improved access to electricity.
- An annual level of R2.3 billion in electrification and R3.2 billion in water and sanitation is needed to clear these backlogs, based on several models that were developed to quantify the costs of investment in infrastructure.
- The institutional context for sustainability has also been developed.

Importantly, the paper also notes that, while in the past there was a disproportionate focus on economic growth being regarded as providing the basis for sustained development, there is an increasing realisation that service delivery is in itself as critical to human development.

Clearly economic growth is not a panacea; it is the nature, type, labour-intensiveness and linkage to human development indices that are critical.

Fourth, free basic services must run together with local economic development and spatial development initiatives. Thus, it is critical to note the proposals contained in the Programme of Action of government, led by the President's Office, as well as the implementation of the National Spatial Development Perspective (NSDP) insofar as it impacts directly on the location, extent and sustainability of free basic services.

NSDP objectives were not discussed in the public domain. While it is an important study, some of the recommendations are also controversial and require further debate. The NSDP attempts to describe a 'space economy' and makes key recommendations regarding the extent and focus of interventions in certain geographic locations. Indications are that further urbanisation of cities will continue, with growing peri-urban challenges. This is evident in findings in the Hemson study that backlogs have worsened slightly in the Western Cape and Gauteng – provinces to which thousands of poor people are migrating in search for work and a better quality of life.

An integrated set of proposals for extending free basic services is proposed comprising of three pillars. These are:

Increasing funding and subsidies: We proposed that subsidies to finance the delivery of free basic services occur through transfers, in the form of increased equitable and conditional grants, from national to local government. Specifically, we suggest that components of the equitable share be adjusted in order to correct the underestimations in costing subsidies for the poor.

The People's Budget proposes the development of a framework to ensure universal and affordable access to basic services, based on cross-subsidisation of poor households by the rich and, where appropriate, industry. The system of free basic services should be improved by raising the free amount and ensuring that the cost is borne by the rich, and the incidence of user fees must be monitored consistently. Since most of these services are provided at a local government level, we suggested that funding support for these services occur by means of linking local level schemes at national level subsidy.

Improving the capacity of local government: Since 2001, several advances were made in effective delivery of free basic services. However, the affordability and sustainability of these services have been problematic. It was and remains the practice of municipalities and service providers, largely in an effort to ensure payment and 'balance their books' as a result of budget constraints, rising municipal debt and poor payment, to cut off households from services at an alarming rate.

This has disproportionately affected the poor and may have even reversed some advances. For example, cut-offs include telephone disconnections. Furthermore, many poor households have lost RDP houses as a result of being unable to maintain the relatively high costs of services and personal debt.

So too has the poor integration of housing and infrastructure programmes, as part of the broader development strategy, and as outlined in the RDP, largely failed to realise the objective that adequate housing will contribute to employment creation, better living conditions and access to work, etc. The persistent apartheid spatial geography remains, continuing to cut into the disposable income of workers residing in small houses far from city centres.

In order to assess progress and critically assess the progress made by government, in particular insofar as realising the Millennium Development Goals, it is critical to examine a few key findings and developments.

Improving accountability: In realising these proposals we are calling on our constituencies to make local government more accountable by:

- Engaging more critically and continuously with provincial governments and local municipalities, who increasingly are responsible for services that were previously driven at a national level.
- Participating constructively, yet critically, in assessing and reviewing priorities identified in Integrated Development Plans of municipalities.
- Continuing advocacy for additional resources and more progressive policies to ensure sustained delivery to the poor and working families and systematically eliminate backlogs in basic services.
- Critically monitoring and engaging recommendations regarding the major review of local government equitable share allocation and formula. This is especially important since it is aimed to ensure that municipalities with low fiscal capacity are adequately resourced and empowered to collect their own revenues.
- Engaging with DPLG and selected municipalities on the capacity of municipalities to control credit and manage municipal debt insofar as it affects their capacity to alleviate the plight of the poor.
- Engaging government on the implementation of Project Consolidate and the NSDP.
- Taking up the debate regarding the efficacy of services and programmes for citizens in the so-called 'first' and 'second' economies.

Education – The doors of learning and culture shall be open to all

The People's Budget Campaign makes three proposals on education spending. These are:

- 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 and Training (ABET).
- Adopting a policy of scrapping school fees in line with government's commitment to provide free and universal access to children.

Increasing spending on the education budget

Our call for an increase in the education budget will inevitably lead to controversy. Critics of increasing the education budget argue certain major points. First, they point out that education is already the largest single item in the budget, accounting for 23% of total spending. Second, they claim that the effective use of existing resources, and not the expansion of those resources, is at the centre of improving educational outcomes.

We agree that more effective use of existing resources is part of the solution. However, without additional resources we are unlikely to see significant improvements in educational performance. This is due to the following reasons.

- **Infrastructure backlogs are still large.** Of particular concern is the low level of capital expenditure in poorer provinces that have huge backlogs. Currently there is a shortage of about 57 000 classrooms. As a consequence, only 80% of an educator's time can be properly utilised (Bot, 1999). Many schools have fewer educators than classroom facilities, forcing the average class size to increase. The depth of inequities in terms of resource provision cannot be overstated, as historical inequalities are deep-rooted and difficult to eradicate. Current estimates suggest that redressing the problems outlined by the most recent School Register of Needs survey (DoE, 2001) requires an additional R3 billion per year over the next ten years.
- **Inequity remains a significant problem.** While significant measures have been put in place to reduce inter-provincial inequality, less reform has been achieved in terms of schooling. South Africa has inherited a highly differentiated public schooling sector, with socio-economic status still determining access to better-resourced schools and the burden of school costs increasingly relegated to private households (Van den Bergh, 2001; Porteus, 2000). Most importantly, transport and other hidden costs limit access to well-resourced schools for children living in poor areas. The main redress instrument to assist previously disadvantaged schools is the Norms and Standards for School Funding (DoE, 1998a). This policy, however, applies only to recurrent non-personnel costs, which on average represent only 7.8% of provincial budgets. The overall amount targeted for previously disadvantaged schools is too small to make an impact.
- **Teacher qualifications and class size vary greatly.** In attempting to explain what provides enabling conditions for the achievement of quality, Case and Deaton (1997) conclude that

high learner:educator ratios in disadvantaged areas discourage education attainment on the basis of age and lower test scores. Fleisch (2001) concurs with this view. Moll (1991) found that the earnings of black workers were higher when they had been educated in districts with more qualified teachers, and estimated that the rate of return for improving teacher quality was higher than the rate of return for years of education at constant quality.

- **Many children are excluded from Early Childhood Development.** While the RDP requires introduction of a reception year as part of the 10 year free education, only between 400 000 to one million children may have taken up the reception year policy offerings (grade 0/grade R) when it was offered. The South African Congress for Early Childhood Development (SACED) estimates that at least four million children are thereby denied the right to learning. The Centre for Education Policy Development (CEPD) reported in 2001 that 'only 275 044 learners were recorded, which represents only a quarter of grade 1 enrolment. Many young children are thus not receiving school readiness programmes'.

However, there are many who would argue against increasing educational spending even if they agree with the developmental case we have provided. The basic argument is that educational spending constitutes an already significant percentage of the budget, and that increasing educational spending will crowd out spending in other areas. Our response is two-fold. Firstly, even in the context of a moderately expansionary budget, the educational share of the budget has been falling. Chart 11 shows the declining trend for educational spending as a percentage of total spending.

The decline of education as a percentage of total spending, and the projected decreases in spending over the medium-term, will mean that resources to turn around the educational system will not be available. Thus the educational sector is likely to face continued decline in quality, as resources aimed at catalysing change in the educational system will simply not be available.

Secondly, while the educational budget is large the redistributive thrust of the education budget is limited to recurrent non-personnel spending. Establishing organisational systems to manage the implementation of this equity instrument has also proved difficult (Chakane, 2002; Simkins, 2002). Moreover, as Wildeman (2003) concludes, most provincial departments are prioritising the 'most poor' learners at the expense of other learners whose conditions are not noticeably different, or at the least, very challenging and not conducive to maximal learning.

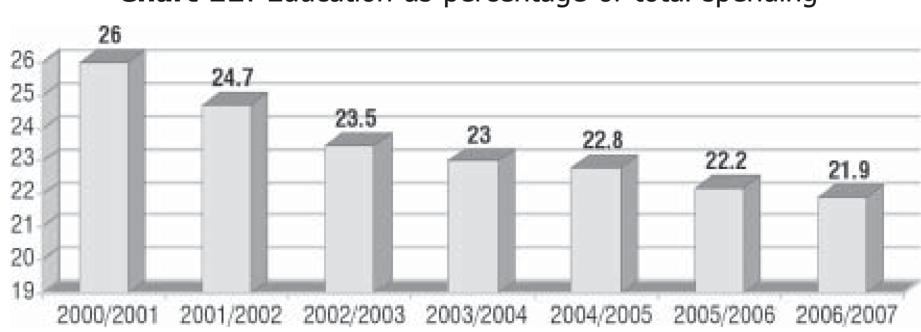
Of particular concern is the low level of capital expenditure in poorer provinces that have huge backlogs. Currently there is a shortage of about 57 000 classrooms. A consequence of this is that, as mentioned before, only 80% of educator time can be properly utilised (Bot, 1999).

School fees

South Africa has pledged its commitment to the UN Millennium Goals which include, *inter alia*, the provision of universal free primary education. This is not an easy promise to honour, as the experiences of a number of African countries that have recently adopted free primary school policies demonstrate [Malawi (1994); Uganda, Cameroon (1999); United Republic of Tanzania (2001); Zambia (2002); and Kenya (2003)]. All required additional donor funds and debt cancellation to realise the right of education for all. A World Bank Survey of 79 countries found only Algeria and Uruguay did not charge any type of fees at all. This excluded indirect costs such as transport (UNESCO Education Today Newsletter, September 2004). UNESCO has found that even in countries that formally abolished fees, both direct and indirect fees are still widespread.

Education – even public education – remains costly in South Africa. Although public education is funded primarily by taxes, most cash-strapped schools will

Chart 11: Education as percentage of total spending



Source: National Treasury, 2004. Budget Review, 2004 continue to charge fees as long as there is no clear policy prohibiting the practice.

The Department of Education Costs Review report found that most schools charge fees of R100 a year or less. While this may not sound very much, it represents a significant percentage of the disposable income of the nine million or more people who live in extreme poverty. School fees raised a total of R3,5-R5bn in 2002, which means that 8-12% of the cost of public schooling is shifted directly onto parents (*Sunday Times*, 9 March 2003).

Cassim (2004) has pointed out the contentiousness of private inputs into public schooling. It impacts 'on access and the constitutional right to basic education, the complexities of implementing fee exemptions, the effective management of devolved financial powers to schools, the actual levels of income in poor communities, and the relative proportion that is used for school access'.

The impacts of school fees include:

- Exclusion from full participation in learning and schooling.
- Exclusion from being a member of a particular school (a number of schools pre-select learners based on their parents credit-worthiness, which may be illegal).
- Humiliation as a result of denial of access to report cards and learning support materials, excursion trips or school feeding schemes, or being made to wear a card indicating non-payment, etc. In some cases learners are not allowed to write exams/tests, which are fundamental rights.
- Suffering a loss of dignity by being made to prove one's poverty to qualify for exemptions or being reminded of one's status in front of others.
- Pressure on relatives, including grandparents, to use pension money to pay school fees.
- The exchange of sexual favours for school fees, as a Medical Research Council study revealed occurred among 8.2% of women surveyed in Soweto (*The Star*, 10 July 2002).
- The isolation of poor learners, as occurred at one primary school in KwaZulu-Natal where some learners were taught in a combined school hall and denied certain facilities because parents did not pay fees (*Natal Witness*, 26 January 2001).
- The expulsion of chronic late payers, defaulters or those who simply cannot afford to wear correct uniforms.
- Learners dropping out of school to labour or loiter, as in Port Elizabeth where those excluded were 'touting on taxis and hawking vegetables' (*The Herald*, 12 March 2002).
- Parents simply deciding not send their children to school because they recognise the importance of fees to the smooth operation of the school, but they do not have sufficient funds to pay fees and fear their children will be excluded if they do not pay (wide spread anecdotal evidence and also *Die Burger*, 14 February 2001).

Government has already made a commitment that no child should be excluded from schooling on the basis of fees. Our view is that this important commitment needs to be taken a step further towards the scrapping of school fees and develop alternate, publicly funded resources.

Improved spending on ECD and ABET

Spending on ECD decreased by more than 2% in real terms between 1998/99 and 2000/01. However, policy was not fully developed and therefore the data must be interpreted with this in mind. Table 14 illustrates the more recent trends in spending in the ECD sector.

The data indicate that spending on ECD is rather low; in fact it is less that 1% of total provincial education spending. This means that current spending on ECD is way below the demand for ECD services. This trend of spending on ECD does not represent a clear break from the Nationalist government, but it has to be noted that policy on ECD funding was only finalised in 2001.

The example of the Free State illustrates quite clearly the acute demand, with an estimated 80 000 learner population eligible for ECD services. At the end of 2003/4, only 10% of these learners would be funded. This means that only a small percentage of the remaining 70 000 will receive any funding. Coupled with the fact that a proper funding system will only be put into place in 2004, this is an indication of the dire situation for ECD in this province.

The present funding dynamics will be much clearer once the planned norms and standards for ECD funding are finalised. What is required is greater clarity on how the present funding impacts on poorer communities and how they can be helped by more redistributive funding policies. In particular, clarity is needed on the effect of *per capita* subsidies on the provision of qualified teaching personnel. Receiving a relatively low allocation may produce the incentive to obtain low-cost teaching staff, but are not necessarily fit to carry out quality teaching. This scenario faces poor communities, particularly given the fact that there is a reduced ability to raise additional funding to supplement subsidy funding. This is a distinct difference between the planned funding norms for ECD and public schools, because the school funding norms do not deal with personnel issues.

Eight provincial education departments, excluding Gauteng, had underspent on their grant allocations

Table 14: Spending on ECD in provinces

Province	2001/02 est. actual	2002/03	2003/04	2004/05	Real change		Real average annual change 01/02 -04/05
					01/02-02/03	01/02-04/05	
Free State	9 013	9 891	10 410	10 909	2.9%	2.8%	0.9%
Gauteng	26 743	55 263	60 724	64 185	93.7%	103.8%	34.6%
KwaZulu-Natal	34 263	30 224	31 142	32 648	-17.3%	-19.1%	-6.4%
Mpumalanga	24 639	27 868	29 400	30 870	6.0%	6.4%	2.1%
Northern Cape	8 050	5 713	7 621	7 823	-33.5%	-17.5%	-5.8%
Limpopo	4 687	15 249	17 702	17 753	204.9%	221.7%	73.9%
North West	94 934	125 160	127 540	131 147	23.6%	17.3%	5.8%
Western Cape	44 790	52 071	53 328	54 101	9.0%	2.6%	0.9%
Total	**247 119**	**321 439**	**337 867**	**349 436**	**21.9%**	**20.1%**	**6.7%**

Source: Cassim, 2004.

in 2002/3. The North West actually spent three times less than planned in 2002/3, while this ratio is about 50% in 2003/4. The province that came closest to original projections in 2002/3 is Gauteng, which actually overspent on its grant funding. Although spending improved in 2003/4, there are still anomalies that raise questions about the efficiency with which implementation of this grant was managed. In the Eastern Cape, of the planned R658 per head spending, only half was spent. North West's poor spending record on this grant continues with actual spending at half the value of what was available.

It is difficult to present a full trend with regard to spending on ABET because of the unreliability of the data prior to 2001/2002 and also because there was a lack of policy in this sphere. From 1997/98 to 2000/01 spending on ABET grew considerably – by almost 3% in real terms. However, most of this growth started from a very low base.

Over the current MTEF, ABET budgets are expected to decline by about 16% at an annual average rate of 5.2%. ABET budget's share of total provincial spending declines from 0.6% in 2001/2002 to 0.5% at the end of the current MTEF. This should not be surprising since spending on ABET has been historically neglected and remains a serious challenge to this day.

An additional reason why funding to ABET is so poor has to do with the government's planned funding norms for this sector. These norms were supposed to be completed by the end of 2002 but will only be implemented in 2006. Finally, it must be noted that ABET workplace programmes are offered through the Department of Labour and it is more than likely that this rules out a large proportion of adult learners who are unemployed and therefore not within reach of the workplace programmes.

Health[15]

Of the major social services, the public health sector is probably the most underfunded. At the same time, it has faced rising demands, both because of the improved access of poor black communities and because of the HIV/AIDS pandemic.

Government has responded to the public health crisis in part with proposals to introduce a system of social health insurance (SHI). In essence, this strategy would reduce the number of people using public healthcare by requiring the better-off to pay for health insurance through private or state-run schemes.

The People's Budget Campaign rejects SHI for two basic reasons.

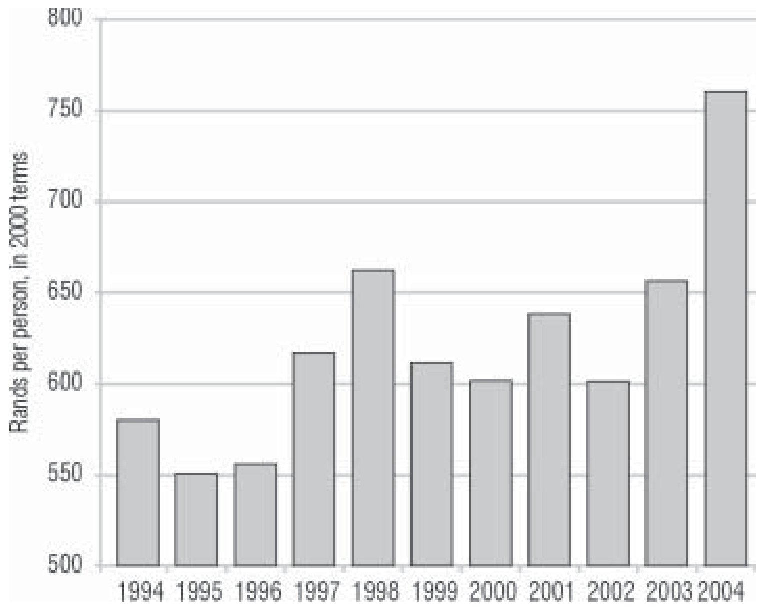
- SHI would effectively privatise healthcare. An individual's access to healthcare would depend increasingly on income, rather than on the right to healthcare guaranteed by the Constitution.
- Proposals for SHI, as published in 2004, would place an intolerable burden on lower-income workers and on the economy as a whole. This would lead to higher unemployment and slower economic growth.

In this section, we first review trends in health funding since 1994. We then present and cost current proposals on SHI and offer a critique of SHI as a public health strategy.

Healthcare funding

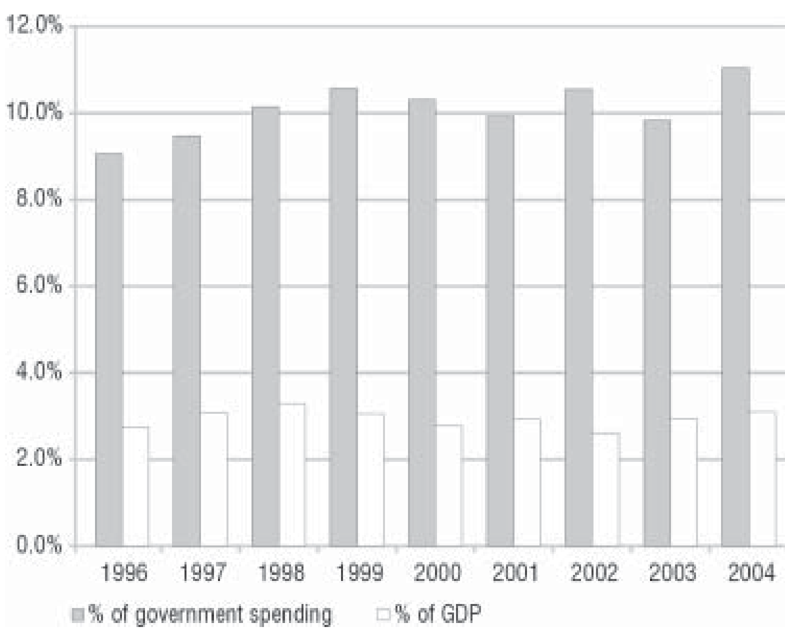
Healthcare funding in South Africa is beset by a paradox. On the one hand, public-sector funding per person dropped rapidly in the late 1990s under the GEAR budget cuts. On the other, because of soaring costs for private health, South Africa spends more on

Chart 12: Health budget per person in 2000 rand, 1994-2004



Source: 1994 to 2002, nominal data from SARB long-term fiscal data, downloaded from www.reservebank.gov.za in December 2004; for 2003 to 2004, nominal data from National Treasury, *Budget Review 2004*, downloaded from www.treasury.gov.za in February 2004. Deflated using CPI.

Chart 13: Health spending relative to the total budget and the GDP, 1996-2004[1]



Note: 1. GDP for 2004 extrapolated from first three quarters of the year assuming constant growth rate in nominal GDP. **Source**: Expenditure from 1994 to 2002, from SARB long-term fiscal data, downloaded from www.reservebank.gov.za in December 2004; for 2003 to 2004, nominal data from National Treasury, *Budget Review 2004*, downloaded from www.treasury.gov.za in February 2004; GDP figures from SARB long-term national accounts data, downloaded from www.reservebank.gov.za in December 2004.

healthcare relative to GDP than most other middle-income countries. The result of this dichotomy has been worsening care for the majority of South Africans, while the costs of healthcare impose a growing burden on the economy.

The health budget

With the GEAR budget cuts, health spending declined in real terms in the late 1990s, before recovering from 2002. In real terms, health spending per person only rose above the 1998 level in 2004. Yet throughout this period, the public health services faced growing demands.

- From 1994, all public facilities were desegregated. Under apartheid, the majority of South Africans had been forced into a second-class, understaffed and underfunded system. The democratic government is now struggling to ensure decent healthcare for all.
- The spread of HIV, combined with a failure to provide antiretroviral treatment on a mass scale, placed heavy burdens on the public health services. By the mid-2000's, most estimates suggested that people with HIV/AIDS occupied around half of all hospital beds.

Chart 12 shows the sharp cuts in public health expenditure per person that followed adoption of restrictive fiscal policies under GEAR. From 2002, however, as overall fiscal policy relaxed, health spending recovered substantially. Between 2002 and 2004, spending per person rose by 25%.

As Chart 13 shows, between 1997 and 2002 the health budget fell relative to both total government spending and the GDP. In 2003 and 2004, however, it increased relative to both. In 2004, at 11% of government spending, it accounted for more of the total budget than at any time in the past 15 years.

Relative to the GDP, however, at 3.1% it remained below its 1998 peak.

By province, health budgets varied substantially. In part, this reflected the concentration of major hospitals in the metropolitan areas, although they were supposed to serve several hospitals. But it also reflected provincial decisions as well as inequalities in provincial allocations.

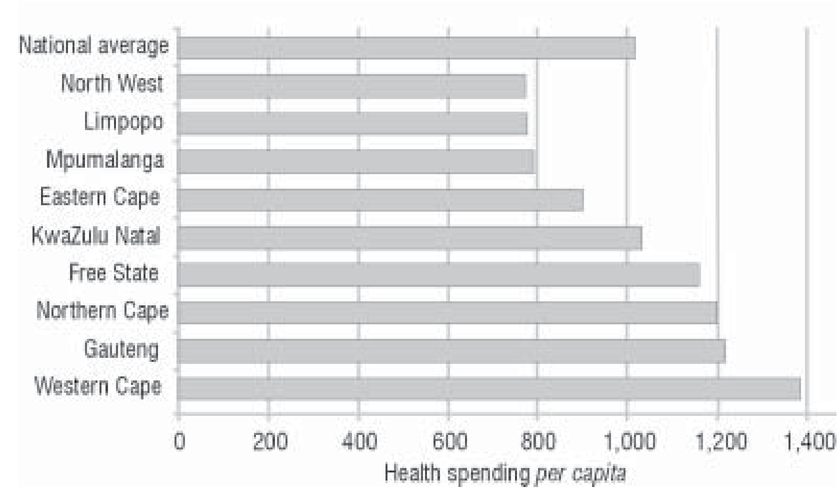
The variations in spending do not in themselves fully explain poor health outcomes. As Chart 15 shows, key indicators for primary healthcare inputs and outcomes did not correlate very well with health spending per person. Clearly, the efficiency of provincial health departments and the social context make a difference. For instance, the low immunisation rate in Gauteng probably reflects substantial in-migration and the related prevalence of informal settlements.

In Chart 15, the bars show provincial spending per person as a percentage of the national average, the heavy lines show availability of medicine and water in primary clinics, and the dotted lines show outcomes – the immunisation and TB cure rates for the province.

In response to budget cuts, health departments often hoped to increase user fees collected from well-off patients. In the event, however, user fees declined steadily from the mid-1990s. This trend apparently reflected a combination of middle-class flight from public facilities and poor collection mechanisms in public hospitals (Chart 16).

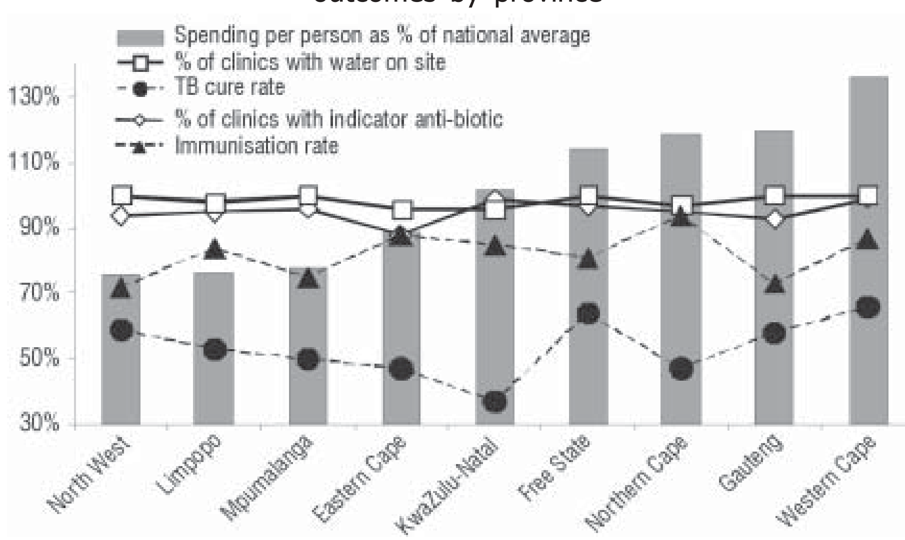
In short, for much of the 1990s and early 2000s, the public health sector faced a combination of falling funding and rising need. Government's proposals for SHI essentially respond to this situation.

Chart 14: Health spending per person, 2004



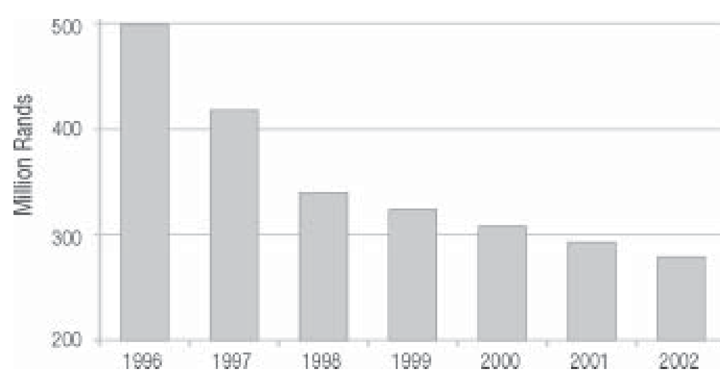
Source: National Treasury, *Intergovernmental Fiscal Review*, Table 5.5, p. 56, downloaded from www.treasury.gov.za in December 2004.

Chart 15: Health spending, access to inputs and outcomes by province



Source: National Treasury, *Intergovernmental Fiscal Review*, Table 5.5, p. 56 and Table 5.12, p 9, downloaded from www.treasury.gov.za in December 2004.

Chart 16: User fees obtained by public hospitals, 1996-2002



Source: Data provided by Cynthesis.

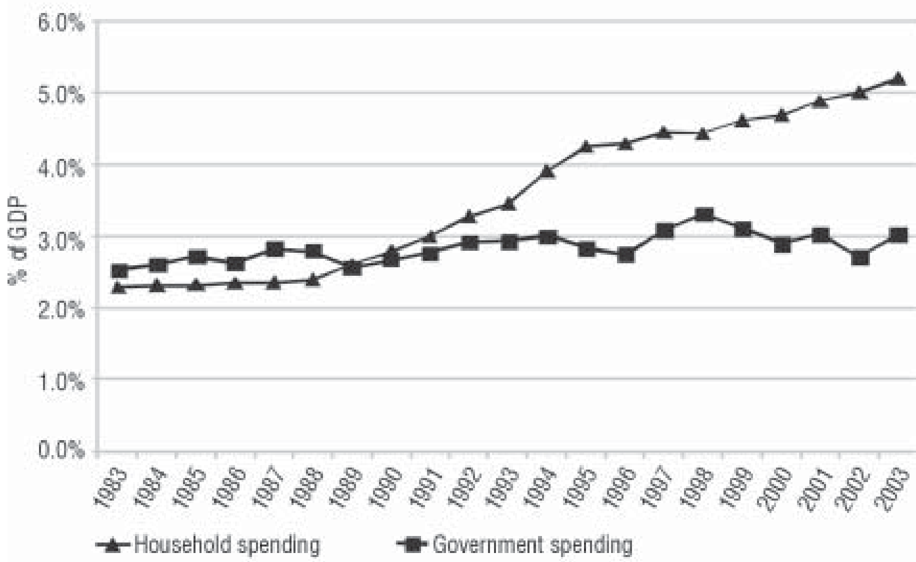
Private healthcare funding

The funding crisis in the public sector led to a flight to private healthcare by those who could afford it. The increase in demand did not, however, appear in growing use of private medical schemes. Instead, it resulted in mushrooming private facilities and soaring fees, especially for medical schemes. The increase in private spending was subsidised in part by tax breaks.

As Chart 17 shows, the share of private spending rose continuously relative to GDP, while public spending remained essentially constant. Private spending accelerated from the late 1980s, as higher-level public facilities began to provide more care for black people. Between 1994 and 2003, it rose from 3.4% to 5.2% of the GDP. In the same period, public spending climbed, via substantial fluctuations, from 2.9% to 3% of the GDP. In 2004, it reached just over 3%.

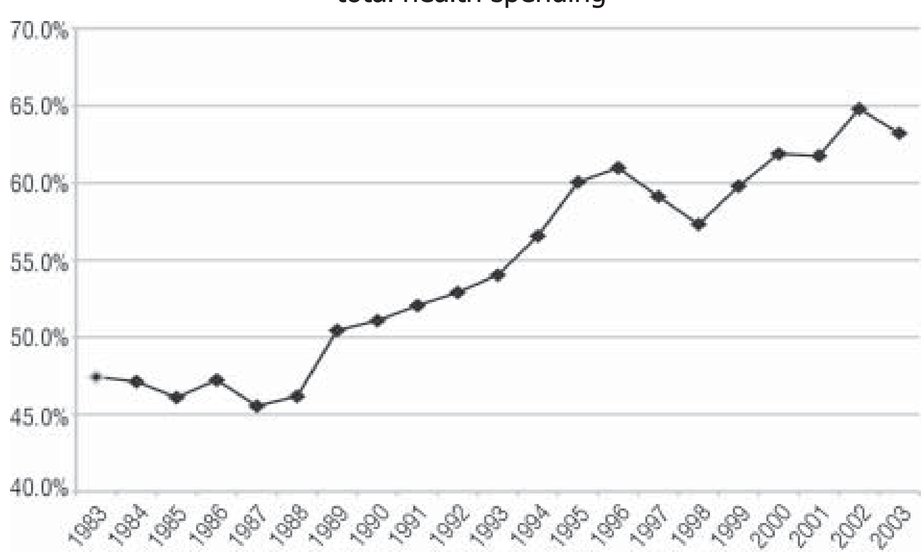
The steep increase in private spending from the later 1980s meant that it overtook the public sector as the main source of healthcare. In 1994, the private sector accounted for 57% of health spending; by 2003, it had risen to 63% (Chart 18).

Chart 17: Public and private spending on healthcare, 1983-2003



Source: Calculated from SARB, long-term data series on the fiscus and on national accounts. Downloaded from www.reservebank.gov.za in December 2004.

Chart 18: Private health spending as percentage of total health spending



Source: Calculated from SARB, long-term data series on the fiscus and on national accounts. Downloaded from www.reservebank.gov.za in December 2004.

While private health spending rose sharply, private health providers continued to serve only a minority of the population. As Chart 19 shows, the number of people in medical schemes remained roughly constant between 1994 and 2002. Beneficiaries of medical schemes fluctuated slightly at just under seven million, while the cost per member in real terms (deflated using CPI), rose by over 40%.

Medical scheme membership varied widely by income level, as Table 15 shows:

- Only about one in 20 workers earning under R2 500 a month belonged to a medical scheme in 2000. Most of these low-income members belonged to unions, which negotiated schemes with employers.
- Workers who belonged to medical schemes spent a far higher share of their income on health than non-members, who relied primarily on public care.

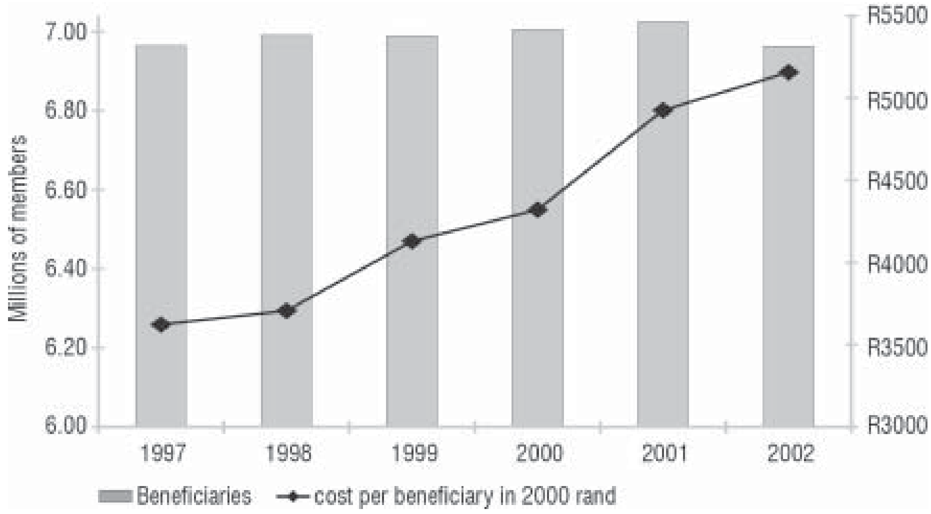
The figures for those earning under R1 000 are distorted, as most of these members had outside sources of payment for their medical schemes – for instance, pension funds or family members.

In addition to medical-scheme costs, many people paid health providers directly. Altogether, estimates suggest that in the late 1990s, these payments accounted for about a quarter of total private spending on health (data supplied by Cynthesis).

Finally, the government provided a tax subsidy for medical-scheme contributions, with the bulk going to employers. The state estimates the value of foregone taxes at over R8 billion – that is, close to a quarter of the public health budget. The tax subsidy includes:

- About R3 billion for medical scheme contributions and out-of-pocket expenditure by employees;
- R5 billion for employer contributions to medical schemes;
- About R0,7 billion for other people who deduct medical out-of-pocket expenditures.

Chart 19: Beneficiaries and cost of medical schemes, 1997-2002



Source: Calculated from data supplied by Cynthesis to the People's Budget. Figures for total contributions deflated using CPI.

The tax subsidy on medical schemes takes the form of a reduction in taxable income. This means that rich people, who pay higher income taxes, benefit more from the tax subsidy than the poor. In other words, the subsidy is highly regressive.

Table 15: Medical scheme membership and costs by income level, 2000

Income group	% of group in medical schemes	Members as percentage of: All medical-scheme members	Members as percentage of: All workers	% of income spent on healthcare by: Medical scheme members	% of income spent on healthcare by: Non-members
under R1 000	3%	4%	22%	100%	2%
R1 000 to R2 500	5%	17%	53%	12%	1%
R2 501 to R4 500	31%	21%	11%	9%	1%
R4 501 to R8 000	57%	25%	7%	7%	1%
over R8 000	78%	33%	7%	5%	1%

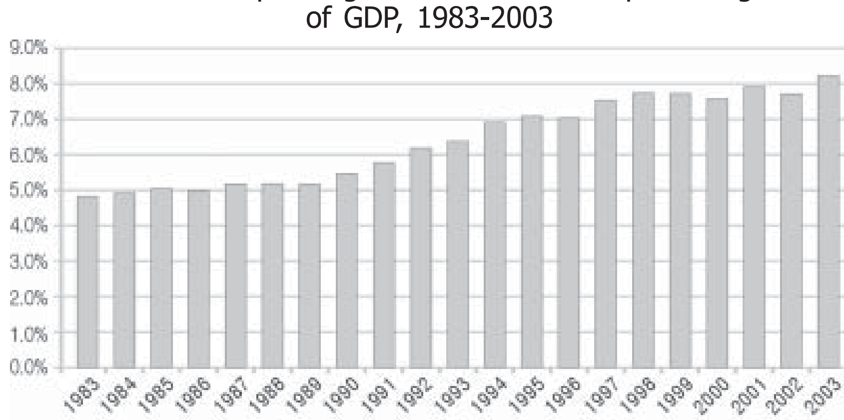
Source: Calculated from Statistics South Africa, *Income and Expenditure Survey 2000.* Pretoria. Database on CD-ROM.

The total cost of healthcare

The rise in private healthcare spending meant that total health funding climbed rapidly through the 1990s and early 2000s, even when public spending fell. As Chart 20 shows, healthcare costs rose sharply relative to the economy as a whole, from 5% in 1990 to 8% in 2003.

While South Africa spent more than most middle-income countries as a percentage of GDP, its outcomes were considerably worse. HIV spread faster, immunisation rates were lower, and infant mortality was higher than in countries with far lower spending on healthcare (See Table 16).

Chart 20: Spending on healthcare as a percentage of GDP, 1983-2003



Source: Calculated from SARB, long-term data series on the fiscus and on national accounts. Downloaded from www.reservebank.gov.za in December 2004.

The poor health outcomes in South Africa essentially reflected massive inequalities. The top end of the private sector provided world-class care while the public sector faced growing resource shortages. Much of the private sector lacked quality controls.

In short, the crisis in health funding in South Africa reflected:

Table 16: Health resourcing and outputs compared to other countries

		SA	Middle-income countries	Low income	High income	Brazil	Cuba	Mauritius	Tanzania
Inputs									
% of GDP	1997-2000	8.8%	5.9%	4.3%	10.2%	8.3%	6.8%	3.4%	5.9%
Expenditure *per capita* in US$	1997-2000	255	116	21	2736	267	169	134	12
Private as % of total	1997-2000	58%	48%	73%	38%	59%	11%	44%	53%
Physicians per 1 000	1995-2000	0.6	1.9	0.5 (1980)	3	1.3	5.3	0.9	0
Outcomes									
Child immunisation rate – DPT (% of children under age 1)	2,001	81%	85%	61%	94%	97%	99%	92%	85%
% of births attended by skilled health staff	1996-2000	84%	n.a.	n.a.	n.a.	88%	100%	57%	35%
infant mortality rate	2001	56	31	80	5	31	7	17	104
survival to age 65 – women	2002	33%	78%	60%	90%	79%	88%	85%	31%
survival to age 65 – men	2002	27%	68%	55%	80%	62%	81%	70%	27%
HIV prevalence	2001	20%	1%	2%	0%	1%	0%	0%	8%
TB prevalence	2000	526	107	233	18	68	14	69	359

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

- Rising costs to the economy as a result of the growing burden of expensive private care; and
- Inadequate funding in the public sector as well as a degree of mismanagement.

The next section considers SHI as government's main response to this crisis.

Understanding Social Health Insurance (SHI)

This section first outlines the proposals for SHI. It then provides a critique and some cost estimates.

The proposals for SHI

SHI starts with the presumption that:

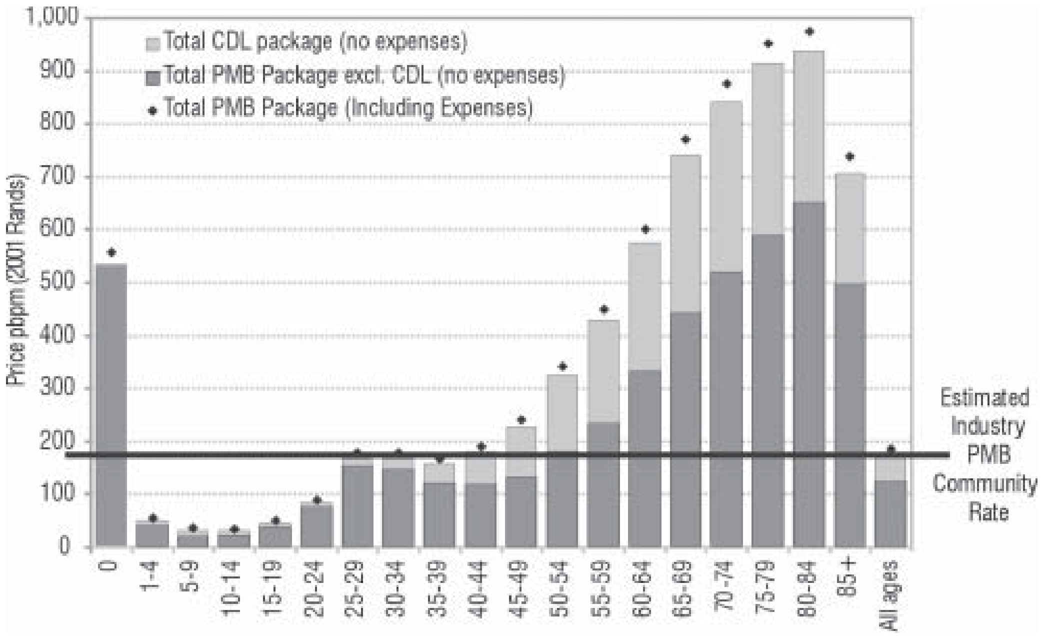
- The public health sector is sharply underfunded; and
- Substantial increases in the budget are unlikely – a presumption that the 2002-2004 budgets seem to contradict.

In the absence of increased public health spending, the SHI plans essentially seek to reduce the number of people using the public health sector. Instead, they would make everyone who could afford private healthcare rely on private or parastatal medical aids.

The main elements of the SHI proposals are:

- At least higher-paid workers would be compelled to join medical schemes. The latest documentation from the state accepts that most workers cannot afford the cost, now estimated at around R400 a month. Nonetheless, it proposes that the medical scheme for public servants be mandatory as a first step toward SHI, even though the worst-paid public servants earn only just over R2 500 a month.
- The state itself would develop a parastatal medical scheme, which would aim to provide minimum-cost coverage for poor and working people. The state would not, however, subsidise this scheme through taxes. Instead, it would seek to hold down costs by using public facilities and controlling overheads.
- The government would redirect the tax subsidy on medical schemes to ensure a more progressive impact. That is, lower-income members would get a bigger subsidy than those with higher incomes. In contrast, the current system provides a higher subsidy to the rich.
- Medical schemes would have to take on more risky patients. That is, medical schemes would have to accept all members, even if they were likely to have high healthcare costs. Combined with the (mandated) increase in medical aid membership, this could lead to higher costs for the medical schemes. That, in turn, could somewhat offset the changes in the tax regime designed to benefit lower-income members.
- The government would seek to improve coordination between public and private health providers. In particular, medical aids would be

Chart 21: Estimated cost of prescribed minimum benefit (PMB) package per beneficiary per month



Note: CDL means Chronic Disease List, which gives chronic diseases included in the PMB from 2004.
Source: Data provided by Cynthesis.

pressured to increase their use of public facilities. Initially, the state expected to provide better facilities for medical aid members in return. The status of this proposal is no longer clear, however, as spokespeople for the national health department have expressed some concerns.

- Regulations would contain inefficiencies, monopoly pricing, duplication of facilities and other unnecessary costs in the private sector. The recent regulations on medicine prices and certificates of need were key steps in this direction.

These proposals currently form the core of the SHI strategy. Although it has been on the table since the late 1990s, it remains under discussion. Key aspects are still being debated within the state, and may still undergo changes.

Why SHI will not work

The People's Budget Campaign has rejected SHI on the grounds that it would:

- Impose huge health costs on working people;
- Raise the overall cost of healthcare, with potentially serious consequences for the economy and employment; and
- Constitute effective privatisation of healthcare for at least a substantial minority.

As noted above, most workers do not belong to medical schemes. They rely on state facilities for healthcare. The SHI proposals would require at least some of these workers to join medical schemes. In the event, government has not presented any data on the cost of SHI to new medical scheme members.

Estimates suggest that the cost of joining a medical aid would remain high. Legislation provides for a prescribed minimum benefit package (PMB) that each medial scheme must provide every member. As Chart 21 shows, the average cost per beneficiary has been estimated at close to R200 a month, with lower costs for younger people and higher expenses for the elderly. A family of four or five would thus pay at least R600 a month. To some extent, changes in the tax subsidy might reduce the cost to low-income earners.

These figures mean that, even if the employer bore a share in the cost – typically half to two thirds of the medical scheme subscription – the cost of employment would increase substantially. In the event, the government has never stated whether it would require employers to help workers pay for SHI. As the SHI proposals now stand, that would be a matter for negotiation between workers and employers.

Table 17 indicates the increase in healthcare costs by income level if we extrapolate from current medical aid costs. In other words, it assumes the average cost at each income level remains the same. As noted above, the figures for those earning under R1 000 a month are distorted and are therefore not used here. The increase in health spending for workers earning under R2 500 a month would then come to at least 11% of income, while for the highest income earners it would come to only 5%.

Moreover, almost 80% of the high-income group already belongs to medical schemes, compared to 5%

Table 17: Relative costs of healthcare for medical scheme members and non-members, 2000

Income group	% in medical aids	Average expenditure on healthcare by: Medical-scheme members	Non-members	Difference in cost as % of income
R1 000 to R2 500	5%	1 687	133	11%
R2 501 to R4 500	31%	3 630	367	8%
R4 501 to R8 000	57%	5 312	757	6%
Over R8 000	78%	9 631	1 449	5%

Source: Calculated from Statistics South Africa, *Income and Expenditure Survey 2000.* Pretoria. Database on CD-ROM.

of those earning less than R2 500 a month. Thus, the low-income group would see a far greater proportional increase in costs than the rich.

In effect, SHI would increase total spending on healthcare by about 5%. Yet South Africa already spends far more on healthcare than most other countries relative to GDP.

Most estimates suggest that in South Africa, an increase in the cost of employment will have a less than proportional impact on employment. This relationship, known as the elasticity of demand for labour, is generally estimated at 0.7%. As Table 18 shows, because the increase in employment cost would be proportionally higher for lower-income workers, they would likely bear the brunt of job losses.

The proposed medical scheme for the public service would cost a minimum of R300 a month for low-income workers, with two third's borne by the employer. While this scheme seems more affordable for workers, it would raise the cost of employment by over 10%. That, in turn, would likely increase the pressure on departments to eliminate less skilled jobs through attrition and outsourcing.

Finally, SHI would spell a qualitative change in the relations between the private and public sector. Historically, in South Africa medical schemes were an optional add on, while the public sector remained the provider of last resort. Under SHI, at least some workers would be compelled to use private healthcare or pay private rates for public facilities. That, in effect, means 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.

Table 18: Possible job losses, assuming 0.7% elasticity of demand for labour

	Increase in employment costs	Potential job losses
R1 000 to R2 500	11%	7%
R2 501 to R4 500	6%	4%
R4 501 to R8 000	3%	2%
over R8 000	1%	1%
Total	**4%**	**3%**

Source: Calculated from Statistics South Africa, *Income and Expenditure Survey 2000.* Pretoria. Database on CD-ROM.