APPROPRIATION BILL: DEBATE ON VOTE NO. 8 – NATIONAL TREASURY, 11 JUNE 2004

(INCLUDING SOUTH AFRICAN REVENUE SERVICE) AND VOTE NO 13 STATISTICS SOUTH AFRICA

11 June 2004

Finance Deputy - Minister J Moleketi

Madam Speaker, Honourable Members

In just 10 years of democratic rule, South Africa has emerged head and shoulders above its peers in budget reform. This reform has ensured greater levels of transparency, certainty in resource allocation through the MTEF and has qualitatively improved the very essence of accountability of the executive.

All this Honourable members is captured in the more than 1200 pages of the estimates of National Expenditure, Intergovernmental Fiscal review and the Division of Revenue Act.

This small country of 44,8 million inhabitants located on the southern most tip of the African Continent has become a recommended international site on budget reform, this is indeed no mean feat. Honourable Gavin Hood in last years Appropriation debate said "there is no doubt that we are ahead of even some of the leading developed countries when it comes to transparency and disclosure".

However, Honourable Speaker we are mindful of the fact that our success can not be measured by the number of international visitors knocking on treasury's door to draw lessons from our budget reforms…. but our ability to continuously evolve and adapt our fiscal policy and strategy to deal with our societal challenges. In this respect, I am referring to poverty, unemployment and resultant marginalisation of the majority of our people.

For purposes of today's debate allow me honourable Speaker, Honourable Members, to focus on poverty alleviation and the budget. At the end of the debate, I know the last word would not have been said on the nature and extent of fiscal interventions in poverty alleviation and eradication.

South Africa is an active global citizen, hence it is important for us to know that 20% of planet earth inhabitants, i.e. 1,3 billion people live on less than $1 per day. And that the international community has established a set of common goals known as the Millennium Development Goals (MDG's) whose main objectives is to halve poverty by 2015, reduce child mortality, achieve universal primary education and literacy and making development environmentally sustainable.

Honourable Members, we owe it not just to ourselves but to the entire humanity to deal with poverty and marginalisation of significant numbers of South Africans. South Africa had committed itself to meet the MDG's.

In his inaugural speech our President said "Endemic and widespread poverty continues to disfigure the face of our country. It will always be impossible for us to say that we have fully restored the dignity of all our people as long as this situation persists. For this reason the struggle to eradicate poverty has been and will continue to be a cornerstone of the national effort to build the new South Africa."

Another insight drawn from international experience **is that macro-economic stability and growth is essential and necessary, but not sufficient to deal with the extent and depth of poverty in developing and least developed countries**, e.g. Chilean economic growth of mid-80's left poor people poorer, even though more jobs were created. Hence our fiscal strategy must ensure growth with income distribution.

Furthermore, at a recent conference on scaling up Poverty reduction sponsored by both the World Bank and the Peoples republic of China, held in Shanghai, the President of the World Bank, Mr James D Wolfensohn stated that without poverty alleviation there can never be peace and stability. The well being of humanity depends on humanity's ability to deal with poverty.

POVERTY AND THE BUDGET

Budgets and budgeting over the last number of years have built three central pillars required to eradicate poverty:

i) The first is ensuring that allocation processes are sufficiently open and stable, and politically driven, so that the real priorities around poverty and development are served by allocations. We must see the **Budget Reform** programme (and implications for policy processes) as a critical part of the poverty alleviation strategy. Budget reform has ensured: greater openness of the budget process and enhanced decision-making by political principals; three-year budgets allowing for more certainty and increased focus on reprioritisation, as well as an increased focus on performance assessment and value for money. It is important that we spend on the appropriate services but also that efficiency of service delivery is enhanced.

ii) Secondly, the **broad fiscal stance** is critical for poverty alleviation as it impacts significantly on economic stability and the resources available for spending on key needs. A prudent fiscal stance (low deficits, debt reduction, limiting tax to GDP ratios) has served the country (and the poor) well through contributing to the control of inflation and strengthening our ability to deal with international finances and other crises. Also, a focus on reducing deficits and managing debt pro-actively has in recent years contributed to strongly growing real resources available for services, without increasing the burden on the economy through taxes. The fiscal stance has therefore **established fiscal and macroeconomic stability** and over time established the **ability to take an increasingly expansionary stance**. Real growth in non-interest expenditure is anticipated to grow by about 4,2 % per year over the next 3 financial years.

iii) The third lever for focusing poverty strategy is the **composition of expenditure**. Here also we need to balance the different requirements for supporting development: short-term versus long-term imperatives and indirect versus direct mechanisms of poverty relief. Here we continually need to balance the demand between **direct income support** (cash grants, school feeding, food relief), the **delivery of services** (ranging from the social services - health, education – to household services - housing, electricity, water – to sound public administration – police, internal affairs, justice – and skills development) and more indirect mechanisms of supporting society and the poor through ensuring that the right **economic and social infrastructure** is in place.

Past and future budget choices

In his 2003 Budget Speech the Minister of Finance commented that "… eradicating poverty is complex and takes time. Seemingly simple solutions that rely on weak and generalised assumptions about who the poor are, where they live, what they need and what they want, are destined to fail." This implies building patiently the different services and support we provide to citizens, focusing them increasingly on the poor (where incidence analysis points out that we have been quite successful in the social services) and improving the quality and efficiency of service delivery.

As indicated in the 2004 Budget Review, the 2004 Budget allocates an additional R44,5 billion over the next three years. Government spending on public services grows in real terms by 6,5 % in 2004/05 and by 4,8 % over the next three years, demonstrating a continuing commitment to expanding opportunity and progressively narrowing the social and economic divisions of the South African landscape. These increases have made it possible to add significantly to funds available for capital expenditure, to boost provincial budgets for key social services (the further roll-out of the child support grant, now reaching 4,5 million children; further boosting spending at school level; funding the roll-out of the comprehensive response to HIV and Aids), growing the local government equitable share and building a range of central government services.

Our fiscal developments have significantly boosted baselines every year. The challenge is to make sure that these fiscal dividends are used in the right places and used effectively. Many of the reforms put in place around budget processes and monitoring will assist in this.

More resources are becoming available and mechanisms to spend effectively are improving. Here the performance of provinces in lifting capital expenditure as a proportion of budgets from 9,9 % in 2002/03 to 10,2 % in 2003/04 is particularly noteworthy. We will, however, continue to face difficult choices in the future. The composition of spending, for example, will have to be balanced between programmes to draw more South Africans out of poverty, into the labour market as active participants in our economy. This will be achieved through spending on capital projects, training and public works and income support through grants, which have grown very rapidly in recent years.

TRENDS IN PROVINCIAL BUDGETS

Having mentioned the noteworthy performance of provinces in lifting capital expenditure as a portion of their budgets, it is thus opportune to focus attention on the trends in provincial budgets.

2003/04 Preliminary Provincial Outcomes:

National government transferred the whole allocation of R144,7 billion of the equitable share, and R16,7 billion in conditional grants to provinces;

Social Development expenditure increased by R9,8 billion from R32,4 billion in 2002/03 to R42,2 billion in 2003/04, making it the second largest expenditure share at 24,8 % of the total provincial expenditure;

Health expenditure of R37,1 billion is R3,9 billion higher compared to the 2002/03 financial year. Health spending comprises 21,8 % of all provincial expenditure.

Education capital expenditure rose to R2,9 billion, an improvement of R1,2 billion over the 2002/03 financial year; and

Provincial own revenue collected is recorded at R6,3 billion or R869,8 million higher than the R5,5 billion adjusted provincial own revenue budget for 2003/04.

MTEF

Revenue trends

National transfers make up 97,1 % of total provincial revenue in 2004/05. These transfers comprise the equitable share which constitutes 85,8 % and conditional grants which constitute 11,3 % of total provincial revenue. Provincial own revenue constitutes only 2,9 per cent. Past trends in provincial own revenue confirm, however, that provinces understate their revenue potential. This is evident in the declining share of own revenue from 4 per cent in 2000/01 to 2,7 % in 2006/07.

Total provincial receipts amounts to R186 491 million, which is 10,7% more than the 2003/04 revised estimate of R168 454 million. Revenue increases by an annual average of 9,7 % over the MTEF to R222 176 million in 2006/07.

Expenditure trends

Provinces overall budgeted to spend R186 698 million, which is 8 per cent more than the 2003/04 revised estimate of R172,8 million. Expenditure increases by an annual average of 8,6% over the MTEF to R221 319 million in 2006/07.

The aggregated provincial budgeted deficit in 2004/05 is R207 million, increasing to R458 million and R858 million in 2005/06 and 2006/07 respectively.

Social spending

Provincial budgets show a deep commitment to spending in social services. Spending in the social services departments accounts for 81,7%, 82,2% and

82,5% respectively over the MTEF period. By way of contrast, the share of non-social services spending is set to decline from 18,3% in 2004/05 to 17,5% in 2006/07.

The bulk of social services spending is in the education sector at 34,5%, 33,8% and 33,2% over the MTEF period. This is followed by social development spending at 25,5%, in 2004/05 to 28 per cent in 2006/07. Among the social services departments, the share for health is the lowest at 21,6 per cent of total provincial spending in 2004/05 decreasing to 21,3% in 2006/07.

Education Budgets

The combined provincial education budget grows by 7,3% from R60 233 million to R64 617 million in 2004/05 and increasing to R73 507 million in 2006/07.

Social Development Budgets

The total provincial social development budgets increase by 12,3% from R42 374 million in 2003/04 to R47 578 million in 2004/05.

The budget for social security grants increase by 11,9% from a revised estimate of R38 805 to R43 442 million in 2004/05

Other Non Social Services departments

Other non social services department increase by 4,7% from R32 621 million to R34 160 million in 2004/05.

Payment for capital assets

Capital spending is set to grow substantially over the MTEF period. The commitment of government to improving infrastructure is demonstrated in this growth. Percentage share in spending is set to increase from 3,5% or R 3,9 billion in 2000/01 to 6,3% or R13,9 billion in 2006/07. This excludes capital transfers.

Personnel Budgets

Personnel spending grows by about 8,3% from R81 543 million in 2003/04 to R88 272 million in 2004/05. This growth is against an assumption that personnel expenditure would increase at a rate of 6% (for nine months).

CONCLUSION

Honourable Speaker, Honourable Members, our fiscal stance characterised by increased allocation to both provincial and local government for the delivery of basic services and infrastructure, increase social service allocations, has indeed ensured our ability to meet the Millennium Development Goals by 2015.

We are on track…... **We must continuously strengthen that dialectical relationship between fiscal strategy, budget reform and poverty alleviation for as long as "endemic and widespread poverty continues to disfigure the face of our country."**

Thank You.

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