

MEDIUM TERM BUDGET POLICY STATEMENT 97 - SOCIAL DEVELOPMENT & ECONOMIC TRANSFORMATION

Introduction

Reconstruction and development

The Reconstruction and Development Programme (RDP) sets out Government's commitment to the elimination of poverty in a rapidly growing and more equitable economy and in the context of an open, peaceful and democratic society. It establishes a programme for orienting the activities of Government fully and effectively towards reconstruction and development goals, within a sound fiscal and macroeconomic framework.

The Medium Term Expenditure Framework seeks to give budgetary content to Government's RDP commitments, within the context of an agreed macroeconomic strategy, while identifying and clarifying some of the crucial systemic reforms that are needed if public policies are to succeed in accelerating social and economic progress.

Macroeconomic strategy

A key step forward in establishing this framework was taken with the publication of the Growth, Employment and Redistribution Strategy in June 1996. Government's macroeconomic strategy focuses on the need to enhance the international competitiveness of the economy and consolidate the fiscal position. It points to the links between an improved growth performance and the sustainability of Government's social and developmental programmes.

The macroeconomic framework emphasises the importance of redistribution in government expenditure priorities and the role of sectoral policies in meeting basic needs and improving services to previously disadvantaged people and the poor. These and other policy commitments have been elaborated in considerable detail in departmental White Papers and other official publications. Government's approach is that economic growth should be translated into redistribution of incomes and opportunities through appropriate social development programmes, economic empowerment and deliberate promotion of employment creation.

Demographic transition

South Africa is undergoing a demographic transition with profound consequences for social policy and economic transformation.

1996 Census

The preliminary 1996 census results published by the Central Statistical Service suggest that urbanisation has accelerated and average fertility rates have declined steadily for two decades or more. It now appears that the present generation aged 10-14 represents a demographic peak, and age cohorts that follow will be smaller in absolute size.

The graph below illustrates the age distribution reflected in the preliminary 1996 census results.

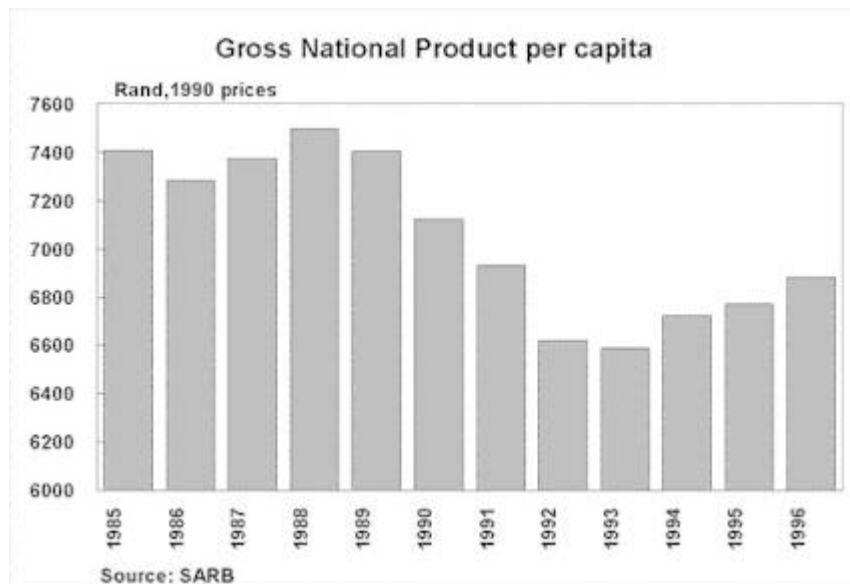


Figure 2.1: Estimated 1996 age distribution

Labour market

Demographic trends, education and urbanisation impact critically on the entry level labour market.

The number of young people leaving secondary or tertiary education and entering the labour market each year has increased from perhaps 350 000 in the mid-1980s to about 450 000 today. As the throughput of the school system improves and the demographic peak reaches school-leaving age, the inflow into the labour market will swell to over 600 000 in the early 21st century.

Job creation remains very slow, however. The result is that South Africa faces an escalating mismatch between demand for and supply of job placements in the first-time entry labour market.

Growing youth unemployment is a powerful determinant of current crime trends, puts pressure on welfare, health, education and training systems and threatens the integrity of family and community structures. This is perhaps the single greatest challenge that faces South African social, economic and labour market policies.

Effects of HIV

The high prevalence of HIV amongst large segments of the South African population adds to this challenge. In the absence of any major breakthrough in countering HIV infection or curing the disease, AIDS will impact significantly on future mortality, family structure, labour market participation and demands on health and welfare services.

Government has taken account of these trends in setting expenditure priorities and identifying outstanding policy issues. Economic development policies are aimed at accelerating job creation. The further education system needs to be expanded and overhauled. The needs of children and the reform of the child and youth care system are the focus of coordinated initiatives. Housing programmes and infrastructural development take account of urban migration and related social needs.

Employment creation

Employment strategy

The central objective of Government's employment strategy is to increase the labour absorptive capacity of the economy. To do this, we need to improve the skills base of labour, remove structural impediments to job creation and identify key employment generating opportunities.

Under the auspices of the Department of Labour, a coordinated approach to addressing the unemployment problem is envisaged. The strategy will:

- identify key policies initiatives to be strengthened or accelerated, focused on those policies that will offer the most employment generating potential;
- facilitate mutually supportive policy clusters to ensure policy alignment and maximum impact on employment creation;
- seek a common vision which would commit social partners to specific actions in support of employment creation, to be presented at the Presidential Job Summit to be held in mid-1998;
- develop an implementation and monitoring plan for the realisation of the employment strategy.

Employment creation is an aim of a range of industrial support policies, tourism promotion, small business development and agricultural support. The employment strategy will focus on those policies that create a conducive environment for employment creation and measures which create employment directly. These include employment promotion in the private sector and special labour-based programmes of government.

Government spending priorities include social development and infrastructure projects with significant employment potential and targeted employment relief schemes. During 1996/97, the working for water programme, the municipal infrastructure programme and the community-based public works programme

provided about 50 000 temporary job opportunities. These are effective poverty alleviation initiatives and should be expanded.

Skills development strategy

It is evident that the mismatch between job opportunities and young work-seekers cannot be addressed by labour-based projects targeted at unskilled workers. Government has tabled a skills development strategy that aims to raise the level of investment in training across the economy as a whole. A key focus of the strategy is the creation of learnerships that would bridge the gap between formal schooling and work experience, contributing both to skills enhancement and improved labour market mobility.

Education

Challenges

South Africa now has near-universal schooling, and a slowdown in the expansion of enrolment in education can be expected. However, much of the school system suffers from poor management, high repetition and absenteeism, inadequate work effort and considerable deficits in basic infrastructure and support materials. The main challenge confronting South African schooling is improving the quality of education. This can only be achieved if glaring inequalities are addressed, efficiency is increased and effectiveness improved.

There are marked shifts in the composition of the school population which require policy responses, including significant shifts of teaching personnel and resources. This and the challenge of addressing inequality require adaptability in personnel management, school financing and resource allocation, as well as enhanced education management systems. Major initiatives are in progress aimed at addressing these needs, involving the national and provincial authorities and drawing on non-governmental and private sector support.

Training & vocational education

In the context of the challenges we face in the market for first-time work-seekers, the evolution of training and vocational education is crucial. Achieving an improved fit between training needs and resource allocation is dependent both on sound budgetary decisions and a stronger mobilisation of private sector resources, driven by the productivity and competitiveness gains associated with skills development. Government is exploring a new approach to financing further education, to put fiscal resources to better use and to encourage growth of private spending on training and education.

Higher education

A thorough review of higher education has led to proposals for a more output-driven approach to government funding, greater support for student financial assistance and a rationalisation of existing programmes and institutions. South Africa has a dynamic and extensive higher education sector, which provides both a firm foundation for educational development and an important source of research and skills for social and economic development.

Health services

Existing provision

South Africa has a dynamic private health sector, financed through medical scheme or insurance coverage of between a fifth and a quarter of the population. Public health services, mainly under provincial management, include hospital and clinic services available to everybody, financed largely through the fiscus.

Medical schemes

Medical schemes are increasingly adopting managed-care strategies in containing costs, and individuals can now choose from a wide range of health assurance options. Medical scheme contributions by employers are favourably treated in the income tax system, which has underpinned the growth of the industry over several decades.

Primary health care

The public health system is reorienting its resources in favour of a district-based primary care service, aimed at raising utilisation of primary health services from 1,8 to 3,5 visits a person a year. The strategy assumes that uninsured people will increasingly use public facilities rather than fee-for-service private practitioners.

Hospital services

Government also aims to rehabilitate and rationalise the existing network of some 420 public hospitals, many of which are in disrepair and are badly managed. A hospital strategy project has been initiated, focused on improving hospital management, while preliminary work has been undertaken on a major physical rehabilitation programme.

Social security and developmental welfare

Social grants

Social security and welfare programmes are strongly redistributive. Household survey data indicate that social grants are a crucial source of income to poor households,

particularly in rural areas. Nearly 90 per cent of expenditure on social security and welfare services is taken up by categorical social grants, of which the old age pension is the most important.

Against a background of inadequate management of social security entitlement programmes, the provinces and the national Department of Welfare have embarked on a major investment in information technology and coordinated system restructuring. It is expected that this will lead to significant savings through reduced fraud and improved management.

Child support grant

Government has agreed to introduce a new child support grant, targeted at children under the age of seven, to be phased in from 1998 onwards. This will replace the existing child maintenance programme, providing a cash benefit to a larger constituency of beneficiaries, on an equitable and affordable basis.

Developmental welfare

Welfare services are targeted towards children, youth, women, families in need, the aged and people with disabilities. These services are presently undergoing transformation, focused on prevention of distress, early intervention and developmental care. Government aims to ensure adequate care and protection, reduction and alleviation of poverty, and compliance with international conventions such as the UN Convention on the Rights of the Child.

Security and stability

Government is implacably committed to the rule of law and to stepping up the war against crime.

Social dislocation, impoverished urban living conditions and increasing numbers of frustrated young work-seekers have contributed to a serious escalation in violent crime and associated insecurity. Social development and employment creation will, over time, alleviate this scourge. For the present, and in the context of the medium-term expenditure framework, a comprehensive and vigorous attack on crime must be central to Government's planning and budgeting.

Crime prevention strategy

High levels of crime and social instability are threats to South Africa's economic growth and development prospects. The Government has therefore adopted a wide-ranging crime prevention strategy, based on aligning the activities of the component parts of the criminal justice system to improve effectiveness and shift the focus from controlling to preventing crime. Major new initiatives are underway aimed at

streamlining and strengthening the focus of policing, the administration of justice and the management of correctional services.

Civil justice

The Constitution provides a clear framework for the protection of human rights and the establishment of institutions in support of civil liberties. Government has given effect to these commitments and will continue to uphold a culture of democracy and respect for civil rights.

Defence

There has been a substantial phased reduction in public spending on national defence. A full-scale defence review has clarified the role and future structure of the armed forces. The SANDF contributes to several components of the national crime prevention strategy, and has established a Service Corps to prepare ex-combatants for integration into civil society.

Maintaining safety and security and protecting the rule of law are unambiguously core functions of the State. These are costs that have to be met by taxpayers, but Government has also recognised the considerable gains that can be won from improved management, better organisation and coordination of the various arms of the criminal justice system.

Promoting economic development

Economic development requires improved competitiveness and employment creation across many sectors of the economy. South Africa continues to be an important mining economy, in which advanced mineral beneficiation projects and a wide range of extractive industries generate significant foreign exchange earnings and create incomes and employment for large numbers of people. But mining cannot be a long-term engine of growth, and employs fewer workers each year as gold mining slows and more capital intensive technologies are adopted.

Industrial incentives

Government is aggressively promoting more rapid industrial development. Tax incentives have been introduced for new investments in manufacturing plant, equipment and buildings, and a tax holiday is now available to new industrial projects for a period of time determined by regional location, job creation and industrial priority.

Closely related to these measures are twelve industrial priority investigations and regional industrial location studies, and a comprehensive review of competition policy. The Simplified Regional Industrial Development Programme has been adapted as a grant programme tailored to the needs of small and medium-sized firms.

Tourism promotion

South Africa has considerable tourism potential. Tourism promotion has been strengthened, and substantial investments in the hotel and accommodation industry and related services are in progress.

Small business development

Several initiatives aimed at supporting small and medium-sized business development are gathering momentum. The National Small Business Act was passed in November 1996, providing for the establishment of Ntsika Enterprise Promotion Agency and a National Small Business Council. The Khula Enterprise Finance Company is operational, and has initiated a credit guarantee scheme and a capacity building project targeted at retail financial intermediaries.

Agricultural development

Significant progress has been made in the deregulation of agricultural marketing during the past few years. Marketing schemes and control boards have largely been phased out. An overhaul of financial support schemes is in progress, together with the restructuring of the Land Bank, agricultural credit facilities and various regional development agencies. A special programme has been introduced to give the landless poor access to land, and various measures of support are provided to resource-poor farmers.

State asset restructuring

The restructuring of state assets continues to offer significant opportunities to attract private investment into reconstruction and development priorities, and also to rationalise functions carried out directly by the state and to promote empowerment and other economic policy objectives.

Infrastructure investment

Government's macroeconomic framework provides for a marked acceleration in investment spending. This partly reflects the need for transport and communications infrastructure associated with increased trade and industrial activity. Substantial social infrastructure backlogs must also be addressed, including shortfalls in the national housing stock and the absence of sport and recreation facilities. Investments in water supply and improved housing infrastructure are amongst the most cost-effective options for enhancing the quality of life of the poor.

Backlogs

Major audits have now been conducted by the health and education authorities, assessing and quantifying rehabilitation and construction needs – some R8 billion for hospitals and up to R30 billion for schools over a 10-year period. Housing delivery and urban and rural development also depend on strategies to meet substantial infrastructure needs. It is estimated that 15 per cent of the urban population rely on untreated water sources, 30 per cent share unimproved latrine facilities, 32 per cent do not have access to electricity and 30 per cent do not have formal road access or storm water drainage.

These are areas in which the adoption of a three-year budget framework, procurement reform and better coordination across provinces should contribute to improved performance. Actual construction of clinics and classrooms has lagged behind budgetary provision in recent years, partly because of delays in tender procedures but also as a consequence of more careful planning and design.

Public-private partnerships

Alongside these important aspects of financial reform, investigations are in progress on the scope for public-private partnerships in infrastructure development. There are various options, ranging from full privatisation of service provision to limited contractual participation.

Where private partnerships are accompanied by increased cost-recovery from users, reforms may well have significant distributional effects. Where costly services have been inequitably provided in the past, new financing and governance arrangements can have the effect of lowering the fiscal contribution to privileged services, facilitating greater equity. Across a broad spectrum of services – transport, communications, water, health and education – there is scope for focusing public finance on the needs of the poor by bringing private finance into services used by those who are able to bear some of the costs themselves.