Budget Speech

Minister of Finance

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In my utopia, human solidarity would not be seen as a fact to be recognised by clearing away prejudice or burrowing down to previously hidden depths but, rather, as a goal to be achieved. It is to be achieved not by inquiry but by imagination, the imaginative ability to see strange people as fellow sufferers. Solidarity is not discovered by reflection but created. It is created by increasing our sensitivity to the particular details of the pain and humiliation of other, unfamiliar sorts of people.

Richard Rorty (1989), *Contingency, Irony and Solidarity.*

Introduction – *creating solidarity*

The Budget we present today seeks to embody a philosophy that lies deep in the struggle that has brought us together in this democratic Assembly.

It is a philosophy of people affirming the things that they share with others above those that set them apart…

…relying not on abstract concepts and ideas to build our community, but seeking to anchor it to daily solidarities, expressed in deeds and actions, of which this Budget is only one, but a particularly visible, example.

…Solidarity that does not appear out of thin air, but is nurtured and sustained through “the imaginative ability to see strange people as fellow sufferers,” and it in turn nurtures and sustains us.

…Solidarity that saw us through the centuries of oppression, instilled in us that imaginative capacity to identify with the suffering in our midst.

That was already part of us when we stepped back from the precipice – oppressor and oppressed – and began the long journey toward a better life for all.

This is the solidarity of which I speak. This is our legacy.

We know that the society to which we aspire – compassionate, democratic, egalitarian – will not come about by belief alone. It is a society we seek to *create*.

We create it in our communities when a person who has never had running water opens a tap in her own back yard, when a family turns on an electric light for the first time.

We create it in our region when we join in a compact with others, seeking to negotiate a new partnership for the sustainable development of the continent.

We seek its global embodiment in an international order committed to the eradication of poverty, not because poverty is the presumed seed-bed of terrorism, but because we are all enriched by affirming the dignity and recognising the potential of others.

As we table the 2002 Budget before this House today it is therefore appropriate that we take some time to reflect on the developments in the global economy. The past two decades were characterised by unbridled optimism fuelled by the longest period of growth in the United States, the prospects of economic power embodied in the coming of age of the European Union, and the mirage of unimpeded expansion in Asia and Latin America.

A naïve confidence prevailed that prosperity was the guaranteed outcome of the 'third wave of globalisation'. This wave of globalisation, which began around 1980 had at its heart three broad characteristics. First, a large group of developing countries accounting for some three billion people became players in global markets. Second, international migration and capital movements increased dramatically reshaping trading patterns and ownership structures. Third, for some developing countries, many of them in Africa, globalisation has meant increased marginalisation.

Unprecedented prosperity and wealth in the developed nations of the world has created opportunities for growth and trade for other countries. However, these benefits have not been distributed equally. The bulk of capital flows remain between the rich countries of the world. Foreign direct investment per capita in the United States is around $3200 while in Africa it is a paltry $124. And a naïve definition of success has blunted the world's commitment to address poverty. It ignored local realities, cultures, and needs. It sought simplistic solutions to complex problems. In the aftermath of September 11, 2001, we again face the risk of easy diagnoses. Of course terrorism is an evil that must be countered. But this must not be allowed to become another burden laid indiscriminately on the shoulders of the poor. And we must not allow the war on poverty to become hostage to another agenda.

We who are born at the cradle of humanity have a responsibility for remaining activists for a more compassionate society. A society that recognises and respects the richness of our different cultures and languages, the humanity of all the world's people. A society that is intolerant of poverty. A society that recognises the life of a Mozambican child is as precious as that of an American child. A society that accepts that poverty anywhere lessens the humanity of every citizen of the globe. A global society that actively seeks human solidarity.

> *Solidarity is not discovered by reflection but created. It is created by increasing our sensitivity to the particular details of the pain and humiliation of other, unfamiliar sorts of people.*

From the global economic perspective the challenge we face now is to ensure that the gains that have been made through this wave of globalisation can be extended to eliminate poverty and improve equity in the poorest parts of the world. Economist Joe Stiglitz reminds us that 'each of the most successful globalising countries determined its own pace of change; each made sure that as it grew the benefits were shared equitably.'

And so in this Budget we are able, once again, to harvest the sweet fruits of the progress we have made. The 2002 Budget:

- Gives priority to reducing poverty and vulnerability through sustained economic growth
- Increases spending on social grants, municipal infrastructure and housing, improved police and justice services and critical administrative services to citizens
- Supports an enhanced programme to address the impact of HIV/Aids
- Gives continued emphasis to infrastructure investment and support and urban and rural development
- Strengthens the fight against crime
- Steps up assistance to communities to improve access to affordable basic services
- Gives generous tax relief to all.

Madam Speaker, we recognise the importance of taking charge of our destiny and of finding solutions that are appropriate for our needs and circumstances.

Our response has been to seek a partnership with the global economy and, in particular, the wealthy nations of the world and the multilateral institutions. A partnership built on trust, respect and, above all, a commitment to succeed. A partnership designed to improve the quality of the lives of all the people of our continent, and in particular the poor. But it is also a partnership that will contribute positively to global growth and prosperity. We take pride in the role that our President has played in shaping the New Partnership for Africa's Development. As South Africans we have a shared responsibility to ensure that this partnership takes root and grows.

Madam Speaker, it is our intention to place firmly on the agenda of the global discourse the values and principles that have guided our young democracy. The World Summit on Sustainable Development to be held in Johannesburg in August this year provides an opportunity to arrive at a global partnership that will embody these values.

The Johannesburg conference is preceded by a conference on Financing for Development in Monterrey, Mexico, where, as one of two special envoys of the Secretary General of the United Nations, I will have the task of challenging my colleagues, the Ministers of Finance of developed countries, to commit to a meaningful compact on the resources required for sustainable development. Another important opportunity arises from the fact that as of November 2001 South Africa occupies the Chair of the Development Committee, which is the policy making committee that governs the World Bank. It is our intention to use this opportunity to focus the attention of the multilateral institutions on a programme of action designed to eliminate poverty.

South Africa's appointment as the Chair of the Council of the World Customs Organisation in June 2001 reflects the integration of our economy into the world economy and establishes the South African Revenue Service (SARS) as a reliable partner in trade administration.

And it also provides another forum within which to advance the interests of developing economies and the goals of NEPAD.

Economic outlook

Economist and philosopher Amartya Sen has for many years articulated a profound and nuanced understanding of the need to address broader social policy concerns alongside growth as an economic goal. Public action in areas such as education, health, social development, security, land reform and housing are critical to a development strategy that places at its core the need to eradicate poverty and create a better life for all citizens.

Our economic policy over the past seven years has been shaped by this commitment. The choices we have made are designed to ensure that our economy grows sustainably and that more and more of our people share in the benefits of that growth.

The Budget we table before this House today makes five key interventions in support of development and the war against poverty. First, this Budget is strongly oriented towards growth, providing for an average increase in real spending of over 4 per cent a year for the next three years. Second, it provides for an intensification of spending on alleviating poverty, including increases in old-age pensions and child support grants and an enhanced response to HIV/Aids. Third, there is increased investment in infrastructure, particularly in support of urban renewal and rural development. Fourth, it strengthens the fight against crime by, amongst other things, making available the resources to employ an additional 16 000 police men and women. Fifth, it provides tax cuts for individuals, further tax incentives for investment and a more generous tax regime for small business.

This Budget has been crafted against the background of considerable uncertainty about the growth prospects for the global economy. The rapid growth that characterised the latter part of the 1990's stalled in 2001. The US economy descended into a recession last year from which it is expected to make a mild recovery this year. Although initially expected to be relatively immune to the investment collapse in the US, Europe's economic performance was affected. Germany in particular has experienced a sharp slowdown. The Japanese economy remains trapped in a recession from which it is unlikely to recover in the year ahead. The outlook for the emerging market economies also remains subdued. The collapse of Argentina and the fragile position of Turkey are likely to remain points of vulnerability for other emerging markets. It is worth noting that this is the first time since the mid-1970's that there has been such a comprehensive slowdown in the global economy. The advanced economies are expected to grow by 0,6 per cent this year.

Amidst this, South Africa's economy has shown impressive resilience. It is easily forgotten that the average rate of growth in real Gross Domestic Product (GDP) between 1994 and 2000 was 2,7 per cent. If we exclude 1998, a year of exceptional international turmoil due to the Asian financial crisis, average growth was 3,1 per cent. The economy grew by 3,4 per cent in 2000 and about 2,2 per cent in 2001, underpinned by a moderate recovery of investment and a strong export performance in the first half of last year.

But of course our economy is not immune to international developments which have temporarily unsettled growth and inflation trends. Growth for 2002 is expected to be 2,3 per cent, rising to 3,3 per cent in 2003. Against the background of an unexpected depreciation of the rand in the second half of last year, we now expect inflation to pick up moderately this year.

But growth of our economy has been underpinned by extensive structural reforms designed to ensure a more dynamic and resilient economy.

- Export diversification continues, both in non-traditional manufactured goods, tourism-related trade and growth in services exports. Manufactured exports grew from 9 to 20 per cent of GDP between 1990 and 2000.

- The balance of payments is immeasurably stronger and better able to sustain stronger growth – the current account will register a moderate deficit of 0,5 per cent of GDP in 2002.

- Real wages and productivity have increased by over 20 per cent since 1994, bringing rising living standards to millions of people and strengthening the competitiveness of industry.

- The net open forward position has been reduced from some $24 billion in 1998 to just under $3 billion in January 2002.

- The budget deficit is expected to be 2,1 per cent of GDP in 2002/03 falling to 1,7 per cent in 2004/05.

Madam Speaker, numerous explanations have been advanced for the depreciation of the rand in the fourth quarter of 2001. The underlying health of South Africa economy is not in question. Indeed the international rating agency Moodys provided a strong endorsement of our economic policies by raising our credit rating to Baa2.

It is widely acknowledged that the depreciation of the rand in the last quarter of last year was overdone. In an attempt to better understand what occasioned the sharp decline of the exchange rate in the last quarter of 2001, a commission has been set up headed by Advocate Myburgh. The Commission’s preliminary report is expected by the end of April.

Rising prices impact negatively on the poor and most vulnerable, and so the lowering of CPIX inflation from 7,7 per cent in 2000 to 6,6 per cent last year represents a significant advance. The Governor, Mr Tito Mboweni, must be commended for the way in which the South African Reserve Bank has managed monetary policy during difficult and uncertain times.

This year, we will see a temporary rise in inflation as the economy adjusts to last year’s depreciation, and we now expect CPIX to average 6,9 per cent, just outside the 3 – 6 per cent target range. However, the underlying inflation outlook is firmly downwards, and both the Government and the Reserve Bank remain confident that CPIX will return to the target range in 2003 and beyond.

Although the overall inflation trend remains muted, we are aware that food prices have increased sharply. The rise in the maize price in particular, affects the poor and the most vulnerable. The markets for grains, meat, vegetables and related products are unavoidably affected by seasonal factors and international developments in commodity prices and so we should expect a greater variation in food prices than the overall CPI.

For three of the past four years, food prices have increased by less than other consumer goods. But it is clearly important that we avoid an undue rise in the prices of essential staple foods. Therefore the Departments of Trade and Industry and Agriculture have been asked to do a thorough investigation and a report is expected shortly. We would like once more to appeal to the players in this sector to keep prices appropriately related to costs. It would clearly be in no-one's interest for the benefits of a more competitive agricultural marketing system to be lost in the pursuit of short term opportunistic gains.

Viewed against the rapid changes in the global economy and the deep structural reforms we have undertaken in the past six years, our economy's growth performance has been remarkable. But employment creation remains weak and efforts to accelerate investment and training and promote small business development have not yet turned the employment trend around.

We believe that the economy's potential is infinitely greater. Unleashing this potential requires that we act together as a nation. That we embrace the spirit of *Vuk'uzenzele*, and allow the needs, aspirations and interests of our country and economy to shape our respective roles, responsibilities and responses. That we act now, together, energetically to realise the potential of our country. Government alone cannot take responsibility for growth and development. It is a collective responsibility. We need, all of us, to accept that and commit to a compact that recognises that the power to make a difference rests with all of us.

This Budget constitutes the commitment of government to this compact.

Such a compact would need to address a key element in our economic and social landscape. This element, which is hard to define precisely or adequately quantify in economic models, is confidence. It is the need to understand that we all have a part to play in shaping our common destiny. In our generation vests the responsibility to build human solidarity actively, to push back poverty, to build a compassionate, caring society. It is our task to identify the challenges and grasp the opportunities.

Opportunities can arise in surprising ways. We initiated a project called 'Tips for Trevor'. The idea is that South Africans from all walks of life are invited to write to the Minister with tips of what should be in the Budget. About two weeks ago one of our very tired officials inadvertently gave a telephone number for the Ministry which turned out to be the number of Butler's Pizza in Gardens. Butler's phones started ringing, not with pizza orders but with tips for the Minister. It took very little time to convert an annoying situation into a business opportunity. They approached our Communications manager and proposed that, in return for the tips they had received, they wanted a picture with the Minister. They also very generously donated 60 pizzas to an exhausted and hungry Treasury team. We thank them and apologise for the mix-up.

Similarly to when we called Mr Hannes Rabie at his farm Nuwerus yesterday to share some of his hanepoot harvest with you here today, he jumped at the opportunity – mahala! And offered that we should return next year for even sweeter fruit.

This captures the spirit of South Africa's people.

The Budget framework

2001 Budget outcome

This Budget extends the growth-oriented fiscal stance of the 2001 Budget, providing for strong real increases in spending and significant cuts in taxes. Although the economy did slow down last year we have again seen strong revenue performance and sound debt management.

The projected outcome for 2001/02 is dominated by the strong tax performance. Revenue is projected to be R15 billion higher than budgeted. Supplementary allocations raise total expenditure by R4,3 billion.

Of the additional spending this year, R2 billion goes to provinces to pay backlogs in social security payments, R130 million is set aside for operations in Burundi and the remainder funds unavoidable and unforeseeable expenditure approved by Parliament in the Adjustments Budget in November 2001.

The budget deficit in 2001/02 is expected to be 1,4 per cent of GDP.

2002 Budget priorities

The improvement in our fiscal position means that we can substantially increase public spending, thereby increasing the potential of all our people to contribute to social development. Main budget expenditure will be financed through moderate growth in revenue and a deficit of 2,1 per cent of GDP in 2002/03, decreasing to 1,7 per cent in 2004/05.

The 2002 Budget directs more resources towards reducing poverty and vulnerability among our people; educating our children; training and developing skills among our youth; building and enhancing physical infrastructure and basic municipal services and making our communities safer places to live, work and play.

Real non-interest spending across national and provincial government will grow by 4,1 per cent a year over the next three years. In nominal terms, it rises from R256 billion in 2002/03 to R298 billion in 2004/05.

Prudent fiscal management has resulted in lower interest costs thereby releasing some R10 billion of additional resources for spending on services over the next three years. Debt service costs are expected to fall from 4,8 per cent of GDP in 2001/02 to 4,4 per cent next year and 4,1 per cent by 2004/05. What this means is that whereas in 1998/99 we were spending 20,2 per cent of our Budget on interest costs, for 2002/03 this comes down to 15,7 per cent and is expected to fall below 15 per cent by 2004/05. This is clearly a policy choice that has started to pay dividends.

The outstanding revenue performance for this year is largely the outcome of a sharp improvement in company tax receipts. The robust revenue trend makes possible substantial relief to taxpayers again in the 2002 Budget, which will in turn contribute to a recovery in household spending and economic growth over the medium term.

The main budget provides for expenditure of R287,9 billion in 2002/03, rising to R334,6 billion in 2004/05. Revenue increases from R265,2 billion to R313,2 billion over the same period.

After setting aside provision for debt costs and the contingency reserve, the framework provides for total allocations to national departments, provinces and assistance for local government of R237,1 billion in 2002/03, rising to R273,1 billion in 2004/05.

Recognising that the depreciation of the rand will impact on inflation and public service salary adjustments in 2002, the revised framework includes a R3,3 billion contingency reserve in 2002/03, rising to R9 billion in 2004/05. The reserve also provides for possible unforeseeable and unavoidable expenditure in the budget year and macroeconomic uncertainties or new priorities in the years ahead. Supplementary funds are once again set aside for new infrastructure spending.

The 2002 Budget framework creates an enabling environment that allows us to respond creatively to the challenges of social development and work in partnership with communities to build a healthy, vibrant future for all.

Our response is balanced, yet reflects the tough choices that we have made. It ensures that spending is affordable and sustainable, and contributes effectively towards achieving our broad social and economic policy objectives. These include enhancing economic growth and job creation, deepening equity and social development and strengthening the safety and justice sector.

Investing in growth

Recognising the need to reinforce the growth momentum of the economy, the 2002 Budget aims to invigorate several key policy initiatives.

As in last year's budget, investment in infrastructure is prioritised. In addition to national and provincial capital spending, the investment programmes of public enterprises and public-private partnership agreements – including transport projects, government buildings and several eco-tourism initiatives – will contribute significantly to building productive capacity in the years ahead.

Economic performance is also enhanced by a cluster of measures focused on enhancing the quality of public expenditure. These include the overhaul of the shape and organisation of the public finances and a robust new framework for financial accountability across all three spheres of government. Managerial capacity building programmes have been strengthened, information systems upgraded and financial management training enhanced.

The most important contribution Government makes to long-run growth and development is investing in people. The Human Resource Development Strategy launched in April 2001 sets the framework for developing our country's skills base. Reshaping our universities and technikons, improving learning and teaching in schools and creating new skills development programmes for workers and work-seekers are amongst the key elements of the strategy for human development. To these we will add in the years ahead the new learnership incentive and the programmes of the Umsobomvu Fund.

Division of revenue

The 2002 framework allows for additional spending of R13,4 billion in 2002/03 rising to R17,9 billion in 2003/04 over the forward estimates set out in the 2001 Budget.

- Over the MTEF period, additional allocations totaling R20,5 billion are proposed for provinces, mainly in response to the rapid take-up of the child support grant and to reinforce both human and physical capacity in the health system to address the impact of communicable diseases such as HIV/Aids, TB and malaria.

- A further R6,8 billion is proposed in support of local government to strengthen basic municipal service provision to poor households, manage the impact of the municipal demarcation processes and the institutional restructuring of service delivery systems.

- Supplementary allocations to national departments include some R6,6 billion for the criminal justice sector to employ additional personnel, strengthen the administration of justice, improve court services and build additional prison accommodation. Additional allocations are also directed towards key administrative services, including modernising the information systems of the Department of Home Affairs and enhancing tax administration. The Departments of Foreign Affairs and Defence are compensated for the effects of the depreciation of the rand on their costs.

Given that most of our social spending is at the provincial sphere, the biggest transfers in the Budget are to this sphere, rising from a revised level of R121,2 billion in 2001/02 to

R132,4 billion next year and R152,4 billion in 2004/05. This represents an annual average growth rate of 7,9 percent over the next three years.

With stable finances, improved financial management, the strong growth in transfers to provinces will reinforce accelerated delivery of pro-poor programmes. They should enable provinces to build and improve social and economic infrastructure: hospitals, schools and roads. They should allow them to strengthen their capacity to deliver better quality services by employing more doctors and nurses, and to increase the amounts for old age pensions and the child support grant.

The biggest increases in this budget go to local government. These allocations rise by 18,3 per cent a year over the MTEF period. Total allocations rise from R6,6 billion in 2001/02 to R8,6 billion in 2002/03 and R10,9 billion in 2004/05. This reflects government's strong commitment towards the delivery of basic municipal services and infrastructure to the poorest of our people. Now that our municipalities have completed their transition, residents are dependent on them to roll out essential infrastructure. Poor areas that fall within the nodes identified in the rural development and urban renewal programmes are given an extra boost of funds to accelerate the pace of alleviating poverty in the poorest areas of the country.

The municipal infrastructure programme increases from R2,2 billion this year to over R4 billion by 2004/05. The housing subisidy allocations grow from R3,2 billion to R4,3 billion by 2004/05.

This year, around 30 municipalities will, for the first time, be implementing three-year budgets for their 2002/03 budgets. The Municipal Finance Management Bill, currently before Parliament, will also give legislative effect to financial management reforms in this sphere.

National expenditure proposals

Details of national departments' spending plans for the next three years are again this year set out in the *Estimates of National Expenditure*. Members will find a wealth of information here, some 820 pages of departmental aims and objectives, policy developments, programme expenditure estimates, service delivery outputs, indicators and targets. You will be pleased to learn that I do not propose to list the full set of measurable objectives by programme. But I would urge Members to exploit to the full this valuable compendium. Hidden in this volume and departments' published annual reports there is a remarkable record of our development and progress:

- In fighting cholera in KwaZulu-Natal, the Department of Water Affairs and Forestry provided 100 000 people with safe water and 52 000 people with ventilated pit latrines.

- Some 20 300 land restitution cases have been settled, returning 300 000 hectares to 44 246 households.

- Social Development and Welfare departments pay 1 942 000 old-age pensions and 706 000 disability grants a month. There are 1,7 million children registered for child support grants now.
- Migration officials registered over 6 million visitors passing through our borders last year.
- In 2001, the Department of Agriculture eradicated 40 000 hopper bands and 9 000 swarms of locusts.
- Regional joint task forces have seized 101,6 tons of dagga and recovered 2 595 stolen livestock.
- The National Health Department distributed 310 million condoms last year. There were over 429 000 admissions to our hospitals for complex tertiary care. In our anti-malaria vector control programme, over 1,1 million households were sprayed last year.
- The Government Communication and Information System records that 909 679 pages are now registered on government websites.
- And last year Parliament received 279 696 incoming telephone calls, of which 37 744 were not answered.

There is more to the Budget, of course, than the statistics that track expenditure and services. But by monitoring and reporting on progress, and quantifying plans and targets, we hope to reinforce and empower this House and the public in holding our Departments accountable.

Investing in people

Turning now to the expenditure proposals, we note that investing in people is again the foremost priority in the Budget.

Education and skills development

Spending on education is 24 per cent of non-interest expenditure – the lion's share of the allocations.

Consolidated spending on education (national and provincial government) rises to R59,8 billion in 2002/03. It is estimated to increase to R68,3 billion by 2004/05.

For 2002/03 projected revenue from the Skills Development Levy (which entails a 1 per cent tax on company payroll) is expected to be R2,95 billion. Critical to the success of this initiative is the partnership that is required between government and business so as to ensure that the skills development programmes being implemented are consistent with the requirements of a particular sector.

The Umsobomvu Fund has youth development as its focus. Since its inception, the Fund has initiated a number of projects including the creation of pilot youth advisory centres, the launch of Community Youth Service programmes and the establishment of 'school-to-work' pilot projects. This year the Fund will launch new initiatives to provide young entrepreneurs primarily in the small business sector with business advisory support.

Social security grants and welfare services

Spending on welfare services and social security grants forms a significant share of provincial budgets, rising to R34,3 billion in 2004/05. The social grant system is our most effective tool in alleviating poverty. Honourable members will be pleased to note that with effect from this Budget, the date of annual increases to social grants is brought forward from 1 July to 1 April, the start of the financial year.

From April this year, we will place more money in the hands of four million people, raising the value of old age pensions and other social grants to R620 a month, an increase of R50. This is good news for our people and will assist in improving the daily life of poor families.

We will also help more families and care-givers look after young children by raising the value of the child support grant by R20 to R130 a month. The grant will be and extended to a further 1,2 million children by the end of next year.

Health care

This Budget contains significant measures to strengthen the national HIV/Aids programme. In addition to an estimated R4 billion currently spent by provincial health departments on Aids-related illnesses, funding for prevention programmes in schools and communities, hospital treatment and community-care programmes will amount to R1,0 billion next year, rising to R1,8 billion in 2004/05. This includes a progressive roll-out of a programme to prevent mother-to-child transmission at the conclusion of the current trials. Medication for the treatment of TB, pneumonia and other opportunistic infections.

Conditional grants to provinces play a significant role in funding health services. The tertiary services and training grants are rationalised in support of a more equitable distribution of services over time. The National Tertiary Service Grant amounts to R3,7 billion in 2002/03, increasing to R4,2 billion in 2004/05. It will fund tertiary units in 27 hospitals, facilitating a redistribution of health services from the Western Cape and Gauteng to other provinces where poverty is more prevalent. The Health Professional Training and Development grant rises from R1,3 billion in 2002/03 to R1,4 billion by 2004/05 and provides for a phased increase in the number of medical specialists and registrars in under-served provinces. R1,6 billion over the next three years is directed toward modernising hospitals, ensuring better tertiary health care, while improvements to hospital management receive targeted funding rising from R124 million in 2002/03 to R138 million in 2004/05.

Facing the infrastructure challenge and investing in economic development

Increased funding of physical construction is again prioritised, and steps have been taken to improve capacity to spend. Well designed investment in economic infrastructure and services has significant potential to enhance growth and improve services and opportunities for poor people.

This year the Budget:

- Steps up allocations for electrification to R950 million a year, supporting Eskom's drive to electrify rural communities
- Increases spending on roads and rail services by R1 billion, ensuring that rehabilitation and investment raises economic activity and provides development
- Sets aside R80 million for the hosting of the World Summit on Sustainable Development in Johannesburg later this year
- Boosts spending on the Water Affairs and Forestry vote to R3,6 billion in 2002/03 in support of investment in rural water and sanitation infrastructure
- Directs R300 million a year to the Post Office to assist further restructuring that will facilitate rollout of infrastructure and services to underserved areas
- Allocates R741 million for restructuring of the Unemployment Insurance Fund, ensuring that benefits are more effectively targeted and the financial viability of the Fund is improved
- Raises provision for sustainable land reform to R1,1 billion in 2004/05, contributing to development and job creation in rural areas
- Sets aside R700 million in 2002/03, rising to R2 billion in 2004/05, for infrastructure investment in support of rural and urban development.

Provincial spending on social and economic infrastructure has improved and municipal infrastructure financing receives substantial increases in allocations over the next three years.

Development partnerships with local government

Development is not only about large-scale infrastructure projects, wide-reaching income support or high profile health campaigns. For many, ‘real’ development happens when people’s access to services and opportunities within their own communities improves. When they are able to open the door to their own house, drink water that is clean and safe from disease, switch on an electric light, and watch their children kick a soccer ball around the community soccer ground. Building a better life for all is therefore a challenge that we share with communities.

Spending plans set out in this year's Budget encourage partnerships with communities, building solidarity as we join hands to improve access to affordable basic services. Increased funds are allocated to step up housing and municipal infrastructure programmes, focusing on water, sanitation and electrification.

We are making good progress in the first pilot projects identified under the Integrated Sustainable Rural Development and Urban Renewal programmes. In these areas, national and provincial departments will work with councils and local organisations to improve services, create business opportunities and build strong and thriving communities.

Strengthening the fight against crime

Social progress also rests on effectively combating crime and making communities safer places to live, work and play. We are resolute about strengthening the fight against crime.

Over the next three years, an additional R5,2 billion will go the Safety and Security vote. This allows 16 000 more police men and women to be employed to reduce crime in areas that are identified as 'crime hot-spots', working in close cooperation with communities to improve their everyday safety and security.

More police officials on the beat will lead to more arrests. These arrests place a further burden on an already stressed judicial system. Over the next three years a further R826 million will help efforts to restructure and streamline operations in the administration of justice, enhancing court efficiency and raising the overall efficacy of the criminal justice system.

Once criminals are prosecuted and found guilty, they are sentenced to an appropriate prison term. A rapid increase in the prisoner population has contributed to significant overcrowding in prisons across the country. We estimate that our daily average prisoner population will rise to 225 600 by 2004/05. Budgeted spending on the Correctional Services vote increases from R6,9 billion in 2002/03 to R8,1 billion in 2004/05 to fund increased operational costs associated with higher prisoner numbers and expanding prison capacity.

The Defence Force is involved in diverse activities, including operations to combat crime, patrolling the country's borders and rural areas and fulfilling international obligations in providing peace support in the Democratic Republic of the Congo (DRC), Burundi, and the Horn of Africa.

Increases on the Defence vote will provide for the higher costs of the strategic defence procurement programme due to revised exchange rate projections. Provision is also made for the protection mission to Burundi, the costs of which will partly be recovered from international donors. The rise in spending brings total defence expenditure to 1,7 per cent of GDP in 2002/03, compared with 3,7 per cent a decade ago and 1,5 per cent in 1997/98.

Revenue trends and tax proposals

The past fiscal year turned in yet another buoyant revenue performance, following comprehensive tax policy reforms and further advances in restructuring the Revenue Service and collection processes.

In this year's Budget, Government continues to provide substantial tax relief for individuals and seeks to improve further the effectiveness and efficiency of the South African tax structure with a view to encouraging investment and reducing the cost of doing business in South Africa.

Progress on outstanding 2001 tax reform initiatives

As indicated in the 2001 *Medium Term Budget Policy Statement,* this year heralds a period of consolidation after the far-reaching income tax changes that have been introduced since 2000. We are able to report on progress in several key tax reforms of last year's budget.

We announced the introduction of a wage incentive last year. Recognising the importance of investing in skills alongside the creation of jobs, it will take the form of an additional tax allowance for learnerships offered by employers. Draft legislation has been released for public comment and will be introduced this year. An allowance to employers in the form of a R25 000 deduction will be permitted when a learnership agreement is signed, and a further R25 000 when the learnership is successfully completed. This incentive programme applies to all learnerships entered into from 1 October 2001 and will apply for a five-year period.

An amount of R3 billion of foregone tax revenue over four years was allocated in the 2001 Budget to encourage investment projects with significant direct and indirect benefits for the South African manufacturing sector. The National Treasury and the Department of Trade and Industry have developed stringent evaluation criteria and transparent administrative processes that seek to guarantee that only those applications that significantly raise the competitiveness of the economy and create job opportunities are approved. The programme is characterised by sound governance and Parliamentary oversight procedures. The Department of Trade and Industry will begin to process applications shortly.

Last year, Government announced fundamental measures for a more coherent tax environment for public benefit organisations. We raised significantly the thresholds for tax-deductible donations by individuals. In addition, the range of deserving public benefit organisations that qualified for tax-deductible donations was broadened, including those caring for children and the aged, HIV/AIDS care and education. Moreover, Government released a list of public benefit activities that qualify an organisation for tax-exempt status, thereby widening the range of qualifying organizations. Underlying this list of tax-privileged activities is the principle that these must promote social development or meet special needs of the wider public, and not just a narrowly exclusive group.

The list of organisations qualifying for tax-deductible donations and tax-exempt status will be broadened during the course of the 2002/03 fiscal year. The National Treasury and SARS have already met with important stakeholders to discuss revisions to the public benefit activity lists. The new approach, together with the enhanced capacity of SARS to administer these incentives, adds another well-targeted set of measures in addressing poverty and vulnerability effectively.

I am pleased to report that the revised list will include provision of health services to the poor and care of the terminally ill and persons with severe physical or mental impairment. Furthermore, we propose to recognise private contributions to our trans-frontier peace parks for tax purposes. This will encourage initiatives that bring jobs and tourists to our region, and signal the spirit of partnership between nations, and between government and the private sector, that underpins Africa's new approach to development.

Growth-enhancing income tax proposals

Personal income tax relief

The personal income tax is South Africa's most important revenue source, contributing nearly 37 per cent of main budget revenue in 2001/02. In the 2001 Medium Term Budget Policy we indicated that increased revenue associated with enhanced tax collection efforts will be returned to taxpayers through further relief to individuals, particularly in the lower and middle-income brackets.

Taking account of the sterling revenue performance of SARS and the tax base broadening achieved by introducing the residence-based income tax system and capital gains tax, we propose this year to reduce income taxes on individuals by a further R15 billion. Individual taxpayers are therefore the primary beneficiaries of the income tax base broadening initiatives and improved collection record. This brings personal income tax relief since 1995 to R48,6 billion.

The revised tax scales mean:

- The income tax threshold is raised from R23 000 to R27 000 – that is, people earning below R27 000 a year will pay no income tax.
- The tax threshold for taxpayers age 65 and over increases to R42 640.
- Someone earning R60 000 a year will pay R1 380 less; those earning R90 000 will pay R3 480 less.
- Rates and bracket adjustment provide relief across the entire income tax population, with the maximum rate reduced from 42 per cent to 40 per cent.
- Of the total tax relief, 57 per cent accrues to taxpayers earning less than R150 000 a year, 37 per cent accrues to taxpayers earning between R150 000 and R300 000 a year and 6 per cent to taxpayers earning more than R300 000 a year.

- The average tax cut for taxpayers in the income group up to R150 000 is 25 per cent, for taxpayers in the income group of R150 000 to R300 000 it is 14 per cent and for taxpayers earning more than R300 000 average rates are cut by 7 per cent.

This individual tax relief package contributes to reducing the cost of employment and rewards work and savings. It also narrows the gap between the maximum individual rate and the company rate, improving the integrity and consistency of the tax structure.

Increase of interest and dividend income exemption

Complementing the income tax rate reductions, it is proposed to increase the domestic interest and dividend income exemption from the current R4 000 to R6 000 for taxpayers under the age of 65 and from R5 000 to R10 000 for taxpayers aged 65 and over. This measure provides substantial relief to those living on modest fixed-interest incomes. This relief measure will cost the fiscus R163 million.

With a view to encouraging taxpayers to make their savings available for domestic capital formation, foreign interest and dividends will in future only be exempt up to R1 000 out of the total exemption limit.

Accelerating depreciation allowances for manufacturing plant

South Africa needs to nurture its economic growth and job creation. In order to encourage investment in productive capacity, an accelerated depreciation allowance for a broad range of new manufacturing assets acquired within 3 years from 1 March 2002 is proposed. These assets will be depreciated over 4 years in contrast to the existing 5-year period. Forty per cent of the cost of the asset will be deducted in the first year and twenty per cent of the cost for the subsequent three years.

This measure will encourage investment and ease the impact on investing firms of the recent depreciation of the rand.

In addition, the monetary threshold for assets acquired on or after 1 March 2002 that may be immediately written off is increased from R1 000 to R2 000.

These two measures will cost the fiscus R295 million in 2002/03.

Extending tax and administrative relief for small businesses

Government is very conscious of the needs of the small business sector and in the unfolding tax reform programme recognises this sector's strategic role in economic growth and employment. Building on the 2000 and 2001 concessions, it is proposed to increase the existing threshold of the first R100 000 of taxable income, which attracts the 15 per cent graduated company tax rate, to R150 000.

The small business benefits are limited to companies with an annual turnover of less than R1 million. It is proposed to raise this threshold to R3 million, with these changes taking effect for companies with years of assessment ending on or after 1 April 2002.

It is common knowledge that the burden of tax and regulatory compliance impacts adversely on small businesses. Administrative procedures and the existing penalty provisions will be reviewed with the aim of simplifying tax compliance for small businesses. In addition, a simplified approach to calculating VAT obligations will be investigated. These measures combined constitute a possible revenue loss of R40 million in 2002/03.

Review of monetary thresholds

The Income Tax Act contains a number of monetary thresholds that need to be adjusted from time to time to take account of the effects of inflation. Taking account of affordability and the economic impact of the threshold, the following revisions are proposed:

- Tax-exempt donations are raised to R30 000 for individuals and R10 000 for companies not considered to be public companies.
- The exemption from estate duty is increased to R1,5 million.
- Exemptions for bursaries and scholarships are raised.
- The R1 000 threshold for medical expense deductions will be eliminated.
- The exemption from tax for bravery and long service awards is raised to R5 000.
- The immediate deduction for intellectual property will be increased to R5 000.

These proposals will result in revenue losses of R36 million.

Tax simplification & reducing cost of doing business in South Africa

Limitation of employee deductions

Recognising that most salaried employees have few expenses that are incurred in the production of their employment income, it is proposed to simplify the taxation of employment income by limiting employee deductions to the following:

- Business travel deductions against car allowance
- Certain medical expenses
- Contributions to pension and retirement annuity funds
- Donations to certain public benefit organizations

- Specific expenditure against allowances of holders of public office
- Wear and tear allowances on equipment.

These limitations, which will not apply where an employee's remuneration is wholly or mainly derived in the form of commissions based on sales or turnover, will come into effect on 1 March 2002.

It is also proposed that the R150 a day allowance, which compensates for deemed accommodation costs where actual expenses are not claimed, should be abolished. Taxpayers may still be reimbursed by employers for actual expenses incurred on accommodation for business purposes. The R65 a day allowance for subsistence expenses will be continued.

These steps will increase revenue by R100 million.

Other administrative reforms

Other administrative reforms are proposed, resulting in an estimated net revenue loss of R50 million. For example, it is proposed that the existing June year-end arrangement with certain farmers, fishers and diamond diggers, which dates back to 1962, should be terminated. The remaining 1 000 taxpayers on this system will be brought into the standard provisional tax arrangement. Also, the provisional tax registration threshold for individuals below the age of 65 who earn taxable non-employment income will be raised from R2 000 a year to R10 000 from 1 March 2002.

Transfer duties

As a further contribution to making home ownership affordable, amendments to the transfer duty rates are proposed. The new structure is as follows:

- On properties with a value of less than R100 000, no duty to be paid
- A 5 per cent duty on the value above R100 000 up to a value of R300 000, and
- 8 per cent on the value above R300 000.

The average duty on property with a value of R150 000 will fall from 3,1 per cent to 1,7 per cent, whereas the duty on property with a value of R300 000 falls from 4,6 per cent to 3,3 per cent, thereby maintaining an appropriate progressive property transfer tax. The new rate structure will apply for property acquisitions from 1 March 2002 and will cost R300 million in revenue foregone.

Reducing financial transaction taxes

There are a variety of financial transaction taxes still in place in our tax structure. In order to contribute to the competitiveness and development of our financial sector, it is proposed that certain of these should be abolished.

With effect from 1 January 2002, the 2,5 per cent charge on Lloyd's insurance premiums will be withdrawn. With effect from 1 April, taxes on the following transactions or financial instruments will be abolished:

- Repurchase of warrants by their issuers
- Issue of listed debt instruments
- Transfer of a mortgage bond from one institution to another
- Various insurance policies or contracts, and the cession of insurance policies.

The overall cost to the fiscus of the transaction tax withdrawals is R130 million.

Indirect tax proposals

Although revenue from value-added tax is expected to be moderately lower than budgeted in 2001/02, it remains a dependable and broad-based tax source. No change in VAT is proposed.

Duties on beverages and tobacco products

Excise taxes have also lagged behind budget estimates, reflecting both slower than anticipated spending trends and shifts in household consumption away from excisable products in response to higher taxes. Bearing both revenue and health considerations in mind, the following adjustments are proposed.

- Beer and ciders are raised by 8 per cent, bringing the proposed excise duty to 43,6 cents per 340 ml can or an average increase of 3,2 cents per can.
- Sorghum beer and sorghum flour duties will not be increased.
- Duties on wine are raised by 8 per cent.
- Duties on spirits and sparkling wine are increased by 10 per cent. This translates into a total excise duty of R11.84 per 750ml bottle of spirits, or a R1,08 increase per bottle.
- Taxes on tobacco products are raised by an average of 12 per cent. This increases the total excise tax burden to R3.51 per packet of 20 cigarettes, or an increase of 34 cents per packet.

These excise measures will raise R798 million.

Government has steadily reduced excise duties on soft drinks over the last four years. It is proposed to abolish the remaining 6c a litre duty. The estimated revenue loss will amount to R135 million.

Fuel levy

Mindful of the effect of the depreciation of the rand on pump prices and the dependence of our urban public transport system, there will be no change in the general fuel levy on diesel and petrol this year. The tax burden on fuel has fallen from an average of 45 per cent of the pump price in 1998 to approximately 30 per cent in 2001.

Environmentally-friendly diesel fuels

Madam Speaker, we are advised that it is now possible to power a motor vehicle using crushed sunflower seeds. Environmentally-friendly biodiesel and ethanol alternatives have the potential, our advisers tell us, to reduce our dependence on imported fossil fuels and provide a growing market for employment-intensive oil seed crops.

To provide appropriate encouragement to these developments, it is proposed that a levy at 70 per cent of the general fuel levy rate should apply to the consumption of environmentally-friendly alternative diesel fuels. Other provisions – the Road Accident Fund levy, off-road fuel levy concessions, the SACU excise duty and VAT zero-rating – will apply as for other fuels.

Further maritime diesel fuel concessions

It is proposed to extend the existing full diesel concession to offshore vessels conducting research in support of the maritime industry, coastal patrol vessels, vessel employed in servicing of fibre optic telecommunication cables along our coastlines, harbour vessels operated by Portnet and in-port bunker barges. An estimated revenue loss of R4,1 million to the fiscus and R2,4 million to the Road Accident Fund is envisaged.

Road Accident Fund levy increase

The Road Accident Fund is currently re-engineering its claims processing procedures with a view to striving towards disciplined financial management. On the understanding that the Fund will continue to improve its efficiency and stamp out fraud, the Road Accident Fund levy is increased by 2 cents a litre to 18,5 c/litre to meet the Fund's ongoing liabilities. This will raise an additional R310 million and will be effective from 3 April 2002.

Addressing tax avoidance and reducing the compliance gap

Madam Speaker, the overall impact of our tax proposals is to provide tax relief of R15,2 billion. This is possible, in large measure, because of the progress SARS continues to make in reducing what we call the “tax gap” – the gap between the revenue that is actually collected and the amount that would be raised if compliance with the tax code was complete.

The gap arises for various reasons. In some cases taxpayers are not aware of their obligations. In others, tax is avoided by aggressive tax planning, while purportedly adhering to the letter of the law. Then there are those who simply ignore their obligations. An increasing number of people are finding that this is a dangerous choice.

The tax gap is of course not only of interest to SARS and the National Treasury. Closing the gap is what makes tax relief and rising social spending possible. Closing the gap allows us to lower the burden on those citizens who meet their obligations and accelerate our investment in meeting the pressing needs of the country.

There are several ways in which we are steadily closing the gap.

- SARS has begun the shift to an integrated audit approach, allowing the examination and comparison of a wide spectrum of taxes in a company’s books. This improves our service to taxpayers while yielding valuable comparative information. By drawing on integrated field audits and employment of highly skilled specialists, the Woodmead project in Gauteng, for example, has exposed non-compliance in both the formal and informal sectors of the business community.

- In the banking sector, as announced last year, we have put the spotlight on the arrangements and structures that lead to low effective tax rates. Improved enforcement of current law has already yielded additional collections of R792 million. A review of the taxation of derivative instruments and financial leases will take place in the coming year.

- The number of personnel in SARS’s Corporate Tax Centre will double by the middle of this year, contributing both to improved audit capacity and better quality service to corporate business.

- The role of tax advisors and consultants in ensuring better compliance and sound advice to taxpayers is a further area for review in the year ahead.

- Initiatives to extend compliance to areas of the economy where it is erratic or non-existent are being stepped up. As these unfold, SARS will ensure that those who approach the Revenue Service voluntarily to meet their obligations will be met with a helpful and sympathetic reception. Those who don’t, will meet us in court.

Details of these and other measures to streamline tax administration and address tax avoidance are set out in the Budget Review. Specific proposals include:

- Introduction of a deeming provision to underpin enforcement of the taxation of foreign income

- Raising the provisional tax threshold from R2 000 to R10 000
- Investigation of the introduction of more frequent provisional tax payments
- Taxation of trusts other than special trusts and testamentary trusts established for the benefit of minor children at a flat rate of 40 per cent.

SARS's transformation programme, Siyakha, and its technology improvement programme, aim to address the inadequate and outdated systems and technology currently in use and to provide a better quality service to all taxpayers. The reforms will take time before they are fully effective. In the short term, SARS will be launching a complaints office that will operate independently of branch offices, and small businesses will benefit from the simplification of tax forms and more accessible contact centres. As the larger transformation gathers momentum, we will find that our investment in improving tax compliance contributes not just to government revenue, but also to improved accounting and auditing, better governance and reduced financial risk in the business community at large.

Reinforcing corporate governance

The issue of corporate governance and in particular the role of the auditing firms has once again dominated the headlines. The Enron debacle has brought into sharp relief a number of key issues – weak or non-existent governance structures, the fiduciary responsibility of directors, negligent and sometimes reckless management, ineffective auditing, independence of auditors and conflicts of interest arising from inadequate separation between auditing and consultancy. Closer to home a number of corporate failures – Macmed, Leisurenet, Regal Treasury, Unifer – to name but a few, have raised a similar set of issues. Many of these weaknesses were highlighted in the Nel Commission's Report.

The Minister of Finance has responsibility for the legislation governing the audit profession in South Africa. Last year the National Accountancy and Consultative Forum presented me with a draft Accountancy Professions Bill to replace the existing Public Accounting and Auditors Act of 1991. Having considered the draft legislation and taking account of recent developments both nationally and globally, it is my view that the Bill does not go far enough. Over the coming months we will actively engage with all the role players to ensure that the Bill addresses our country's needs in this regard.

Financing proposals

After taking account of our spending proposals and revenue estimates, there is a budget deficit of R22,7 billion to finance next year, or 2,1 per cent of GDP.

To date total investment of R27 billion has been raised through restructuring state assets, mainly from international equity partners, of which R17 billion has been used to reduce debt.

Given the accelerated pace of implementation some R12 billion from the restructuring of public enterprises is expected in 2002/03, decreasing the net borrowing requirement to R12,2 billion.

We propose to raise R4 billion in short-term loans next year, contributing further to the liquidity of this market. Net foreign borrowing to the value of R16,2 billion is proposed. This will allow domestic long-term debt to be reduced by about R11 billion – in effect, we propose to repay R11 billion in long-term rand-denominated debt next year.

At the end of 2001/02, total net loan debt will amount to R425,1 billion, or 42,9 per cent of GDP, down from over 48 per cent five years ago. Debt will steadily decline as a share of GDP to a projected 37,4 per cent by the end of 2004/05.

Conclusion

Madam Speaker, allow me to express my profound appreciation to:

- President Mbeki for his leadership and the challenges he puts before us, before this House, before our nation and before our continent.
- Deputy President Zuma and my Cabinet colleagues, particularly the members of the Ministers' Committee on the Budget, for your support and initiative in bringing forward budget suggestions.
- Deputy Minister Mandisi 'Sipho' Mpahlwa for sharing the duties we carry and for friendship.
- My "Team Finance" colleagues in the Provincial Executive Councils, who have led with courage and professionalism.

Our task has been greatly facilitated by several others: Governor Tito Mboweni and his team at the South African Reserve Bank, Murphy Morobe and members of the Financial and Fiscal Commission, Philip Dexter and Nedlac, Ms Barbara Hogan and Ms Qedani Mahlangu, as Chairpersons of the Portfolio and Select Committees of Finance, respectively.

A special word of thanks is due to the many South Africans who took time and made the effort to write, fax and email us their suggestions for the Budget. We have tried to accommodate as many of these as possible. I am sorry that some ideas – such as the abolition of Personal Income Taxes – could not be accommodated. Apologies also to the correspondent who requested that ice-rink tickets should be zero-rated for VAT purposes.

The Budget is largely the fruit of the efforts of the National Treasury and the Revenue Service. Special thanks are due to Maria Ramos and Pravin Gordhan for the leadership they have given.

Thanks also to the staff of the Ministry who have tolerated us with good cheer. Last but not least, to my family for their unwavering support.

This Budget makes an important contribution to achieving more caring, more compassionate, more prosperous society. A society with the imagination to achieve solidarity, freedom from poverty and human dignity. A society that nurtures its children, that respects and cherishes its elderly. A society that draws deeply on its history and the qualities of its struggle – resilience, humility, courage, wisdom, tolerance, assurance, and an indomitable spirit for life. These values are rooted deep in the psyche of our nation. They guide us now as they guided the great leaders of our country. And although we have achieved our liberty, the vision that inspired that great patriot, Chief Albert Luthuli, must continue to be what we aspire to and strive for.

> *The task is not finished. South Africa is not yet a home for all her sons and daughters. Such a home we wish to ensure. From the beginning our history has been one of ascending unities, the breaking of tribal, racial and creedal barriers. The past cannot hope to have a life sustained by itself, wrenched from the whole. There remains before us the building of a new land …from the ruins of the old narrow groups, a synthesis of the rich cultural strains which we have inherited. ...The task is immense.*

Albert Luthuli (1962), *Let my People Go*