

Description : THE INSTITUTE OF INTERNATIONAL FINANCE SPRING MEMBERSHIP MEETING

Date : 7 MAY 1998

Speaker : MINISTER TREVOR MANUEL

THE INSTITUTE OF INTERNATIONAL FINANCE SPRING MEMBERSHIP MEETING

Introduction

It is a somewhat doubtful honour to be the last speaker at this podium. We have had excellent food for thought, and you will want me to keep this course brief!

I want to talk about the importance of fiscal reform, and indicate some of the steps we are taking in South Africa to bring our budgeting system up to date with best practice from around the world.

Sound fiscal management and transparency have always been important to ensure that the public finances are sustainable, that governments are held democratically accountable for the delivery of services, that public services are responsive to the needs of their consumers, and that public money is used efficiently and effectively.

But the importance of fiscal management, and particularly transparency, have taken on a new dimension in this era of globalisation. As a middle income economy, South Africa competes in global markets for investment and trade. Understandably, international investors attach considerable importance to budgetary systems and transparency as indicators of the nation's economic health and the quality of its governance.

The ANC Government which was elected in South Africa in 1994 has embarked on transformation programmes across the full spectrum of public policy – redressing the inequalities of apartheid, strengthening our industrial and development programmes, creating new provincial governments, privatising state enterprises. We were of course aware that many countries have set themselves similar goals and have failed – their social plans undermined by debt, inflation and unsustainable budget balances. So we have attached considerable priority to wholesale reform of our budget system. We are a young democracy with a radical new Constitution. Alongside a progressive bill of rights and a detailed democratic charter, we have built the key principles of sound public finances and fiscal transparency into our Constitution itself. The independence of our central bank and the auditor-general, the integrity of government revenue and a broad framework for intergovernmental finances are Constitutionally protected.

The Constitution has provided a point of departure; the requirements of good governance have signalled the way forward. We have been gratified to find ourselves in step with other countries, at the forefront of budget reform.

Code of Good Practice on Fiscal Transparency

On April 16, 1998, the Interim Committee of the Board of Governors of the IMF adopted a *Code of Good Practice on Fiscal Transparency*.

I am happy to say that South Africa pre-empted the Code by about a month. For our Budget on March 11th this year satisfies almost every article of the new Code in full.

For the first time, the comprehensive documentation published as part of the Budget sets out economic forecasts, revenue projections and spending plans for three years ahead – one of the key requirements of the Code. The Budget documents set out a comprehensive analysis of the whole of government, including extra-budgetary institutions, and provided consolidated accounts for General Government. The purposes for which public funds were being directed, and the outputs they were expected to deliver, were set out clearly.

And all this information was published for the whole world to examine, simultaneously, on the world wide web.

Later this year, South Africa will introduce a new Treasury Control Act which will codify in legislation our system of fiscal management, as required by the Code. Thus we are proud to say that South Africa already meets the spirit and the key goals of the Code of Good Practice on Fiscal Transparency.

Fiscal reform

Democracy is just four years old in South Africa, and the ANC Government has given considerable priority to budget reform to help us to meet our goals for the transformation of public services and improved service delivery.

We have implemented our new Constitution with its three spheres of Government. This has meant devolving responsibility and accountability for the majority of public spending to provincial and local government, and putting in place a framework of fiscal transfers which are equitable and permit each sphere of government to carry out the functions delegated to it in the constitution.

We have radically altered the budgetary priorities we inherited from the apartheid regime; we have cut defence spending by over 60 per cent in real terms, giving priority instead to social services such as health and education; we have dramatically shifted the geographical distribution of spending from the previously advantaged white areas to public services which now serve the nation equitably.

We have adopted, and we have delivered, sound macroeconomic targets to ensure sustained economic growth. We have accommodated new spending programmes within an affordable spending envelope. Our deficit reduction programme has brought the budget deficit down from

over 10 per cent in the last year of the old regime to just 3½ per cent this year. Next year we will reduce it further, to 3 per cent.

We have introduced a Medium Term Expenditure Framework. Our economic and fiscal projections are set out in the Budget for the three years ahead, showing the affordable level of spending and the proposed budget allocations to each programme. This improves parliamentary and public understanding and enhances debate; it provides a stable framework within which public services can plan; and it gives financial markets the assurance that Government has a vision of what it wants to achieve which is both politically and economically viable.

We have introduced a pre-Budget policy statement, called the Medium Term Budget Policy Statement, which we published three months before the Budget. This sets out the broad economic parameters within which the Budget is framed, the likely division of revenue between spheres of Government, and a frank assessment of the policy choices that Government confronts. I believe that no country in the world publishes such a detailed, honest and frank statement of policy issues in the run-up to the Budget.

We have greatly enhanced the quality and quantity of fiscal information that we publish. We now provide consolidated accounts for General Government and the Public Sector. We publish, for each vote, the main outputs that Departments are expected to deliver. We measure our performance against our targets. We explain our policy priorities and choices in the context of our programme of reconstruction and development. We have extended our budget documentation to include discussion of the gender impact of spending programmes, the effectiveness of targeted programmes and the incidence of the tax structure.

We are in the process of drawing up legislation to clarify the respective roles and responsibilities of political office bearers and accounting officers. Sound financial management requires that there should be no ambiguity about where responsibility lies for ensuring that public funds are properly spent.

This has been a significant programme of fiscal reform, with transparency and accountability firmly at the forefront. There is much we still have to do. We must go further in devolving responsibility and accountability. We will establish more firmly the primacy of Parliament in voting funds, and ensuring that the funds are spent as Parliament intended. We will improve the timeliness and quality of our financial reporting. These issues will be covered in a Budget Reform White Paper to be published later this year.

Asset and Liability Management

In addition to budget reform, we have also transformed the management of Government assets and liabilities.

For example: We have separated debt management from the Reserve Bank, thereby divorcing the conduct of monetary policy from the marketing of Government securities. We have appointed twelve banks to act as primary dealers in government bonds, including six foreign banks, to facilitate greater international participation in the domestic bond market, increasing competition, enhancing expertise and broadening the investor base for rand-denominated bonds.

We have adopted a cash management framework to improve working capital efficiency, by improved cash-flow forecasting, better cash transmission and improving the configuration of government bank accounts.

We have an intensive programme of restructuring state enterprises. This has included the sale of a substantial stake of our telecommunications utility to a Malaysian consortium in May last year, for \$1¼ billion, the sale of a share in our airports management company, the sale of Sun Air, a publicly-owned airline, and the privatisation of several radio stations. At the same time, we are corporatising our public transport providers and restructuring Eskom, our energy utility, into competitive business units. We plan to bring private equity into South African Airlines, the Forestry Company SAFCOL and our armaments industry.

We are bringing private capital, and private expertise, into infrastructure investment through private sector participation in parastatals, and through public private partnerships delivering schemes ranging from the Maputo Corridor, which will rehabilitate the port facilities in Maputo and enhance the communications infrastructure linking Maputo to population centres in South Africa, to private companies building and operating prisons.

We have modernised the national payments system through the introduction of the South African Multiple Option Settlement System. This systems decreases settlement risk and the time taken to effect settlement. This allows more banks to enter the clearing and settlement system, and consumers will benefit from greater payments system integrity and improved cash management.

Government spending as share of GDP

These reforms are valuable only if they deliver improved public services within affordable levels of expenditure.

South Africa is already seeing some of the fruits of what we have done.

Our programme of deficit reduction, combined with our commitment to limit the tax burden, has inevitably meant a reduction in spending as a share of GDP. National budget expenditure has been reduced from over 34½ per cent of GDP in 1993/94, under the last government, to under 30 per cent this year, and it is expected to fall further over the period of our three year projections. With the deficit pegged at 3 per cent of GDP, and the tax burden projected to be 26 per cent in 2000/01, spending will have to be limited to 29 per cent of GDP.

Conclusion

The fiscal aggregates signal our progress in putting our macroeconomic house in order. But the real test of our programme is in the extent to which we are able to meet people's needs with the resources available. We have embarked on significant reprioritisation of spending, freeing up resources within the total to be spent on our reconstruction and development priorities. Even within a period of fiscal austerity, we have found resources for our priorities.

- We have increased the number of children going to school by 10 per cent since 1994. Schools, colleges, universities and technikons enrol 13 million learners – one third of the population.
- We now provide a meal daily to 5 million primary schoolchildren – improving their ability to learn and giving food to children who would otherwise go hungry.
- 500 new clinics have been built, bringing health services closer to 5 million people. We provide largely free health care to 32 million people without medical aid.
- Since 1994, a million women and children in rural areas have gained access to a clean water supply.
- 1,5 million homes have been connected to an electricity supply, creating new income-earning opportunities for over 4 million people.
- 385 000 houses have been built, and 700 000 housing subsidies have been earmarked.
- 900 projects of the community-based public works programme have been implemented, creating about 40 000 job opportunities.

To achieve all this at the same time as tackling unsustainable public finances inherited from the apartheid regime has required tough choices, and we have had to work hard to improve the effectiveness of every rand we spend. We know that we have a long way still to go to ensure that we get the maximum possible value for money so that we can deliver more and better services.

We have a long way to go on the path of rebuilding our country. I am confident that the fiscal framework we are putting in place will support those difficult decisions, and help us to deliver a better life for all our people.