



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

Budgeting challenges in the developmental state

Speech by the Minister of Finance at Senior Management Service Conference in
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It is an honour and a privilege to be able to address senior managers in the public sector. You, as senior managers, have the privilege of being part of an historic process of implementing the programme of action of a democratically elected government. You have the opportunity to be part of a campaign to improve the quality of lives of our people, of putting into practice one of the most wide-ranging and comprehensive programmes anywhere in the world to fight poverty and create work, you are an essential part of the machinery tasked with delivering a better life for all South Africans.

In the history of a nation, very few people get to be part of the process of defining the development path of the country at its birth. I cannot think of a more exciting time to be a civil servant, to be a senior manager in a public service making a meaningful impact on the lives of our people.

But, ladies and gentlemen, this privilege comes with huge responsibility, huge expectations. You carry the hopes and dreams of a nation. You stand at the coalface of a struggle that is immense, challenging and fraught with difficulties. For this reason, the responsibility you bear goes far beyond what senior civil servants in most countries have to contend with. Your job is not an easy one. The people of South Africa expect nothing but the best performance from their civil servants, they expect you to deliver on the promises and policies we politicians make, the policies that they have voted for in their millions. I'm sure, for all of you; this challenge is a daunting one.

I've been asked to reflect on the challenges faced in budgeting in a developmental state. What is a developmental state? Do we all share one understanding of what a developmental state is? Do we all have one view of the developmental mandate of this government? Are we galvanized by a single vision for our country? And, if we have that single vision, is it underpinned by a common set of values?

The idea of the Developmental State is most closely associated with Chalmers Johnson and his seminal analysis of Japan's very rapid, highly successful post-war reconstruction and reindustrialization. Johnson's central contention was that Japan's quite remarkable and historically unparalleled industrial renaissance was neither a fluke nor inevitable, but a consequence of the efforts of a Developmental State. A developmental state was one that was determined to influence the direction and pace of economic development by directly intervening in the development process, rather than relying on the uncoordinated influence of market forces to allocate resources. The developmental state took it upon itself the task of establishing substantive social and economic goals with which to guide the process of development and social mobilization. The most important of these goals, in Japan's case, of course was the reconstruction of its industrial capacity, a process made easier by widespread consensus about the importance of industrial development.

However, in the later half of the 20th century, the concept of the developmental state has evolved. Patrick Heller, director of Brown's Development Studies Programme, defines the developmental state as one that has been able to manage the delicate balance between growth and social development.

Amartya Sen, in his book 'Development as Freedom' says, "Development can be seen... as a process of expanding the real freedoms that people enjoy". He goes on to say that "Development requires the removal of major sources of unfreedom: poverty as well as tyranny, poor economic opportunities as well as social deprivation, neglect of public facilities as well as intolerance or overactivity of repressive states".

In defining our concept of a developmental state, Sen's concept of removing poverty and tyranny is key, expanding economic opportunities and fighting social deprivation is critical and providing public facilities and services to the poor is paramount. Fundamentally, in a developmental state, civil servants are servants of the people, champions of the poor and down-trodden. To the senior manager in the OUR public service, poverty and social deprivation are the enemy, the forces of reaction and elitism are the nemesis.

Before I talk on the challenges of budgeting (or of being the Finance Minister) in a developmental state, let me spend a few minutes on the challenges of being a senior civil servant in a developmental state. In most developing countries, the senior civil service becomes a self-serving elite, interested only in their own welfare, their own empowerment and their own bank balances. Because of the huge income inequality in many developing countries, senior civil servants become part of the elite. They are well educated, have access to economic opportunities, receive a remuneration many times greater than the average income in the country and become an obstacle to change in society. Let me state unequivocally that public service is a calling and a responsibility- it is a choice exercised. We choose to serve and accept that we will be comfortable or, we enter the private sector in pursuit of wealth – we cannot do both!

In a developmental state, the civil servant is professional, skilled, adequately rewarded but humble. Humility towards the poor is the greatest attribute of a civil servant. A leader who best espoused these values in civil servants is also one of our continents most accomplished civil servants. Julius Nyerere, the former President of Tanzania, better known as Mwalimu, or 'teacher' to those not familiar with Swahili, embodied the values and character of a humble civil servant, always striving to serve the poor, always trying to change the conditions of those excluded from the economic opportunities of the elite. In fact Minister Fraser-Moleketi, we should introduce an award for the senior manager who best embodies the spirit of a developmental state, and it should be called the Julius Nyerere award.

If the task of a developmental state is to fight poverty and expand economic opportunities for the poor, then the budget of a developmental state must reflect this in every respect. In my 2004 Budget speech, I quoted Joseph Schumpeter who said that the "public finances are one of the best starting points for an investigation of society. The spirit of a people, its cultural level, its social structure, the deeds its policy may prepare – all this and more, is written in its fiscal history". The budget must tell a story of the values a society eschews.

The two main thrusts of the budget of a developmental state must be how much the state spends fighting poverty and deprivation and how much of the country's resources go towards expanding the economic opportunities of all its citizens. The budget of a developmental state must balance these two main pillars. If one dominates, then the outcome is likely to be a reinforcement of poverty in the long term. The budget must be about balance.

In the direct assault on poverty, our budget shows one of the most extensive non-contributory social security systems in the developing world. We spend almost R60 billion or about a fifth of our budget on direct transfers to households. These transfers include old age, disability and child grants, unemployment insurance payments, payments to victims of road accidents and occupational injuries. In total, almost 9 million people, almost all of who are poor, receive direct

transfers from Government. If we add to this amount, the indirect transfers to households such as free basic water and electricity, bus and train subsidies, health care, education and housing subsidies, water systems and land transfers, we are now talking about almost 70 per cent of our budget. Except for education and health, the beneficiaries of all the other items I've listed are poor households. While not all education and health spending goes to the poor, pro-poor funding policies in these two areas means that we have one of the most pro-poor budgets in the world.

What areas of spending expand economic opportunities for the poor? Here, our biggest investment is the education system. The main way in which people improve their living standards is through improving their education, getting a job and investing in assets such as housing and furniture. In South Africa, getting a good education is the difference between a life of comfort and a life of struggle. Highly skilled people in South Africa earned an average of R8 906 a month in 2002. Skilled people earned R2 554 a month and unskilled people earned just R967 a month. People with a tertiary degree earned an average of R12 692 a month, those with matric R4 504 while those without matric R1 373 a month. The rates of return to education for a society are massive.

Improving the health profile of a nation is a major contribution to their ability to get an education, earn an income and invest in assets for their children. A poor health profile means that people spend time and money on curative means as opposed to working or investing in assets.

For many, economic opportunities are limited because they live in dormitory townships with few work opportunities, or worse still, in former homeland areas where enterprises are either small or non-existent. Access to business areas and more specifically work opportunities are a major 'unfreedom' as Sen would put it. Providing public transport that is safe and affordable to poor communities is a key ingredient in expanding economic opportunities. Similarly, our road network, electricity grid, water systems, telecommunications network, even radio and news networks, are all elements of a system to broaden economic opportunities.

The criminal justice system plays a role in protecting the property rights of all citizens, but has the even more important role of protecting the poor and vulnerable from criminal elements in our midst. Protecting the assets of everyone is important, but for the people with very little, protecting their assets, their hard-earned investments in modest household possessions is fundamental to ensuring the well-being of the poor.

Now that I have outlined how almost every element in our budget is designed either to raise the living standards of the poor directly, or indirectly through the provision of services, or is designed to expand economic opportunities for the poor, let me go one level deeper.

Let me start with education. While we have achieved much in improving access to education for all children, even the poorest, and we have dramatically altered the spending pattern in favour of poor children, we must admit that one rand spent educating a child in the leafy Johannesburg suburbs does not buy the same amount of quality education as one rand spent in Alexandra or Mitchells Plain. To put it bluntly, the quality of education, and therefore the economic opportunities that that education buys in the suburbs is far greater than in the townships or in the former homelands. Why is this?

While poor and rich kids do not start school with same level of education; we, as senior civil servants and political principals, must admit that the quality of teaching and learning materials in suburban schools is vastly better than in township schools. While a significant proportion of human capital is transferred from parents, and the physical condition of schools is a factor in determining outcomes, the quality of teaching is probably the single biggest contributing factor towards quality education. The management of our schools, our school districts, the management of procurement for textbooks and learning materials, the management of teacher appointments, of disciplinary hearings all fall under the ambit of the public service management echelon. And in many aspects of management, we are failing the poor.

Sometimes conflicting there is evidence of conflicting policy options – in these cases, the poor almost always lose out. From discussion with a Premier recently, I learnt that that Province now realizes that whilst there are only 3 publishers producing learner support materials, they had opted for a BEE strategy which, on reflection buys 20% fewer books for learners. They have now opted to focus on maximizing the quantity of books that they can purchase. There will be a cry. The Province is taking a decision which, in my view, favours the poor.

Similar stories can be told in health care, refuse removal, policing, court prosecutions or traffic enforcement. In many areas of public service delivery, the quality of services received by the poor are not good enough relative to the money we spend. This, in most instances, is a management failure. It is a failure of our management systems and of our managers. It is our collective failure. Ladies and gentlemen, if we are to translate the noble ideals of our developmental state, the human factor, our management of our human and other resources must improve.

You see, the challenges of budgeting in a developmental state do not stop at the need to get money to the school in Cofimvaba. The challenge is to ensure that the money is translated into qualified teachers, school books, water, electricity and sports equipment. The challenge even goes further. It is to ensure that education that is relevant and of a high quality gets to the children in the school in Cofimvaba. This is indeed a tough challenge.

In investing in expanding economic opportunities, we also have to be mindful that we must invest both in the long-term ability of societies to work, prosper and invest and more immediate means of raising economic growth and employment. Often, investments in education and skills development take generations to yield an impact. We also have to focus on the shorter-term measures to boost growth.

This requires careful regulation of markets, investment in roads, ports and rail systems, research and development and expanding energy capacity. One of the criticisms of our present budget framework is that we have not focused

sufficiently on ensuring that our state enterprises are efficient, that our markets are functioning without being burdened by red tape, that we have the ports to take the goods we make, roads that link the places of production with markets.

In yielding to Patrick Heller's call to manage the delicate balance between growth and social development, my worry is that at the present time, we are strong on social development, strong on long-term human development, but weak on investing in economic growth in the medium term.

One of the key strategic decisions we need to take in budgeting over the next few years will be to improve the balance in our present budget structure, moving resources towards investing in economic growth and fostering the type of growth that can increase employment. It is not about either / or. The challenge of budgeting is not about all on social grants or all on road building, it is not about just spending on education versus spending all our money on fixing the ports. It is about managing this delicate balance.

To conclude ladies and gentlemen, you as senior civil servants have a critical role to play in translating financial resources into real inputs. You have the task of ensuring that these real inputs lead to better quality education, an improved health profile and in the final instance, genuine empowerment of people to lift themselves out of poverty.

Please remember that your enemy is poverty and deprivation, that your key weapon is your skill and professionalism and that your modus operandi is your humility. You are, with us, custodians of a value system that defines our objective as demonstrating every single day that we are a caring democracy.

Thank you.