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## Jobs, growth and development

### ■ Towards a new social compact

As the economy continues to recover from recession, there is broad agreement that employment has to be the central focus of South Africa's new growth path. As outlined in last year's *Medium Term Budget Policy Statement*, job creation makes economic growth more inclusive, and is the key to faster poverty reduction and income redistribution.

*Employment has to be the focus of South Africa's new growth path*

Public debate on economic and social policy options has been given greater impetus in South Africa and elsewhere by the financial market crisis and the severity of the resulting downturn. Confidence in economic models has been shaken, divergent views on policy responses have emerged and the adequacy of financial regulation has come under scrutiny. Unresolved imbalances in global trade and destabilising surges in capital flows have strained international financial coordination efforts.

The policy debate extends beyond macroeconomic and financial challenges. Climate change and associated energy and environmental strategies are the subject of vigorous review. Many countries face difficult adjustments to pension systems because life expectancy is increasing, and to social security arrangements due to high levels of unemployment. Mixed progress towards the United Nations Millennium Development Goals (MDGs) has prompted a reconsideration of both international and national development efforts.

*Policy debate precipitated by global crisis extends beyond macroeconomic and financial challenges*

Policy debate in South Africa is also focused on our own specific transformation challenges: the structure of wealth, ownership and control of resources, options for empowerment and broadening participation in the economy, access to land, and improving public education and health care.

*A new growth path has to address a wide range of needs, from education to service delivery*

To meet South Africa's development needs, a new path has to be forged across several frontiers – education and skills development, national health insurance, land and agrarian reform, residential settlements and urban renewal, environmental management, infrastructure investment and maintenance, enterprise development, and public-sector service delivery and management. South Africa's policy discourse is rightly wide-ranging, and invites participation from a broad spectrum of society.

Government is working on a new growth path. Details of its implementation will be developed in consultation with social partners.

Agreeing on a course is one thing; successful implementation is another. Jobs, growth and development are not abstractions: they play out every day in industries, factories, offices and farms across South Africa. In addition, there is considerable complexity in the organisation of public services, in the structure and regulation of markets, and in the coordination of public policy and industrial development.

*Job creation requires a range of policy measures and social agreement on price and wage moderation*

The *Medium Term Budget Policy Statement* outlines the macroeconomic, fiscal and public-expenditure dimensions of the proposed development path. It emphasises that increased infrastructure investment is needed for faster growth, and that fiscal sustainability requires a reduction in the budget deficit over the period ahead. It highlights the need for better financial discipline in public service delivery, and for improved management of education, health and infrastructure programmes. It stresses that job creation requires a broad range of policy initiatives, and social agreement on price and wage moderation.

Building on these foundations, there is substantial consensus among social partners on broader aspects of a development strategy:

- Strengthening labour-market institutions has to include improved and expanded further education and training opportunities, the reform of job search and placement services, and measures to increase the demand for labour.
- In co-financing economic infrastructure investment, enterprise development, housing and farming support, an expanded role needs to be played by development finance institutions, in partnership with public-service delivery agencies and private-sector funders.
- Industrial development promotion needs to be enhanced, as envisaged in government's industrial policy action plan, together with increased support for small enterprises and local economic opportunities.
- Greater competition is needed in electricity, transport and communications. Eskom's generation and systems operation responsibilities should be separated and independent power producers encouraged.
- South Africa's economic prospects are integrally linked with regional development, including financial and trade networks, transport, communications, energy, water and institutional coordination. Improved economic performance depends on better cooperation between countries in Southern Africa.
- Sustained improvements in public service delivery will depend in part on better financial management, good governance, sound budgeting

and contract management arrangements, and disciplined pursuit of agreed service delivery outputs and targets.

In elaborating a more detailed framework for growth and development, South Africans have a special opportunity to forge a broad-based social compact – a shared social and economic vision – aimed at facilitating effective partnerships between government, business, labour, communities and civil society in pursuit of common goals.

*South Africans have an opportunity to forge a broad-based social compact*

The *Medium Term Budget Policy Statement* provides a scan of current trends in the economy and the medium-term outlook, an overview of macroeconomic and fiscal considerations, and a summary of government's spending plans for the period ahead. It provides a planning framework within which a better-informed policy debate can proceed.

## **Progress report on the MDGs**

South Africa's recently completed third progress report on the Millennium Development Goals provides a timely reminder of the social and economic challenges ahead.

The MDGs represent a global partnership of 189 countries to address a set of eight interrelated goals, focused on eradicating extreme poverty, promoting universal education and gender equality, addressing critical health challenges and promoting environmental sustainability. South Africa's progress report to the United Nations indicates a number of targets for 2015 that are likely to be reached, others that might be achieved if identified steps are taken, and some that will not be met.

*South Africa is poised to reach some goals and fall short of others*

MDG 1 is the eradication of extreme poverty and hunger. The evidence shows that South Africa has met the target of halving the proportion of the population living on less than \$1 a day. The expansion of income support through social assistance grants has contributed significantly to this outcome. Yet little or no progress has been made in reducing income inequality, or expanding employment opportunities for the poor.

*South Africa has reduced poverty levels, yet little progress has been made in reducing income inequality*

MDG 2 is universal primary education. South Africa has near-complete primary school enrolment, and is likely to achieve a literacy rate of over 95 per cent for 15-24 year-olds in 2015. Deficiencies are evident, however, in the quality and functionality of the public school system. The progress report sets out several recommendations for improving school infrastructure, teacher education and school effectiveness.

MDG 3 is promotion of gender equality and empowerment of women. South Africa scores well on the targeted gender ratios in education and the share of women in formal employment. Yet there is much more to be done in advancing women's rights and promoting full equity in the workplace.

*There is strong progress on gender targets, but more needs to be done to advance women's rights*

MDG 4 focuses on child mortality. South Africa's infant and child mortality rates are unacceptably high and far above comparable international norms. Recent progress in immunisation coverage and prevention of mother-to-child HIV transmission will assist in reducing child mortality, but improved nutrition and better primary health care need to be prioritised.

**Measuring social and economic progress – 2010 MDG Country Report**

Goals and indicators	Baseline	Current status	2015 target	Target achievability
Proportion of population living on less than \$1 a day (%)	11.3 (2000)	5.0 (2006)	5.7	Achieved
Employment-to-population ratio	41.5 (2003)	42.5 (2009)	50-70	Unlikely
Gini coefficient (total income including free services)	0.69 (2000)	0.71 (2006)	0.3	Unlikely
Adjusted net enrolment ratios for primary education, male and female	96.4 (2002)	98.4 (2009)	100	Achieved
Ratio of girls to boys in secondary school	1.1:1 (1996)	1.1:1 (2009)	1:1	Achieved
Under-five mortality rate (per 1 000 births)	59 (1999)	104 (2007)	20	Unlikely
Immunisation coverage of under 1 year-olds	66.4 (2001)	95.3 (2009)	100	Likely
Maternal mortality (per 100 000 births)	369 (2001)	625 (2007)	38	Unlikely
Antenatal care coverage	76.6 (2001)	102.8 (2009)	≈100	Achieved
Incidence of TB (per 100 000)	253 (2004)	283 (2009)	< 253	Unlikely
HIV prevalence in population aged 15-49 (%)	15.6 (2002)	16.9 (2008)	15.6	Unlikely
Proportion of population using an improved drinking water source (%)	61.1 (1996)	92.4 (2009)	81	Achieved
Proportion of population using an improved sanitation facility (%)	58.5 (2001)	72.2 (2009)	79.2	Likely

*The country's maternal mortality rate is rising – an alarming trend*

MDG 5 is improved maternal health. South Africa has seen improvements in antenatal care coverage and use of modern contraceptive methods, but maternal mortality is high and rising. The prevalence of HIV, together with complications associated with hypertension and deficiencies in obstetric services, has contributed to this trend.

*HIV prevalence appears to have stabilised, and the antiretroviral programme is expanding rapidly*

Combating HIV, malaria and other diseases is MDG 6. South Africa's HIV prevalence appears to have stabilised, and for the 15-24 year-old population is estimated to have declined from over 10 per cent in 2005 to 8.7 per cent in 2008. South Africa now has the largest antiretroviral therapy programme in the world, though the proportion of those with advanced HIV infection who are on treatment (42 per cent in 2009) is still well below target. Successful completion of tuberculosis (TB) treatment (76 per cent in 2008) is also below the MDG target (85 per cent). Malaria does not pose a widespread health hazard in South Africa, and is effectively combated through an insecticide-spraying programme and medical response capability.

*Strategies have been identified to lower CO<sub>2</sub> emissions, but other environmental challenges demand urgent attention*

MDG 7 is environmental sustainability. South Africa has made notable advances in improving household access to water, electricity, sanitation and waste removal services. There is well-established scientific and research capacity, and publicly supported institutions committed to promoting biodiversity and environmental management. Mitigation strategies have been identified to contribute to lower carbon dioxide emissions. However, there are large environmental challenges, including overfishing and threatened fish stocks, water resources at risk due to acid mine drainage, overreliance on fossil fuels as a source of energy, poor landfill site management and biodiversity loss.

MDG 8 is global partnership for development. South Africa is well integrated into global finance, trade and technology development, and is a significant contributor to regional integration through the Southern African Customs Union, the Southern African Development Community (SADC) and the African Union.

*South Africa makes a considerable contribution to regional integration and development through the SADC and African Union*

Several of these MDG commitments now find expression in government's framework for improved delivery of public services, summarised below.

## ■ Priority outcomes, outputs and budget planning

In January 2010, Cabinet adopted 12 outcomes within which to frame public-service delivery priorities and targets. Cabinet ministers have signed performance agreements linked to these outcomes and outputs. More detailed delivery agreements have since been developed to extend targets and responsibilities to national and provincial departments, agencies and municipalities.

*Government's 12 outcomes form the basis of delivery agreements*

The priority outputs have already influenced departmental planning and budgeting, though the full impact will only emerge in the 2011/12 budget cycle. Much of the work of the Ministers' Committee on the Budget concerns the examination of spending plans and programmes, and how they give effect to South Africa's service-delivery priorities.

The outputs for each outcome are set out in the accompanying tables, together with examples of programmes and activities of government departments that give practical effect to these targets. Spending proposals summarised in Chapter 4 take these policy priorities and service delivery goals as points of departure.

*Spending proposals give effect to new targets, with focus on jobs, education, health and infrastructure*

### 1 Improve the quality of basic education

Outputs	Key spending programmes (examples)
<ol style="list-style-type: none"> <li>1. Improve quality of teaching and learning</li> <li>2. Regular assessment to track progress</li> <li>3. Improve early childhood development</li> <li>4. A credible outcomes-focused accountability system</li> </ol>	<ul style="list-style-type: none"> <li>• Increase the number of Funza Lushaka bursary recipients from 9 300 to 18 100 over the 2011 MTEF</li> <li>• Assess every child in grades 3, 6 and 9 every year</li> <li>• Improve learning and teaching materials to be distributed to primary schools in 2011</li> <li>• Improve maths and science teaching</li> <li>• Eradicate infrastructure backlogs in 3 627 schools by 2014</li> </ul>

### 2 Improve health and life expectancy

Outputs	Key spending programmes (examples)
<ol style="list-style-type: none"> <li>1. Increase life expectancy to 58 for males and 60 for females</li> <li>2. Reduce maternal and child mortality rates to 30-40 per 1 000 births</li> <li>3. Combat HIV/Aids and TB</li> <li>4. Strengthen health services effectiveness</li> </ol>	<ul style="list-style-type: none"> <li>• Revitalise primary health care <ul style="list-style-type: none"> <li>- Increase early antenatal visits to 50%</li> <li>- Increase vaccine coverage</li> </ul> </li> <li>• Improve hospital and clinic infrastructure</li> <li>• Accredite health facilities</li> <li>• Extend coverage of new child vaccines</li> <li>• Expand HIV prevention and treatment <ul style="list-style-type: none"> <li>- Increase prevention of mother-to-child transmission</li> </ul> </li> <li>• School health promotion (increase school visits by nurses from 5% to 20%)</li> <li>• Enhance TB treatment</li> </ul>

**3 All people in South Africa protected and feel safe**

Outputs	Key spending programmes (examples)
<ol style="list-style-type: none"> <li>1. Reduce overall level of crime</li> <li>2. An effective and integrated criminal justice system</li> <li>3. Improve perceptions of crime among the population</li> <li>4. Improve investor perceptions and trust</li> <li>5. Effective and integrated border management</li> <li>6. Integrity of identity of citizens and residents secured</li> <li>7. Cyber-crime combated</li> </ol>	<ul style="list-style-type: none"> <li>• Increase police personnel</li> <li>• Establish tactical response teams in provinces</li> <li>• Upgrade IT infrastructure in correctional facilities</li> <li>• ICT renewal in justice cluster</li> <li>• Occupation-specific dispensation for legal professionals</li> <li>• Deploy SANDF soldiers to South Africa's borders</li> </ul>

**4 Decent employment through inclusive economic growth**

Outputs	Key spending programmes (examples)
<ol style="list-style-type: none"> <li>1. Faster and sustainable inclusive growth</li> <li>2. More labour-absorbing growth</li> <li>3. Strategy to reduce youth unemployment</li> <li>4. Increase competitiveness to raise net exports and grow trade</li> <li>5. Improve support to small business and cooperatives</li> <li>6. Implement expanded public works programme</li> </ol>	<ul style="list-style-type: none"> <li>• Invest in industrial development zones</li> <li>• Industrial sector strategies – automotive industry; clothing and textiles</li> <li>• Youth employment incentive</li> <li>• Develop training and systems to improve procurement</li> <li>• Skills development and training</li> <li>• Reserve accumulation</li> <li>• Enterprise financing support</li> <li>• New phase of public works programme</li> </ul>

**5 A skilled and capable workforce to support inclusive growth**

Outputs	Key spending programmes (examples)
<ol style="list-style-type: none"> <li>1. A credible skills planning institutional mechanism</li> <li>2. Increase access to intermediate and high-level learning programmes</li> <li>3. Increase access to occupation-specific programmes (especially artisan skills training)</li> <li>4. Research, development and innovation in human capital</li> </ol>	<ul style="list-style-type: none"> <li>• Increase enrolment in FET colleges and training of lecturers</li> <li>• Invest in infrastructure and equipment in colleges and technical schools</li> <li>• Expand skills development learnerships funded through sector training authorities and National Skills Fund</li> <li>• Industry partnership projects for skills and technology development</li> <li>• National Research Foundation centres of excellence, and bursaries and research funding</li> <li>• Science council applied research programmes</li> </ul>

**6 An efficient, competitive and responsive economic infrastructure network**

Outputs	Key spending programmes (examples)
<ol style="list-style-type: none"> <li>1. Improve competition and regulation</li> <li>2. Reliable generation, distribution and transmission of energy</li> <li>3. Maintain and expand road and rail network, and efficiency, capacity and competitiveness of sea ports</li> <li>4. Maintain bulk water infrastructure and ensure water supply</li> <li>5. Information and communication technology</li> <li>6. Benchmarks for each sector</li> </ol>	<ul style="list-style-type: none"> <li>• An integrated energy plan and successful independent power producers</li> <li>• Passenger Rail Agency acquisition of rail rolling stock, and refurbishment and upgrade of motor coaches and trailers</li> <li>• Increase infrastructure funding for provinces for the maintenance of provincial roads</li> <li>• Complete Gauteng Freeway Improvement Programme</li> <li>• Complete De Hoop Dam and bulk distribution</li> <li>• Nandoni pipeline</li> <li>• Invest in broadband network infrastructure</li> </ul>

**7 Vibrant, equitable and sustainable rural communities and food security for all**

Outputs	Key spending programmes (examples)
<ol style="list-style-type: none"> <li>1. Sustainable agrarian reform and improved access to markets for small farmers</li> <li>2. Improve access to affordable and diverse food</li> <li>3. Improve rural services and access to information to support livelihoods</li> <li>4. Improve rural employment opportunities</li> <li>5. Enable institutional environment for sustainable and inclusive growth</li> </ol>	<ul style="list-style-type: none"> <li>• Settle 7 000 land restitution claims</li> <li>• Redistribute 283 592 ha of land by 2014</li> <li>• Support emerging farmers</li> <li>• Soil conservation measures and sustainable land use management</li> <li>• Nutrition education programmes</li> <li>• Improve rural access to services by 2014: <ul style="list-style-type: none"> <li>- Water - 74% to 90%</li> <li>- Sanitation - 45% to 65%</li> <li>- Electricity - 55% to 70%</li> </ul> </li> </ul>

**8 Sustainable human settlements and improved quality of household life**

Outputs	Key spending programmes (examples)
<ol style="list-style-type: none"> <li>1. Accelerate housing delivery</li> <li>2. Improve access to basic services</li> <li>3. Improve property market</li> <li>4. More efficient land utilisation and release of state-owned land</li> </ol>	<ul style="list-style-type: none"> <li>• Increase housing units built from 220 000 to 600 000 a year</li> <li>• Increase construction of social housing units to 80 000 a year</li> <li>• Upgrade informal settlements: 400 000 units by 2014</li> <li>• Deliver 400 000 low-income houses on state-owned land</li> <li>• Improved urban access to basic services by 2014: <ul style="list-style-type: none"> <li>- Water - 92% to 100%</li> <li>- Sanitation - 69% to 100%</li> <li>- Refuse removal - 64% to 75%</li> <li>- Electricity - 81% to 92%</li> </ul> </li> </ul>

**9 A responsive, accountable, effective and efficient local government system**

Outputs	Key spending programmes (examples)
<ol style="list-style-type: none"> <li>1. Differentiate approach to municipal financing, planning and support</li> <li>2. Community work programme</li> <li>3. Support for human settlements</li> <li>4. Refine ward committee model to deepen democracy</li> <li>5. Improve municipal financial administrative capability</li> <li>6. Single coordination window</li> </ol>	<ul style="list-style-type: none"> <li>• Municipal <i>capacity-building grants</i>: <ul style="list-style-type: none"> <li>- Systems improvement</li> <li>- Financial management (target: 100% unqualified audits)</li> </ul> </li> <li>• <i>Municipal infrastructure grant</i></li> <li>• Electrification programme</li> <li>• <i>Public transport &amp; systems grant</i></li> <li>• <i>Bulk infrastructure &amp; water grants</i></li> <li>• <i>Neighbourhood development partnership grant</i> <ul style="list-style-type: none"> <li>- Increase urban densities</li> <li>- Informal settlements upgrades</li> </ul> </li> </ul>

**10 Protection and enhancement of environmental assets and natural resources**

Outputs	Key spending programmes (examples)
<ol style="list-style-type: none"> <li>1. Enhance quality and quantity of water resources</li> <li>2. Reduce greenhouse gas emissions; mitigate climate change impacts; improve air quality</li> <li>3. Sustainable environment management</li> <li>4. Protect biodiversity</li> </ol>	<ul style="list-style-type: none"> <li>• National water resource infrastructure programme</li> <li>• Water management and information <ul style="list-style-type: none"> <li>- reduce water losses from 30% to 15% by 2014</li> </ul> </li> <li>• Expanded public works environmental programmes <ul style="list-style-type: none"> <li>- 100 wetlands rehabilitated a year</li> </ul> </li> <li>• Forestry management (reduce deforestation to &lt;5% of woodlands)</li> <li>• Biodiversity and conservation (increase land under conservation from 6% to 9%)</li> </ul>

**11 A better South Africa, a better and safer Africa and world**

Outputs	Key spending programmes (examples)
<ol style="list-style-type: none"> <li>1. Enhance the African agenda and sustainable development</li> <li>2. Enhance regional integration</li> <li>3. Reform global governance institutions</li> <li>4. Enhance trade and investment between South Africa and partners</li> </ol>	<ul style="list-style-type: none"> <li>• International cooperation: proposed establishment of the South African Development Partnership Agency</li> <li>• Defence: peace-support operations</li> <li>• Participate in post-conflict reconstruction and development</li> <li>• Border control: upgrade inland ports of entry</li> <li>• Trade and Investment South Africa: <ul style="list-style-type: none"> <li>- Support for value-added exports</li> <li>- Foreign direct investment promotion</li> </ul> </li> </ul>

**12 A development-oriented public service and inclusive citizenship**

Outputs	Key spending programmes (examples)
<ol style="list-style-type: none"> <li>1. Improve government performance</li> <li>2. Government-wide performance monitoring and evaluation</li> <li>3. Conduct comprehensive expenditure review</li> <li>4. Information campaign on constitutional rights and responsibilities</li> <li>5. Celebrate cultural diversity</li> </ol>	<ul style="list-style-type: none"> <li>• Performance monitoring and evaluation: <ul style="list-style-type: none"> <li>- Oversight of delivery agreements</li> </ul> </li> <li>• Statistics SA: Census 2011 – reduce undercount</li> <li>• Chapter 9 institutions and civil society: programme to promote constitutional rights</li> <li>• Arts &amp; Culture: promote national symbols and heritage</li> <li>• Sport &amp; Recreation: support mass participation and school sport programmes</li> </ul>

## Overview of the 2010 policy statement

### Economic policy and outlook

*A perspective on how to achieve more rapid growth*

Chapter 2 presents the macroeconomic outlook. It also provides a perspective on how to achieve more rapid growth to address South Africa's core development challenge of drawing more people into employment to reduce poverty and inequality.

Expansionary fiscal and monetary policies in major developed and developing economies continue to support a recovery in the world economy. After contracting in 2009, the world economy is expected to grow at a relatively strong pace of 4.8 per cent in 2010 and 4.2 per cent in 2011, driven mainly by fast-growing emerging economies such as China, India and Brazil.

*Global outlook improving, but remains fragile*

A sharp slowdown in growth momentum since mid-year has highlighted the fragility of the outlook. Employment and demand remain depressed in major developed countries where extraordinary monetary policy measures are being taken to boost liquidity and fight deflation. Most developed economies face the challenge of reducing high levels of bad debt in their banking systems and adjusting fiscal policy to reduce public debt.

*South Africa's recovery has gained strength, supported by expansionary fiscal and monetary policies*

The recovery in global demand has benefited South Africa by supporting high prices of the country's major commodities. Real GDP growth accelerated to an annualised rate of 3.9 per cent in the first half of the year as household demand strengthened, supported by expansionary fiscal and monetary policies and lower inflation. Sustained investment by state-owned enterprises helped to offset weak business investment.



The labour market remains weak. Total employment declined by more than a million jobs (8.0 per cent) between the fourth quarter of 2008 and the second quarter of 2010, with losses concentrated in the trade, manufacturing and construction sectors. The unemployment rate has reached 25.3 per cent, and labour force participation has fallen sharply because many people have stopped looking for work. Employment and private investment are expected to rise gradually as growth accelerates.

*The labour market remains weak and unemployment has reached 25.3 per cent*

The pace of GDP growth is expected to moderate in the second half of the year. Growth of 3.0 per cent is projected for 2010 before rising to 3.5 per cent in 2011 and 4.4 per cent by 2013. At these rates of growth it will take some time before the economy reaches full capacity.

Consumer price inflation has declined more than expected this year to 3.5 per cent in August. Headline CPI is expected to remain below 6 per cent over the next three years, supported by moderate increases in food prices and a relatively buoyant exchange rate. This will allow real interest rates to remain low over the medium term.

*South Africa has low interest rates owing to low inflation*

Like other emerging markets, South Africa is experiencing high levels of capital inflows, which provide an important source of funding. Along with a weak US dollar, these flows also contribute to strengthening the rand exchange rate. Sustained exchange rate appreciation will lead to unbalanced growth, widening the current account deficit and increasing the economy's vulnerability to shocks. Fiscal and monetary measures are being taken in response to the present strength of the rand. The National Treasury and the Reserve Bank will continue to purchase foreign exchange reserves. Gross foreign exchange reserves stood at US\$44.1 billion in September 2010.

*Fiscal and monetary measures are being taken in response to the present strength of the rand*

Table 1.1 summarises the key macroeconomic projections.

**Table 1.1 Macroeconomic projections, 2009 – 2013**

Calendar year	2009 Actual	2010 Estimate	2011	2012	2013
			Forecast		
<i>Percentage change unless otherwise indicated</i>					
Final household consumption	-3.1	2.6	3.4	4.1	4.5
Gross fixed capital formation	2.3	0.8	5.6	5.0	5.9
<b>Real GDP growth</b>	<b>-1.8</b>	<b>3.0</b>	<b>3.5</b>	<b>4.1</b>	<b>4.4</b>
<b>GDP at current prices (R billion)</b>	<b>2 407.7</b>	<b>2 631.4</b>	<b>2 867.1</b>	<b>3 148.0</b>	<b>3 471.9</b>
CPI inflation	7.1	4.4	4.7	5.0	5.2
Current account balance (% of GDP)	-4.0	-4.2	-4.9	-5.3	-5.8

A key focus of economic policy must be to achieve and sustain faster growth over an extended period of time to significantly increase labour absorption. Chapter 2 sets out elements of what would be required to raise South Africa's growth rate to create jobs at a scale that would decisively reduce poverty and inequality.

### Fiscal policy and trends

A countercyclical fiscal policy stance is central to government's approach to both long-term growth and sustainability in the public finances. This policy helps to manage demand over the business cycle, thereby containing inflation and allowing real interest rates to remain low.

During the economic downturn in 2008 and 2009, government spending on infrastructure and social assistance expanded strongly, and the budget deficit widened to 6.7 per cent of GDP. As growth improves over the period ahead, spending growth will moderate and the budget deficit is expected to revert to 3.2 per cent of GDP by 2013/14. However, infrastructure investment by Eskom and Transnet will continue to exceed internally generated funds by a substantial margin, bringing the overall public-sector borrowing requirement to about 10 per cent of GDP this year, declining to a projected 6.1 per cent in 2013/14.

*Government's real per capita non-interest expenditure has doubled over the past eight years*

Chapter 3 notes that in per capita terms, real non-interest expenditure has doubled over the past eight years. This was made possible by buoyant growth and associated revenue trends, and because a reduction in the budget deficit in preceding years led to declining debt-service costs as a share of GDP. The proposed framework for the 2011 Budget provides for real growth in non-interest spending of 2.7 per cent a year over the next three years. Improved efficiency of public service delivery needs to be sought to enable education and health priorities to be addressed, and infrastructure investment and maintenance to be enhanced.

*Project management capacity in capital projects requires attention*

Government capital spending has increased from 5.2 per cent of total spending in 2002/03 to 7.8 per cent in the current year. However, project management capacity remains a concern, and underspending of capital budgets is evident in both provincial and municipal finances.

A moderation in public-sector infrastructure spending is expected over the next three years, though additional funding will be earmarked for health and education facilities. Over the medium-term expenditure framework (MTEF) period, total infrastructure spending of R811.2 billion is anticipated, of which 40.3 per cent is in the energy sector and 26.1 per cent in transport and logistics.

*Development finance institutions need to play a greater role in investing and co-financing projects in South Africa and the region*

Government expects its development finance institutions to enhance their investment in and co-financing of economic and social infrastructure, enterprise development, land reform and access to affordable housing. It is also recognised that South Africa's economic prospects are tied to broader regional development progress. The Development Bank of Southern Africa has a key role to play in supporting both municipal infrastructure and services, and investment projects in the SADC.

Table 1.2 summarises the consolidated fiscal framework for the current year and the MTEF period ahead. As outlined in Chapter 3, total gross loan debt of government is expected to rise from 36.4 per cent of GDP at the end of 2010/11 to 40.9 per cent at the end of 2013/14.

**Table 1.2 Consolidated government fiscal framework, 2009/10 – 2013/14**

R billion	2009/10	2010/11	2011/12	2012/13	2013/14
	Outcome	Estimate	Medium-term estimates		
<b>Revenue</b>	<b>666.9</b>	<b>761.0</b>	<b>843.0</b>	<b>931.7</b>	<b>1 040.2</b>
<i>Percentage of GDP</i>	27.2%	28.4%	28.7%	28.9%	29.1%
<b>Expenditure</b>	<b>832.5</b>	<b>904.1</b>	<b>977.2</b>	<b>1 059.1</b>	<b>1 154.2</b>
<i>Percentage of GDP</i>	33.9%	33.7%	33.3%	32.8%	32.3%
<b>Budget balance</b>	<b>-165.6</b>	<b>-143.1</b>	<b>-134.2</b>	<b>-127.4</b>	<b>-114.0</b>
<i>Percentage of GDP</i>	-6.7%	-5.3%	-4.6%	-3.9%	-3.2%

## Medium-term expenditure priorities and the division of revenue

The proposed expenditure framework for the 2011 Budget is informed by government's 12 agreed outcomes, with priority given to education, health, infrastructure development and job creation. A moderate pace of expenditure growth is possible in the current circumstances, reinforcing the need for identifying savings and opportunities for more effective organisation of public services. Several areas of reform are proposed:

*Budget framework highlights need to identify savings and improve efficiency of public services*

- Excessive administrative capacity, relative to frontline services, will come under renewed budget scrutiny.
- Effective training programmes need to be strengthened across the public service.
- A new approach to budgeting and management of capital projects is proposed to improve planning and reduce underspending.
- Non-departmental agencies and entities will be reviewed, with special focus on governance, remuneration and mandates.
- Strengthened capacity is in place to deal with wrongdoing in government procurement, and improved rules will enhance transparency in the supply chain process.
- Information technology systems and management of consulting services will come under specialised scrutiny within the supply chain regulatory framework.

Table 1.3 summarises consolidated government expenditure by function. These revised baseline estimates reflect current spending priorities in education, health, social protection, transport and health services, and provide for strong growth in housing, water infrastructure, police services and law courts.

**Table 1.3 Consolidated government expenditure, 2010/11 – 2013/14**

R billion	2010/11	2011/12	2012/13	2013/14	Average annual growth
	Revised estimate	Budget estimate			2010/11–2013/14
General public services	46.7	48.0	49.0	52.9	4.2%
Defence	35.7	40.6	43.6	46.2	8.9%
Public order and safety	86.8	94.2	101.6	108.2	7.6%
Economic affairs	128.4	132.1	137.7	146.3	4.4%
Environmental protection	5.7	6.2	6.8	6.6	5.0%
Housing and community amenities	97.4	110.1	120.0	127.8	9.5%
Health	101.9	111.4	119.0	127.1	7.6%
Recreation and culture	6.4	6.0	6.4	6.7	1.6%
Education	173.2	190.7	201.7	215.8	7.6%
Social protection	134.2	148.4	161.7	174.2	9.1%
Contingency and policy reserve	–	10.4	18.7	35.0	
<b>Non-interest expenditure</b>	<b>816.5</b>	<b>898.3</b>	<b>966.0</b>	<b>1 046.7</b>	<b>8.6%</b>
State debt cost	67.6	78.9	93.1	107.5	16.7%
Eskom loan	20.0	–	–	–	
<b>Total expenditure</b>	<b>904.1</b>	<b>977.2</b>	<b>1 059.1</b>	<b>1 154.2</b>	<b>8.5%</b>

*Support for job creation,  
with focus on youth  
employment initiatives*

An amount of R22.1 billion in the contingency reserve over the MTEF period is still to be allocated in the final budget. Part of this policy reserve will be set aside for education, health, infrastructure and job creation, in particular for youth employment programmes.

The draft division of revenue for the 2011 Budget is set out in Table 1.4. Increases to baseline allocations amounting to R67 billion are proposed over the MTEF, of which R40.1 billion goes to provinces, R23.8 billion to national departments and just over R3 billion to municipalities. The local government share grows by 10.1 per cent a year, the provincial share by 7.5 per cent and the national share by 5.8 per cent a year. Rising allocations to municipalities reflect the priority of improving basic services and bulk infrastructure. Allocations to provinces will accommodate higher personnel costs and infrastructure backlogs in education and health.

**Table 1.4 Division of revenue, 2010/11 – 2013/14**

R billion	2010/11	2011/12	2012/13	2013/14
National allocations	360.6	374.5	401.0	427.3
Provincial allocations	328.1	359.5	382.3	407.7
<i>Equitable share</i>	265.1	289.0	305.7	323.3
<i>Conditional grants</i>	63.0	70.5	76.6	84.4
Local government allocations	59.3	67.2	74.0	79.0
<b>Total allocations</b>	<b>748.1</b>	<b>801.2</b>	<b>857.3</b>	<b>914.1</b>
<b>Changes to baseline</b>				
National allocations	1.5	4.0	7.3	12.5
Provincial allocations	5.3	9.0	13.0	18.2
<i>Equitable share</i>	4.2	8.3	10.3	11.2
<i>Conditional grants</i>	1.1	0.7	2.7	7.0
Local government allocations	0.5	0.5	1.0	1.6
<b>Total</b>	<b>7.3</b>	<b>13.5</b>	<b>21.3</b>	<b>32.3</b>

Chapter 4 sets out broad policy considerations underlying these expenditure proposals, including government's economic and industrial policy framework, the need to strengthen infrastructure maintenance, land and agrarian reform goals, and the challenges of improving police services and administration of justice.

## ■ Holding government accountable

*South Africa ranks first in  
the international Open  
Budget Survey*

South Africa has once again achieved international recognition for meeting stringent transparency and accountability standards. The International Budget Partnership (IBP) ranks South Africa first among 94 countries in its 2010 Open Budget Survey. The survey measures the degree to which governments provide sufficient budget documentation to allow for both public participation and oversight in national budget decision-making. The IBP concludes that the comprehensiveness and quality of South Africa's budget documentation "makes it possible for citizens to hold the government accountable for its management of the public's money".

The 2010 *Medium Term Budget Policy Statement*, and the proposed MTEF set out in Chapter 4, are tabled for further consideration in Parliament and its committees, and by all South Africans.