



**Institute for Democracy in South Africa**  
**BUDGET INFORMATION SERVICE**

**Submission to the Joint Budget Committee  
in Parliament**

**ON THE**

**Medium-Term Budget Policy  
Statement 2003**

**Budget once again facilitates service delivery to the  
poor but there is a long road ahead in realising socio-  
economic rights**

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# Executive Summary

## The focus of this submission

This submission gives attention to the following three issues:

- The importance of using the Budget as a tool for poverty reduction in the context of unemployment, revenue and growth trends in South Africa;
- How government addresses the needs and rights of poor people through the *MTBPS 2003*; and
- The challenges arising from the *MTBPS 2003* regarding the more rapid eradication of poverty in South Africa.

## The importance of using the Budget as a tool for poverty reduction

- Addressing poverty and delivering socio-economic rights through the Budget remains a huge challenge. As Minister Manuel pointed out with reference to the recently released report *Towards a ten year review*, after almost ten years of democracy the poor are very much still with us.<sup>1</sup> Even with some success in rolling out a range of programmes targeted at meeting basic needs, millions of South Africans (including millions of children) still have too little income to live a decent life. Hunger is still widespread. Millions of people experience obstacles to realising their basic constitutional socio-economic rights.
- At the same time - and critically – the prospects are still moderate for poverty to be reduced through job creation in the market economy.<sup>2</sup> It cannot be predicted if or when economic growth in South Africa will accelerate enough to generate sufficient jobs to impact on the growing official unemployment rate, let alone to have a significant impact on poverty reduction. As a result, the state has an elevated role in eradicating poverty through the Budget (and other interventions).
- Thus it is important to note that the *MTBPS 2003* is presented in a context where poverty remains prevalent in our country and the chances of poverty being reduced via private sector employment-creation remain slim. This raises the importance of using the Budget (and other interventions) to address poverty. Furthermore, the task of designing a pro-poor budget in the *MTBPS 2003* was made all the more difficult by the revenue position being tighter than expected.

## How the *MTBPS 2003* contributes to poverty reduction

- Given the fiscal austerity stance of government over the recent past and the decision to increase the budget deficit:GDP ratio, government was able to rise to the challenge of addressing the needs of the poor in the *MTBPS 2003*. In the new allocations and MTEF spending plans for 2003/04-2005/06 announced in *MTBPS 2003*, government facilitates poverty reduction and alleviation through the following:
  - Engaging in a prudent fiscal policy and investment in key areas that are important to facilitate economic growth trickling down into poverty reduction.
  - Continuing with the expansionary thrust in spending introduced in 2001 and allowing for a real increase in non-interest expenditure in real terms. In all the years of the MTEF real

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<sup>1</sup> This point is well illustrated in the Taylor Committee Report, see Ministry for Social Development 2003.

<sup>2</sup> See below and Borat et al 2001.

consolidated national and provincial expenditure on services increases (even if at a declining rate and if the pace is slower than between 2002/03- 2003/04).

- Prioritising allocations to sectors and programmes that are important for giving effect to the socio-economic rights of the poor. Here the highlights are investment in infrastructure, HIV/AIDS programmes and in particular the anti-retroviral programme (ARV), basic services, the expanded public works (EPW) programme and social assistance programmes, particularly the Child Support Grant (CSG) programme.
- In the *MTBPS 2003*, government has succeeded in producing a good balance. It has managed to substantially raise real expenditure on key programmes for the poor even though growth prospects in the near future are moderate and the revenue position was not as good as anticipated. Government is to be commended for continuing the expansionary pro-growth pro-poor fiscal stance that it began to adopt in 2001 after the period of restraint under the umbrella GEAR strategy, despite a tighter revenue situation.
- The *MTBPS 2003* also makes it explicit<sup>3</sup> that poverty can only be addressed with any certainty in the near future if government proceeds further with its direct initiatives affecting incomes of the poor. This acknowledgement is reflected in the attention given to the increasing unemployment rate and the introduction of the EPW programme. There is a recognition that South Africa cannot rely on uncertain private investment and growth to address the poverty crisis, even if the role of markets is critical to any long-run solution.
- However at the same time, the expanded public works programme cannot be expected to have more than a limited impact. As such, this programme cannot be seen as a substitute for expanding direct income support by enlarging the social security net. As section two below reveals, little has been made apparent in the *MTBPS 2003* on the size and nature of the EPW programme. The *MTBPS* suggests that the programme targets 750 000 short-term jobs over five years. Conversations with Treasury officials and other government officials suggest that the programme is likely to target 1 million jobs over the five year period. While this is a welcome move in the right direction, it will not bring about a significant shift in the poverty crisis. Therefore, the EPW programme should be treated by government as only one small step in a continuing process of expanding direct income support to the poor. This is in line with the suggestions of the Taylor Committee Report (Ministry of Social Development 2002).

### **Challenges arising from the *MTBPS 2003***

- In order to make swift progress in the eradication of poverty, it is important not to focus exclusively on the allocation of new money to key programmes delivering services to the poor. It is as necessary to consider what challenges arise from the *MTBPS 2003* in terms of budgeting and programming for the poor in future. Section 3 of this document examines in more detail some of the key challenges that need to be addressed in programming and budgeting for the poor with reference to the four programme areas prioritised in *MTBPS 2003*.<sup>4</sup>

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<sup>3</sup> With reference to the Growth and Development Summit.

<sup>4</sup> The focus of section three is on direct measures of support to the poor. However, this does not deny the need for economic growth that begins to draw larger numbers of the unemployed into the formal economy. As Minister Manuel argued, turning around the poverty crisis in South Africa is, to a large extent, dependent on economic growth becoming more rapid and more labour-intensive. This makes the challenge of reducing poverty in the future dependant on events beyond the control of government (and the budget), such as decisions of investors in our small open economy. It also raises the importance of continued investments in skills and small business initiatives and measures led by the Department of

- Key questions in this regard are:
  - What are the obstacles that need to be overcome to ensure that the funds allocated to HIV/AIDS activities (and in particular the ARV programme) are spent quickly and effectively?
  - It is good that so much more money has been allocated to extending basic services at the local government level, but will the funds be spent quickly and how can we ensure that they are?
  - What challenges need to be addressed to ensure that the EPW programme is rolled out quickly and the allocations are spent well?
  - And critically, how can we further extend the social security net to ensure that no one in South Africa has to suffer “the daily terrorism of hunger”<sup>5</sup> and the right to a basic income for everyone is realised?
- Government has made tremendous progress in extending income support to the poor by expanding social assistance and other programmes. Approximately half of those in need of income support now receive support directly. However, more still needs to be done, so that in line with the spirit of the Constitution, no one suffers an inability to meet basic needs.

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Trade and Industry to encourage a rate and pattern of growth that can help alleviate the structural unemployment crisis.

<sup>5</sup> Justice Tolakele Madala during his address to the *International Right to Food Seminar*, Centre for Human Rights, University of Pretoria, Pretoria, 27 – 29 January 2002. Cited in Brand, chapter three on the child’s right to basic nutrition, in a forthcoming study from the Idasa Children’s Budget Unit on government’s budgeting and programming for the socio-economic rights of children.

## SECTION 1

### The importance of using the Budget as a tool for poverty reduction

“We have electricity, which is illegally connected. We have lights and a radio but no stove, so we use an element to cook. It gives us electric shocks, so we wear rubber shoes when we use it.”  
*Boy, age 17, who lives with his sister and her one-year-old son in KwaZulu Natal*

It is broadly accepted that the South African Constitution and various other legal human rights instruments oblige us to ensure that the Budget (and other policy instruments) are used to deliver the comprehensive set of socio-economic rights given to everyone in the Bill of Rights. According to the Constitution, it is imperative for scarce resources to be used in such a way as to facilitate all South Africans having sufficient income to meet basic needs and access to basic and social services (such as health, education, water, sanitation and shelter).

The twin crises of deep poverty and unemployment persist. Research shows that poverty is tightly linked to the structural unemployment crisis.<sup>6</sup> HIV/AIDS also increases and deepens poverty. It is difficult to measure the poverty crisis and reveal the extent to which socio-economic rights are still not being met in South Africa. Poverty incorporates suffering beyond that associated with insufficient access to resources (such as hunger, ill health or lack of access to education). It also involves psychological suffering associated with discrimination and social exclusion that goes hand in hand with insufficient access to income and services.

The approach to measuring poverty that is now most common is to focus on income as an indicator, supplementing this with other indicators and qualitative data (such as inputs from poor people themselves). This approach has its own limitations, particularly in deciding on an appropriate income poverty line. It is beyond the scope of this submission to engage in this methodological debate. However, it is important here to draw attention to the following points about the extent and severity of the poverty crisis and to consider what prospects there are to reduce poverty in the near future through employment-creation in South Africa.

- Depending on the income poverty line used, researchers put the number of South Africans living in poverty at anywhere between 45 and 55 % (Ministry for Social Development 2003:29). If Actuarial Society of South Africa (ASSA) 2000 population estimates are used for 2003<sup>7</sup> (47 105 335) this translates into between 21.1 and 25.9 million poor people in South Africa. Assuming a poverty rate of 50%, 23.5 million are poor.
- According to a recent measurement of child poverty, which set the poverty line at R430 in 2001 rands per capita per month and used the *Income and Expenditure Survey (IES) 2001*, 75% of children in South Africa are poor. Using the IES estimate of the number of children, this implies about 13.3 million poor children.<sup>8</sup>
- Food insecurity (hunger) is extensive. For example the *National Food Consumption Survey*<sup>9</sup>, conducted in 1999, concentrated on children age 1 to 9 but also looked at hunger at the

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<sup>6</sup> See Bhorat et al (2001).

<sup>7</sup> To calculate the size of the population, ASSA 2000 population estimates were sourced from Dorrington, R., D. Bradshaw & D. Budlender (2002). These population estimates are also used in the per capita calculations.

<sup>8</sup> Woolard, I. (2003). Forthcoming in Idasa's Children's Budget Unit (2003) study, which monitors budgeting and programming for children's basic socio-economic rights. This may overestimate the extent of child poverty because the IES 2001 is thought to under-record household income.

<sup>9</sup> Available at <http://web.uct.ac.za/depts/ci>

household level. According to the survey findings, 52.2% of children age 1 to 9 experience hunger at least five days of the month. Almost 75% of children either experience hunger or are at risk of hunger. 45% of the population in rural areas and 26% in metropolitan areas go hungry at least a few times a month. 17% of people living in rural areas go hungry at least once a week and 5% of those living in urban and semi-urban areas go hungry every day.

- Unemployment, in Manuel’s words, “remains a critical policy challenge”. While job creation has broadly kept pace with economic growth (Seria, *Business Day*, 13 November Ibid), the unemployment rate has been rising. The official unemployment rate is 31.2% and the expanded rate is 42% (Statistics South Africa, *Labour Force Survey*, March 2003).
- Economic growth cannot be relied upon to have a large impact on poverty and the unemployment rate in the near future. Even though growth rates<sup>10</sup> are positive and forecast to be higher than this year (see Table 1), they are not much higher than over the last three years. According to private sector economists, the forecasts may be a little optimistic (See *Business Day*, Ibid). In addition, there is no reason to expect a sudden change in the nature of the skills of the poor and the demand for labour, so as to facilitate a better match between them. The limited prospects for the private sector to absorb large numbers of the unemployed in the near future are also highlighted in a recent research study by a team of economists (led by Bhorat and Leibbrandt<sup>11</sup>) at the University of Cape Town.

**Table 1: Economic growth (real) outcomes and projections in MTBPS 2003 (and Budget 2003)**

	2000	2001	2002	2003 (estimate)	Forecast		
					2004	2005	2006
MTBPS	3.5	2.8	3.0	2.2	3.3	3.7	4.0
Budget	3.5	2.8	3.0	3.3	3.7	4.0	

Source: MTBPS 2003:32 Table 2.3 and Budget 2003:49 Table 2.5.

- Of course, it is imperative for poverty reduction that the economic growth rate becomes fast enough to begin to decrease the unemployment rate. It is also essential for the various skills development initiatives of government to begin closing the gap between the skills of the unemployed and the demand for labour in the economy. However, the point is that this mechanism can still not be *relied* on to reduce poverty. This underscores the importance of government investing in programmes that deliver services to the poor in the fight against poverty.
- Economic growth is also critical in the challenge to reduce poverty for its role in providing the revenue needed to finance programmes for the poor. As a number of researchers have pointed out<sup>12</sup> and as the *MTBPS 2003* also stresses, “fiscal consolidation and stabilisation of the public finances” between 1996 and 2000 (the programming period of GEAR) provided room for fiscal policy to become more expansionary and supportive of growth from 2001.<sup>13</sup> Critically, it also gave government space to step up investments in programmes targeted at delivering services to the poor so that they can meet their basic needs (see Idasa 2001 and 2002 and Streak 2004).

<sup>10</sup> As adjusted downwards by Treasury in the context of the depressed world economy and increased value of the rand.

<sup>11</sup> See Bhorat et.al.

<sup>12</sup> See for example Samson 2002 and Streak 2004.

<sup>13</sup> See also State of Nation Addresses and Budget Reviews for 2001 and 2002 and 2003.

- *MTBPS 2003* was presented against the backdrop of a slightly different revenue position. For the first time since the introduction of the Medium-Term Expenditure Framework in 1997, budget revenue projections had to be adjusted downwards in the *MTBPS*. In this year's *MTBPS*, the main budget revenue projection for 2003/04 has been adjusted downwards by R4.6 billion to R299.9 billion. The total tax revenue estimate for 2003/04 has been revised downwards by R6.3 billion.<sup>14</sup> These revisions have been based on a review of macro-economic conditions, mainly lower-than-expected economic growth and a stronger currency.<sup>15</sup> Table 2 sets out the revised estimates. Main budget revenue projections for the two outer years of the MTEF period, 2004/05 and 2005/06 were also adjusted downwards, by R5.3 billion and R3.4 billion respectively.

**Table 2: Downward adjustments to main revenue sources forecast for 2003/04 (as presented in Budget 2003)**

R Billion	2003/04 Budget Estimate	2003/04 Revised Estimate	Changes from 2003/04 Budget Estimate
<b>Main Budget Revenue</b>	<b>304,5</b>	<b>299,9</b>	<b>-4,6</b>
<b>Total Tax Revenue</b>	<b>310,0</b>	<b>303,7</b>	<b>-6,3</b>
Personal Income Tax	96,7	97,0	0,3
Company Tax	65,8	61,8	-4
Secondary Tax on Companies	8,0	7,0	-1,0
Value Added Tax	81,0	80,0	-1,0
Taxes on International Trade & Transactions	11,3	9,4	-1,9

Source: *MTBPS, 2003: p 46, Table 4.1 and Budget Review, 2003: p 201, 203, Table 3.*

<sup>14</sup> The projections of departmental (non-tax) revenue have been adjusted upwards by R1,7 billion, resulting in an expected net decrease in total budget revenue of R4,6 billion.

<sup>15</sup> Company income tax is projected to generate R4 billion less than budgeted, with Secondary Tax on Companies bringing in R1 billion less. This is mainly the result of companies in export sectors earning significantly lower profits on the back of the strong rand. Value Added Tax (VAT) is expected to generate R1 billion less, with the lower prices of imports contributing to lower VAT collection. The declining value of imports also contributed to the downward revision of taxes on international trade and transactions, with customs duties projected to contribute R1,9 billion less to total revenue.

## SECTION 2

### Pro-poor strengths of the MTBPS 2003

#### 2.1 Real increase in non-interest spending in the aggregate (including per capita) despite a smaller envelope

In the context of a tighter revenue position, government managed to continue the trend (adopted since 2001) of substantially raising real expenditure on services without compromising fiscal sustainability. It found room for an expansionary pro-growth and pro-poor fiscal stance by raising the budget deficit. It was able to raise the budget deficit without compromising fiscal sustainability because of fiscal consolidation and the stabilisation of the public finances over the past seven years (*MTBPS 2003:33*).

Table 3 below shows the adjustments made to the main budget deficit:GDP ratio planned for 2004/05 and 2005/06 at the time of the release of the 2003 Budget. It also shows the budget deficit:GDP ratio planned for 2006/07. It can be seen that by the latter date, government plans to once again have a relatively low budget deficit – less than 2.8% of GDP.

**Table 3: Main budget deficit as a percent of GDP**

%	2002/03 Outcome	2003/04 Estimate	Forecast		
			2004/05	2005/06	2006/07
Budget 2003	-1.4	-2.4	-2.4	-2.3	
MTBPS 2003	-1.2	-2.6	-3.2	-3.1	-2.8

Source: *MTBPS 2003:37 Table 3.3 and Budget Review 2003:59 Table 3.3.*

The spending plans announced in the *MTBPS 2003* allow consolidated national and provincial non-interest expenditure to increase in real terms<sup>16</sup> by 4.7% between 2003/04 and 2004/05. The increases between 2004/05-2005/06 and 2005/06-2006/07 are 4% and 2.1% respectively. Over the whole period 2003/04-2006/07 the annual average real growth rate is 3.6%. These rates compare with a real growth rate in non-interest consolidated national and provincial expenditure of 8% between 2002/03 and 2003/04.<sup>17</sup> Table 4 illustrates the year-on-year real growth rates (absolute and per capita) for the period 2002/03-2006/07. It also shows the annual average rate of growth for the period 2003/04-2006/07.

**Table 4: Real growth rate in consolidated national and provincial non-interest expenditure, 2002/03-2006/07**

	2002/03-2003/04	2003/04-2004/05	2004/05-2005/06	2005/06-2006/07	Annual average 2003/04-2006/07
Total	8.6%	4.7	4%	2.1%	3.6
Per capita	7.3	3.8	3.2	1.6	2.9

Source: *MTBPS 2003:64 Table 5.3 and own calculations. GDP inflation given on page 32 of MTBPS 2003 used for calculation of real values.*

<sup>16</sup> To calculate the real values of expenditure, the GDP inflation data supplied on page 32 of *MTBPS 2003* is used.

<sup>17</sup> The calculations of the provincial and national are based on Table 5.5 in the *MTBPS 2003:74*.

Three important points emerge from a consideration of the rate of increase in non-interest consolidated national and provincial expenditure:

- While real growth is expansionary for the first year of the MTEF period, it is less so than between 2002/03 and 2003/04.
- The rate of increase in non-interest expenditure declines in the outer years of the MTEF.
- The rate of increase in real non-interest expenditure is sufficiently large to allow for real increases in non-interest consolidated national and provincial spending per capita (See Table 6 below).

The picture sketched above of the rate of expansion of non-interest spending excludes local government. If local government is included, the rate of expansion is slightly faster. This is because in the division of revenue, local and provincial government's shares increase over the MTEF, with local government having by far the greatest increase. However, local government expenditure constitutes a small share of total government expenditure, so the impact on the total rate of growth is not large.

## 2.2. Prioritisation of service spending in sectors important for the poor

The *MTBPS 2003* is to be applauded for prioritising the needs of the poor in the distribution of planned spending across sectors and programmes. Table 5 illustrates the real growth rates in planned expenditure across sectors for the period 2003/04-2006/07. It shows that:

- Social services allocations, and in particular those for welfare and social security, have a rate of annual average growth for the period 2003/04-2006/07 that is above the annual average growth rate for service spending as a whole. Social service spending has a growth rate of 3.9% against the 3.6% for all services together. Welfare and social security spending has an annual average growth rate for the period of 7.1%.
- Health services have also been prioritised. This is reflected in the above average annual real rate of growth for the period 2003/04-2006/07.

**Table 5: Real growth rates in consolidated national and provincial expenditure in sectors, 2003/04-2006/07**

REAL GROWTH	Real 02/03 -03/04	Real 03/04 -04/05	Real 04/05-05/06	Real 05/06-0607	Annual average 2003/04 - 2006/07
<b>Social services</b>	8.6%	5.1%	4.0%	2.7%	3.9%
Education	4.9%	3.7%	0.8%	1.3%	1.9%
Health	6.7%	5.1%	3.5%	3.6%	4.1%
Welfare & Social Security	13.0%	7.5%	9.2%	4.6%	7.1%
Other social services	16.4%	3.6%	2.2%	0.5%	2.1%
<b>Protection services</b>	5.1%	1.4%	2.7%	-1.1%	1.0%
Defence	5.3%	-4.2%	2.7%	-6.0%	-2.5%
Justice, police and prisons	5.0%	5.1%	2.8%	1.7%	3.2%
<b>Economic services &amp; infrastructure</b>	15.4%	1.8%	6.2%	3.7%	3.9%
Water and related services	29.6%	-8.9%	4.7%	1.3%	-0.9%

<b>REAL GROWTH</b>	<b>Real 02/03 -03/04</b>	<b>Real 03/04 -04/05</b>	<b>Real 04/05-05/06</b>	<b>Real 05/06-06/07</b>	<b>Annual average 2003/04 - 2006/07</b>
Agriculture, forestry, fishing	12.1%	0.9%	1.8%	1.6%	1.4%
Transport & communication	7.5%	3.1%	8.4%	1.2%	4.2%
Other economic services	20.3%	5.3%	6.3%	7.8%	6.5%
<b>Administration</b>	6.1%	16.2%	3.6%	2.2%	7.3%
<i>Of which Local government equitable share</i>	72.3%	13.1%	6.2%	3.0%	7.4%
<b>Total</b>	<b>8.6%</b>	<b>4.7%</b>	<b>4.0%</b>	<b>2.1%</b>	<b>3.6%</b>

Source: MTBPS 2003: 64 and own calculations.

Table 6 shows the real growth in consolidated national and provincial expenditure per capita.<sup>18</sup>

**Table 6: Real growth rates in consolidated national and provincial expenditure in sectors per capita 2002/03-2006/07**

<b>REAL GROWTH PER CAPITA</b>	<b>Real 02/03 -03/04</b>	<b>Real 03/04-04/05</b>	<b>Real 04/05-05/06</b>	<b>Real 05/06-06/07</b>	<b>Annual average 2003/04 - 2006/07</b>
<b>Social services</b>	<b>7.3%</b>	<b>4.2%</b>	<b>3.2%</b>	<b>2.3%</b>	<b>3.2%</b>
Education	3.7%	2.8%	0.0%	0.8%	1.2%
Health	5.5%	4.2%	2.8%	3.2%	3.4%
Welfare & Social Security	11.7%	6.5%	8.4%	4.1%	6.4%
Other social services	15.1%	2.7%	1.4%	0.1%	1.4%
<b>Protection services</b>	<b>3.9%</b>	<b>0.6%</b>	<b>2.0%</b>	<b>-1.5%</b>	<b>0.3%</b>
Defence	4.1%	-5.0%	1.9%	-6.4%	-3.2%
Justice, police and prisons	3.7%	4.2%	2.0%	1.3%	2.5%
<b>Economic services &amp; infrastructure</b>	<b>14.0%</b>	<b>0.9%</b>	<b>5.4%</b>	<b>3.2%</b>	<b>3.2%</b>
Water and related services	28.1%	-9.7%	4.0%	0.9%	-1.6%
Agriculture, forestry, fishing	10.8%	0.0%	1.1%	1.2%	0.7%
Transport & communication	6.3%	2.2%	7.6%	0.7%	3.5%
Other economic services	18.9%	4.4%	5.5%	7.3%	5.7%

<sup>18</sup> In the absence of population projections based on 2001 Census data, Rob Dorrington from UCT recommended that we use the ASSA 2000 projections. The ASSA projections used in our calculations were sourced from: Dorrington, R. D. Bradshaw & D. Budlender (2002). *HIV/Aids profile in the provinces of South Africa. Indicators for 2002*. November 2002. The Centre for Actuarial Research, Medical Research Council and Actuarial Society of South Africa. Available at: <http://www.commerce.uct.ac.za/care/Research/Papers/Indicators.pdf>

<b>REAL GROWTH PER CAPITA</b>	<b>Real 02/03 -03/04</b>	<b>Real 03/04-04/05</b>	<b>Real 04/05-05/06</b>	<b>Real 05/06-0607</b>	<b>Annual average 2003/04 - 2006/07</b>
<b>Administration</b>	<b>4.8%</b>	<b>15.2%</b>	<b>2.8%</b>	<b>1.7%</b>	<b>6.6%</b>
<i>Of which local government equitable share</i>	70.3%	12.2%	5.4%	2.5%	6.7%
<b>Total</b>	<b>7.3%</b>	<b>3.8%</b>	<b>3.2%</b>	<b>1.6%</b>	<b>2.9%</b>

Source: Table 5 above and own calculations. See footnote 7 for the source of population figures used for the calculations.

## **2.3 Prioritisation of spending on key poverty programmes**

Within sectors, at the programme level, the three-year expenditure plan as put forward in the *MTBPS 2003* prioritises investment in programmes delivering services that are particularly important in the fight against poverty. In addition to the continued prioritisation of infrastructure spending, the four initiatives outlined below have particular potential to impact beneficially on the lives of poor South Africans.

### **Investment in basic service delivery at municipal level**

The *MTBPS 2003* prioritises allocations to municipalities for rolling out - more quickly - basic municipal services (of which the main ones will be free). This includes water and sanitation, electricity, refuse removal, roads and community facilities. This was channelled through two streams:

- The equitable share and related conditional grants; and
- Infrastructure conditional grants.

The Department of Provincial and Local Government (DPLG) and other service departments encourage municipalities to spend their equitable share on basic services. The equitable share of local government increased substantially between 2002/03 and 2003/04. Between 2003/04 and 2004/05, it is set to increase by 13.1% in real terms. Over the entire period 2003/04 and 2006/07 it is set to increase by 7.4% in real terms.

The infrastructure grant is specifically for bulk, connection and reticulation infrastructure for basic services, roads and community facilities in poor areas. This grant increases by 14.5% in real terms between 2003/04 and 2004/05. The real annual average increase over the period 2003/04 and 2006/07 is 7.6%.

### **Investment in an expanded public works (EPW) programme**

The EPW programme has recently been identified by government as one of the key strategies in meeting the growth and development challenges of our country.<sup>19</sup> In the *MTBPS 2003*, it is flagged as a key spending priority. It is important to note that while the *MTBPS 2003* highlights the EPW programme as a key initiative for the poor, it says little about exactly how much has been allocated to the programme.

<sup>19</sup> Mbeki, T. 2003. Address of the President of South Africa, Thabo Mbeki, to the National Council of Province, 11 November 2003

The *MTBPS 2003* alludes to a large reallocation of resources towards provincial and local government to implement the EPW programme.<sup>20</sup> However, it does not provide details on the exact amounts allocated to the programme over the five-year implementation period. It says that the programme aims to create 750 000 work opportunities over the next five years.

To shed some more light on what the envisaged programme entails, as well as the size of allocations and how many jobs it aims to create by when, BIS contacted officials at National Treasury and the National Department of Public Works. It also investigated what President Mbeki said about the programme in an Address to the National Council of Provinces on 11 November and drew on a recent research study by McCord (2003).

These investigations revealed that the intention is to implement the EPW programme in phases over a five-year period, targeting about 1 million unemployed workers. Sub-programmes that form part of the EPW programme are to be organised according to four sectors: infrastructure; environment and culture; social; and economic.<sup>21</sup> Government departments involved in the programme will include Public Works, Environmental Affairs and Tourism, Agriculture, Education, Health, Social Development and Trade and Industry.<sup>22</sup>

BIS managed to gather projected allocations for three of the four sectors for the five-year implementation period.<sup>23</sup>

- Infrastructure - R15 billion has been allocated, which will form part of the conditional infrastructure grants to provinces and municipalities. A conditionality has been added to these grants that require departments to include infrastructure projects that are labour intensive.
- Environment and culture - R4 billion has been allocated, which includes allocations to existing programmes like Working for Water, Land Care and Working on Fire.
- Social sector - R600 million has been allocated for programmes such as home-based care and early childhood development. These social sector allocations will be channelled through non-governmental organisations and community-based organisations. National Treasury envisages an increase in the social sector allocation.
- Economic sector – allocations not yet been determined.

The implementation of the EPW programme in the infrastructure and environment sector as well as the culture sector essentially involves the continuation of existing public works programmes. This is not the case with social and economic sector programmes, which are still in the planning phase. The Department of Public Works hopes to have more clearly developed plans for these sector programmes by February 2004.<sup>24</sup>

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<sup>20</sup> See p 63 and p 75 of 2003 MTBPS

<sup>21</sup> Communication with Dr Shaun Phillips, Director of the EPWP Unit in the Department of Public Works.

<sup>22</sup> Mbeki. T. 2003. Address of the President of South Africa, Thabo Mbeki, to the National Council of Province, 11 November 2003.

<sup>23</sup> Communication with Dr Shaun Phillips, Director of the EPWP Unit in the Department of Public Works and Cathy Nicolau, National Treasury Official.

<sup>24</sup> Communication with Dr Shaun Phillips.

### **Increase in allocations to the extended Child Support Grant (CSG) programme and other social assistance programmes**

In *Budget 2003*, government announced an increase in the age eligibility for the CSG. This meant that the age limit for eligibility would be raised to children under nine in April 2003/04, to those under eleven in April 2004/05 and to those under 14 in April 2006/07. The ideal would have been to see an upward adjustment of the age limit that allowed all children to benefit more quickly from the CSG. Nonetheless, the *Budget 2003* announcement was regarded as a welcome policy change. The size of provincial equitable shares was adjusted upwards in Budget 2003 to facilitate the extension. A special conditional grant, called the Child Support Extension Conditional Grant was also introduced. The size of the allocations to the Child Support Extension Conditional Grant in *Budget 2003* was 1.1 billion for 2003/04, 3.4 billion for 2004/05 and 6.4 billion for 2005/06 (*Budget Review 2003*:163).

The spending plans announced in *MTBPS 2003* incorporate more allocations for the roll-out of the extended CSG programme. The implementation of the CSG programme is at the moment still financed by two streams of funding – the provincial equitable share and the newly introduced conditional grant. In *MTBPS 2003*, the provincial equitable share was adjusted upwards to facilitate provinces rolling out the extended CSG programme (*MTBPS 2003*:66). In addition to raising the equitable share of provinces so that roll-out would be able to meet demand for the CSG by older children that are becoming eligible, an amount of R2.5 billion was “added to the conditional grant in 2006/07 to provide for additional beneficiaries” (*MTBPS 2003*:79).

The size of the provincial equitable share was also adjusted upwards in *MTBPS 2003* to help provinces meet growing demand for the dependency and foster care grants. This move is welcome as the demand for foster care grants and in particular dependency grants has been increasing rapidly over the last couple of years.<sup>25</sup>

### **New allocations to provinces for HIV/AIDS programmes and in particular for the introduction of the antiretroviral treatment programme (ARV).**

The fourth new spending initiative in *MTBPS 2003* at the programme level that will have clear benefits for the poor concerns HIV/AIDS activities and specifically, the roll-out of the antiretroviral treatment (ARV) programme. Support can also be expressed for the dual funding mechanism - using both conditional grants and allocations made through the equitable share. However, while appropriate, the latter does introduce some liabilities and will require efforts by the provincial departments of health to ensure that these funds are allocated for HIV/AIDS activities.

Table 7 below indicates the various allocations made directly or indirectly to HIV/AIDS in the *2003 Budget* and *MTBPS 2003*. It illustrates that the total for HIV/AIDS activities over the MTEF three-year period is almost R12 billion. In the *MTBPS 2003*, an amount of 1.9 billion extra was allocated - specifically for the ARV programme.

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<sup>25</sup> Related by poverty and social security lead researcher at Childrens Institute, University of Cape Town in a meeting in November.

**Table 7: Allocations made to HIV/AIDS in Budget 2003 and the MTBPS 2003**

R Million	2004/05	2005/06	2006/07	Total for 2004/05-2006/07
HIV/AIDS health conditional grant (originally allocated in the 2003/04 Budget)	482	535	567*	1584
<b>HIV/AIDS health conditional grant as indicated in the MTBPS.</b>	<b>782</b>	<b>1135</b>	<b>1567</b>	<b>3484</b>
HIV/AIDS Directorate budget excluding cgs (Budget 2003/4)	369	368	405**	1,143
<b>Allocations through the ES to Provinces in 2003/4 Budget (Targeted Increment)</b>	<b>1,900</b>	<b>2,454</b>	<b>2,828***</b>	<b>7,182</b>
<b>TOTAL ALLOCATIONS</b>	<b>3,051</b>	<b>3,957</b>	<b>4,800</b>	<b>11,809</b>
<b>Therefore additional funds for the HIV/AIDS conditional grant allocated in MTBPS for ARVs</b>	<b>300</b>	<b>600</b>	<b>1000</b>	<b>1,900</b>

\* The amount for the original conditional grant for 2006/07 was not available in the 2003 Budget. The amount of R567million is estimated.

\*\* The allocation for the HIV/AIDS Directorate for 2006/07 was not available in the 2003 Budget. Therefore it has been estimated using a 10% increase from the previous year's allocation.

\*\*\* The allocation for the ES for 2006/07 was not available in the 2003 Budget. Therefore it has been estimated here based on the global amount of R4.8billion indicated by the Minister in the MTBPS Speech.

The Joint Health and Treasury Task Team for ARV costing estimated that the total *additional* funding requirements for the first year for a 100% roll-out scenario would be between R200 and R300million, while a 50% roll-out would require R100 million. The task team believes the 50% roll-out is "a more realistic forecast of both likely uptake and of implementation capacity for a national ARV programme" (South African Joint Treasury and Health Task Team 2003:79). It would appear that R300 million is sufficient for a 100% roll-out of the ARV programme in the first year. However, the budgeted amounts for the two following years appear to fall somewhere between the funds required for the 50% and 100% roll-out scenarios. The funds required will steadily increase as the uptake increases.

The increased allocations to HIV/AIDS in *MTBPS 2003* are to be welcomed. This shows that national government is committed in fighting the HIV/AIDS epidemic. However, BIS research on HIV/AIDS funding flows has identified challenges faced by provincial departments in spending HIV/AIDS funds.<sup>26</sup> Some of these are identified in section 3 below.

## 2.4 Revenue division supports prioritisation of the poor

The division of revenue between local, national and provincial government reflects the prioritisation of expenditure on sectors and programmes important for the poor. Provinces and local government have the overwhelming responsibility for financing and implementing most poverty reduction programmes. These include, as explained above, the four programmes

<sup>26</sup> Hickey, A., Ndlovu, N., Guthrie, N. 2003. Budgeting for HIV/AIDS in South Africa: Report on Intergovernmental funding flows for an integrated response in the social sector. Idasa-ABU. Forthcoming.

prioritised in the *MTBPS 2003*: basic services, the Child Support Grant, expanded public works and antiretrovirals.

In the spending plans introduced in the *MTBPS 2003*, the shares intended for local government and provincial government rise relative to national government. The share for provinces rises from 56.8% in 2003/04 to 57.1% in 2004/05 and 57.7% in 2006/07. The share of local government increases from 4.2% in 2003/04 to 4.5% in 2004/05 and 4.6% in 2006/07.

Provincial conditional grants see particularly strong growth in real spending, driven by the increase in the child support conditional grant. The distribution of resources across spheres of government proposed in the *MTBPS 2003* for the MTEF period 2003/04-2006/07 is illustrated in Table 8.

**Table 8: Distribution of resources across spheres of government**

%	2003/04	2004/05	2005/06	2006/07
National government	39.0	38.4	38.1	37.7
Provincial government	56.8	57.1	57.3	57.7
Equitable share	50.9	50.5	49.9	49.8
Conditional grants	5.9	6.6	7.4	8.0
Local government	4.2	4.5	4.6	4.6
Equitable share & related	2.5	2.7	2.8	2.8
Infrastructure	1.5	1.6	1.6	1.6
Capacity building & related	0.2	0.2	0.2	0.2
Total government	100	100	100	100

Source: *MTBPS, 2003:61 Table 5.1 and 85 Table 6.5.* .

## SECTION 3

### Challenges arising from the *MTBPS 2003*

Government is to be applauded for facilitating poverty reduction in the spending plans introduced in *MTBPS 2003*.

Yet, the spending initiatives introduced in *MTBPS 2003* are but a small component of what needs to be done to ensure that all South Africans realise their constitutional socio-economic rights and that poverty is eradicated. Many challenges remain and will have to be overcome. The task goes beyond the need for government (led by National Treasury) to find more resources to allocate to *existing* programmes in order to expand service provision to the poor. In addition, the challenge for government will also be to re-think its policy direction in some programmes (such as social assistance programmes) and to allocate resources to new programmes for the poor (such as new social assistance programmes or more public works programmes). It also extends to managing the implementation of programmes that already exist for the poor in ways that ensure that all funds allocated to programmes are spent quickly and effectively.

This section of this submission document raises a number of implementation and design challenges in each of the four programme areas prioritised in *MTBPS 2003*. As already stated, the prioritisation of these programmes is an important step towards addressing the needs of the poor. The challenges below represent potential obstacles that could undermine the desired impact of these programmes.

#### 3.1 Challenges and recommendations related to HIV/AIDS spending

Research by the Idasa Budget Information Service's AIDS Budget Unit (ABU)<sup>27</sup> indicates the following challenges in HIV/AIDS spending:

- *There is a need to ensure that funds allocated for HIV/AIDS programmes through the provincial equitable share are allocated to the HIV/AIDS activities they are destined for.*

It must be stressed that the R12 billion over the next three years recorded as funds allocated to HIV/AIDS, includes funds that are to be sent via the equitable share to provinces. Although national government is requesting that these funds be used for HIV/AIDS, provinces have full discretion to allocate equitable share funds according to their own budget processes. This is an important challenge because recent research by Idasa on HIV/AIDS spending, suggests that this is unlikely to happen. For example in 2003/4, R1.1 billion was added to the equitable share intended primarily for HIV/AIDS treatment and care (National Treasury 2003c: 329 and 2003a:19). However, the research found that in reality the provinces had only allocated R356 million from their own health budgets in 2003/4 specifically for HIV/AIDS.<sup>28</sup> In other words, only 32% of the money destined for HIV/AIDS was directed specifically to HIV/AIDS line items in provincial health budgets. The remaining funds were difficult to track because provinces allocated them according to their priorities. In addition, the funds were intended for more indirect support to health services and infrastructure, which cannot be traced in specific line-items.

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<sup>27</sup> Ibid.

<sup>28</sup> Ibid

- *There is a need to build capacity to spend funds allocated to HIV/AIDS.*

In the recent past, failure to spend all funds allocated has resulted from rigidity of conditional grant rules, shortage of staff, and poor financial and project management. Fortunately the conditional grant stipulations for the health HIV/AIDS conditional grant have been relaxed, and the Provincial Management grant introduced<sup>29</sup>. This will help the health departments to spend the conditional grant better. However, given the additional allocations in the *MTBPS 2003*, absorption capacity becomes a critical question. How will government ensure that sufficient structures are put in place to enable provinces to spend the HIV/AIDS allocations quickly and efficiently? Huge efforts and careful planning are required to develop the capacity of the health infrastructure and personnel to effectively roll out the ARV programme.

- *More effective communication channels are required.*

The research of the Aids Budget Unit also indicates a need to build more effective channels of communication between and within departments and different layers of government. For example, the formal procedures of the tendering process are not working effectively and efficiently. In addition, lack of effective communication has been causing difficulties in the design and approval of business plans, which need to be passed for conditional grants to be transferred.

- *There is a need to improve tracking and monitoring.*

It is difficult to establish whether the equitable share funds are used for HIV/AIDS. A serious drawback of the equitable shares funding mechanism is reduced transparency and inability to track the flow and allocation of these funds intended for HIV/AIDS treatment and care. It is important to monitor the expenditure of the equitable share funds. Towards this end, ways need to be found to change the accounting and budgeting systems. With more detail and disaggregation in provincial budget statements, it would be possible to see more clearly how much of the equitable share is actually being spent on HIV/AIDS. General budget support to provincial health departments would assist greatly in this regard.

### **3.2 Challenges relating to spending of funds allocated to basic services**

Progress in the implementation of free basic municipal services has been mixed to date. The continued roll-out of the free basic services programme depends on the broad institutional context in which service delivery occurs. Some of the key challenges identified by the local government research project at BIS are listed below:

- *There is a need to address conflicting approaches to reforms in inter-governmental fiscal relations.*

Research done by Idasa shows that while the evolution of the local government grant system complies with the government's stated policy goal of devolution, there are some contradictions which may undermine the development of cost-effective, fair and sustainable free basic service policies and systems.<sup>30</sup> A number of 'funding windows' have been

<sup>29</sup> It is recommended that the provincial management grant also be introduced for the Departments of Education and Social Development.

<sup>30</sup> Idasa: BIS July 2003, *The Local Government Grant System. Paper Two: Evaluating the local government grant system.*

introduced into the equitable share, regarded by government as the main vehicle for directing operating funds for free basic services to local government. A funding window is a separate allocation within the equitable share; a number of the funding windows have been mapped to specific funding purposes<sup>31</sup>. Two windows have been opened up for FBS. The Department of provincial and Local Government requires that municipalities report in terms of these windows, but it is unclear whether they are reporting, whether the data they are submitting is accurate and sensible and what the transferring department is doing with the data. Secondly, the introduction of a single grant, the Municipal Infrastructure Grant (MIG), is seeking to streamline the allocation system and give local government more discretion. However, some policy statements seem to suggest that some of the complexities of the old system of multiple capital grants will be replicated in the very complicated conditions covering the allocation of resources to projects that are emerging.

Aside from legal issues of enforcing such approaches, it is unclear how trying to exert this level of control will lead to sustainable and targeted service delivery programmes. Departments are trying to compensate for weakness in the planning and technical capacity at the local level through attempts at micro-management. Instead, a concerted focus on guiding municipalities to making good strategic decisions that are technically well informed might aid government more. Government has raised the possibility of introducing asymmetric inter-governmental fiscal arrangements to accommodate and deal with differences in capacity more selectively, but as yet no clear statement about what is envisaged by this have been forthcoming.

A number of observers feel the flow of operating and capital grants is not sufficiently coordinated. Infrastructure extension has been driven hard from the national level, often without careful consideration of levels of service and the geo-technical factors at local level, which has tended to drive up operating costs. This rapid expansion tends to be driven by the housing grant. Operating grants may not have grown commensurately. While municipalities have to learn to pay careful attention to the operating resource implications of infrastructure expansion, they also have to learn to resist national programmes and funding they cannot manage, and transferring departments have to learn to read the signals.

- *There are municipal shortfalls in service planning capacity.*

The level of support required to undertake sensible service planning does not seem to be adequately covered in the current capacity-building grant programmes. The Municipal System Improvement Grant with its focus on Integrated Development Plans (IDPs) and performance management systems tends to be aimed at a high and abstract level, while the Financial Management Grant is mainly focused on accounting reforms. What seems to be lacking are the skills to develop detailed service delivery strategies underpinned by technically robust analysis, including the financing implications. Key to strategy development is the collection of sufficiently detailed data about coverage, backlogs and zones of poverty, much of which are lacking at local (and national) level. Municipalities also need to learn how to target resources more effectively. The establishment of provincial support units for free basic water by the Department of Water Affairs seems to be promising approach. As well as being technically rigorous, it is essential that service delivery strategies articulate with IDPs.

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<sup>31</sup> The windows allow different horizontal allocation criteria to operate within the single grant. Unlike provincial grants, which divide the total provincial equitable by means of "funding components" each bearing a predefined weight, each funding window's allocation is occurs at the discretion of the executive i.e. is a "top down" decision.

- *Institutional arrangements around service delivery need to be developed.*

A very complex set of institutions is evolving in regard to service delivery. The service delivery landscape is dotted with an array of providers, including municipalities, community-based organisations, private sector providers and so forth. Municipalities require developed skills at putting levels of service agreements in place. For example, the local agreements between ESKOM and municipalities for free basic electricity provision will need careful costing and planning by municipalities to ensure that electricity is equitably rolled out in both its own areas and in ESKOM's service areas. While such an arrangement may benefit municipalities by making service provision contestable and more productively efficient, they have to effectively manage the risks involved.

In number of areas service authority has been shifted from the local level to the district, on the grounds that local municipalities lack capacity to carry on the authority. Some experts have argued that such an approach has profound implications for local accountability, and could also seriously disrupt, rather than enhance service delivery.<sup>32</sup> For instance, the districts which have been assigned authority themselves often lack the service capacity required and given diseconomies of scale, it is unclear at which level it is more efficient to build up the capacity. Furthermore, granting district authorities fiscal powers, certain revenue streams now present at the local level will have to be separated out from what is often an integrated system of local cost recovery. It remains unclear how this will be done. The evolution of this system will have to be carefully monitored to ensure that this systems actually has the benefits it is argued to have, before too much damage is done.

### **3.3 The expanded public works (EPW) programme**

Due to the novelty of the EPW programme and because BIS has not itself undertaken any research on public works (including the new programme), we are hesitant to make concrete assertions about the challenges around spending the funds allocated to the EPW programme. However, the following challenges have emerged out of discussions with various government officials and consultations with an expert on public works in South Africa in the last week:

- *There will be a need to facilitate the effective co-ordination of the programme across sectors and departments.*

The highly decentralised nature of the EPW programme is expected to result in problems in co-ordinating the implementation of the programme.<sup>33</sup> The activities of three spheres of government and a whole range of departments will have to be co-ordinated to ensure effective implementation of the EPW programme. The need for co-ordination may slow down the rate of delivery.

- *Government will have to ensure the spending of funds allocated to provinces and in particular to local government.*

The capacity of provinces and local governments to spend money efficiently will have to be addressed.<sup>34</sup> Under-spending by provinces and municipalities has been well-documented.

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<sup>32</sup> See Savage in Idasa: Budget Watch, January 2003

<sup>33</sup> Communication with Dr Shaun Phillips, Direct of the EPWP Unit in Department of Public Works.

<sup>34</sup> Communication with Dr Shaun Phillips

Provinces have shown great improvements in this regard, however the same cannot be said about municipalities.

- *Effective programme monitoring and evaluation systems will be required.*

Existing public works programme monitoring and information systems do not facilitate analysis of the impact of programmes.<sup>35</sup> The national Public Works Department will have to develop a mechanism to measure the success of the EPW programme and determine if money is being spent effectively and efficiently.

- *There will be a need to overcome inflated expectations of what the EPW programme can do for the poor*

The implementation of the EPW programme will have to contend with unrealistic community expectations around what these programmes can deliver.<sup>36</sup> Promises of job creation will have to be married with the reality of the limited benefits of the five-year public works programmes. The target for the programme is between 750 000 and one million jobs over five years (see above) but there are millions more people that are in need of income support from the state. If we assume that the poverty rate is 50% (as explained above it is estimated to be between 45 and 55%) then about 23.5 million people are in need of income support; thus the EPW programme will provide direct income assistance to about 4% of those who need it.

### **3.4 Social assistance challenges : The CSG programme and beyond**

Research by the Children's Budget Unit (in the Budget Information Service at Idasa) has highlighted a couple of the key implementation challenges that need to be addressed to facilitate the rapid roll-out of the extended CSG programme. This section concludes by highlighting the challenge that many believe government must address with regard to the provision of direct income support (mainly through social assistance) to stay true to the spirit of the Consitution.

#### **Challenges to address for rapid roll out of the extended CSG programme**

- *There is a need to address differential provincial performance and capacity.*

The data on the numbers of child beneficiaries of the grant shows that in the aggregate, rapid progress has been made over the recent past in extending access to eligible children. Moreover, all provinces have been making progress. However, performance varies substantially across provinces. In particular, the Eastern Cape, Limpopo and Northern Cape have been struggling relative to other provinces. Attention needs to focus on how more support can be given to those provinces that are finding it most difficult to expand the programme (Cassiem and Kgamphe 2003).

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<sup>35</sup> McCord, A. 2003. An Overview of the Performance and Potential of Public Works Programmes in South Africa. SALDRU, Department of Economics, UCT.

<sup>36</sup> Communication with official from the Western Cape Provincial Public Works Department

- *There is a need for better data on eligible children to improve costing, budgeting and monitoring.*

It is difficult to find reliable data on the number of children eligible for the grant in each province. Lack of good data on eligible children undermines effective monitoring, costing and budgeting. How can provinces ensure they allocate enough through the equitable share for roll-out if they don't have a good idea on how many eligible children they have in their province? Research by the CBU shows that while some provinces still tend to under-spend on the CSG programme, most are over-spending. Looking at budgeting for the programme in 2002/03, the research shows that the Eastern Cape, North West and KwaZulu-Natal under-spent their budget allocations to the CSG programme. The province with the largest over-expenditure was Mpumalanga<sup>37</sup>. Work needs to be done to build better eligibility and costing estimates so that CSG programme budgets do not undermine the roll-out of the grant and funds are not unspent.

- *How will the creation of the National Social Agency facilitate roll-out?*

There is a need to pay attention to this question.

- *The drive to provide birth certificates and identification documents to promote access in remote areas must be continued*

Qualitative research reveals that while the CSG is finding its way into remote rural areas<sup>38</sup>, obstacles such as lack of birth certificates and lack of money for transport costs still prevent access for many rural children in poor communities. Thus, the drive to facilitate access through mobile units must continue.

### **Progress but ...still the crucial task of further expanding social assistance**

The various initiatives to expand delivery of basic and social services and direct income support to the poor in *MTBPS 2003* are very laudable. However, they are still insufficient in the light of the extent of the poverty crisis and moral and legal imperative (legally enshrined in the Constitution) to ensure that **all** people have sufficient income to meet basic needs.

It is true that South Africa's social assistance programmes are extensive and advanced for a developing country<sup>39</sup>. Moreover, through these programmes and others such as the Integrated Nutrition Programme (INP) and the provision of affordable schooling and health services, government has made rapid progress in assisting the poor. Considering the provision of income support through social assistance grants alone, the success in expanding income support to the poor is immediately visible. Table 9 on the following page shows that 7.2 million people were directly benefiting from grants in October 2003. Of course, the income given to actual beneficiaries flows to others in households who are not directly benefiting, so the number benefiting is even greater.

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<sup>37</sup> Cassiem and Kgamphe, Budgeting and programming for the child's right to social services: The case of the child support grant programme, forthcoming in 'Monitoring basic child socio-economic rights in South Africa' Childrens Budget Unit, Idasa.

<sup>38</sup> Lund, in a presentation at the Children's Institute, University of Cape Town, 9 November 2003. Also, Ewing, (2003), forthcoming child participation study to be released by Childrens Budget Unit, Idasa.

<sup>39</sup> See Van der Berg in Bhorat et.al. See also Ministry for Social Development, 2003.

**Table 9: Number of people currently receiving social assistance grants**

Type of Grant	Beneficiaries / children who receive grant (12 Nov 2003)
Old Age	2036497
Disability – permanent	799852
Disability – temporary	337786
Foster Care	118389
Care Dependency	72269
Child Support Grant (0-9)	3834381
War Veterans	4179
Grant in Aid	15927
<b>Total</b>	<b>7219280</b>

*Source: National Social Development Department, from SOCPEN.*

Government estimates that 3 507 177 children aged 7 to 13 will be added as social assistance grant recipients with the full phasing in of the CSG programme (National Department of Social Development 2003). As stated above, it seems as if the EPW programme will lead to income support for 1 million people if the programme unfolds as is now being planned (this is an optimistic scenario, the *MTBPS 2003* suggests 750 000). This will make the total number directly receiving income support from the state about 11.7 million. This is a significant amount of beneficiaries. Using an estimate of the income poverty rate of 50% (in between those found in the Taylor Committee Report<sup>40</sup>) and our estimate of the number of people in South Africa, then 49.7% of the 23.5 million people in need of income support will be receiving it. In addition, this still excludes those indirectly benefiting and the handful of other programmes government has put in place to provide income support.

However, the current set of programmes target only children up to the age of 14, severely disabled or fostered children, the elderly and adults that because of a disability cannot work. Unfortunately, these programmes still do not meet the needs of all South Africa's poor. In the process, it leaves out the millions of people who are unable to find jobs in the market economy due to structural unemployment, children over 14 and orphans that have not yet been officially fostered. The exclusion of half the population of the poor from the social assistance net appears out of line with poor people's constitutional entitlement to social assistance. Civil society and government need to work together to investigate how even in the current climate of less than expected revenue, social assistance programmes (or other programmes) can be developed to provide income to all South Africans that do not have enough to meet basic needs. A situation in which people in South Africa have to suffer "the daily terrorism of hunger" because of lack of prospects for employment in the market economy and failure to access the entitlement to a minimum income implied by the Constitution, cannot be allowed to continue.<sup>41</sup>

<sup>40</sup> See section 1 above.

<sup>41</sup> For information on why the socio-economic rights in the Constitution (and in particular the right to social security) imply an entitlement to a minimum income provided by the state to all, see: Liebenberg, S. 2001 and 2003.

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