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The MTBPS 2011: Are we making do with less in a pro-poor way?

2 November 2011

The "dangerous times" we live in….

- "We have learnt from the 2008 global crisis that sound fiscal and financial institutions do not provide immunity against job losses in our economy arising from turbulence originating elsewhere in the world." (MTBPS 2011).
- No sustained improvements domestically or globally have materialised unlike expected at the time of the 2011 Budget.
- "The eurozone crisis has bought new financial challenges and threats to global growth and we are also seeing rising inflation and overheating in several countries including Brazil, India and China." (MTBPS 2011).
- The ripple effects from a potential eurozone fallout are significant, but leaders in the region finally agreed on how to address the Greek debt with backing of €1 trillion through the emergency rescue fund (***European Financial Stability Facility).***
- However, new concerns have emerged after the announcement of a referendum on the bailout in Greece.

What is required according to the Minister of Finance?

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- Achieving economic transformation requires "an extraordinary national effort from all role-players, committed not just to identifying the barriers to progress, not just proposing solutions, but also to working together, over the long haul." (MTBPS 2011).
- Need to establish a new growth trajectory that must focus on creating jobs, reducing inequality and improving the lives of ordinary people.
- Focus will be on changing the composition of spending in favour of public infrastructure spending and investing in assets which create jobs.
- Address inefficiencies and waste in the public service.

The urgency of the matter must not be under-estimated

- World wide protests are under way, ranging from the ‘Arab Spring’ to protests in Italy and the USA where ordinary citizens are questioning the power of the ‘1%’ with slogans such as “We are the 99%”.
- As the Minster rightly points out :

  “Across the world , there is impatience at the slow pace and poor outcomes of international co-operation, and there is anger about the impact of financial and governance failures on ordinary people, on employment and livelihoods”.
- The march by the ANCYL for economic freedom once again highlighted the plight of young people (15-24 years) who face unemployment rates in excess of 50%, a situation that is exacerbated by the low quality of education.

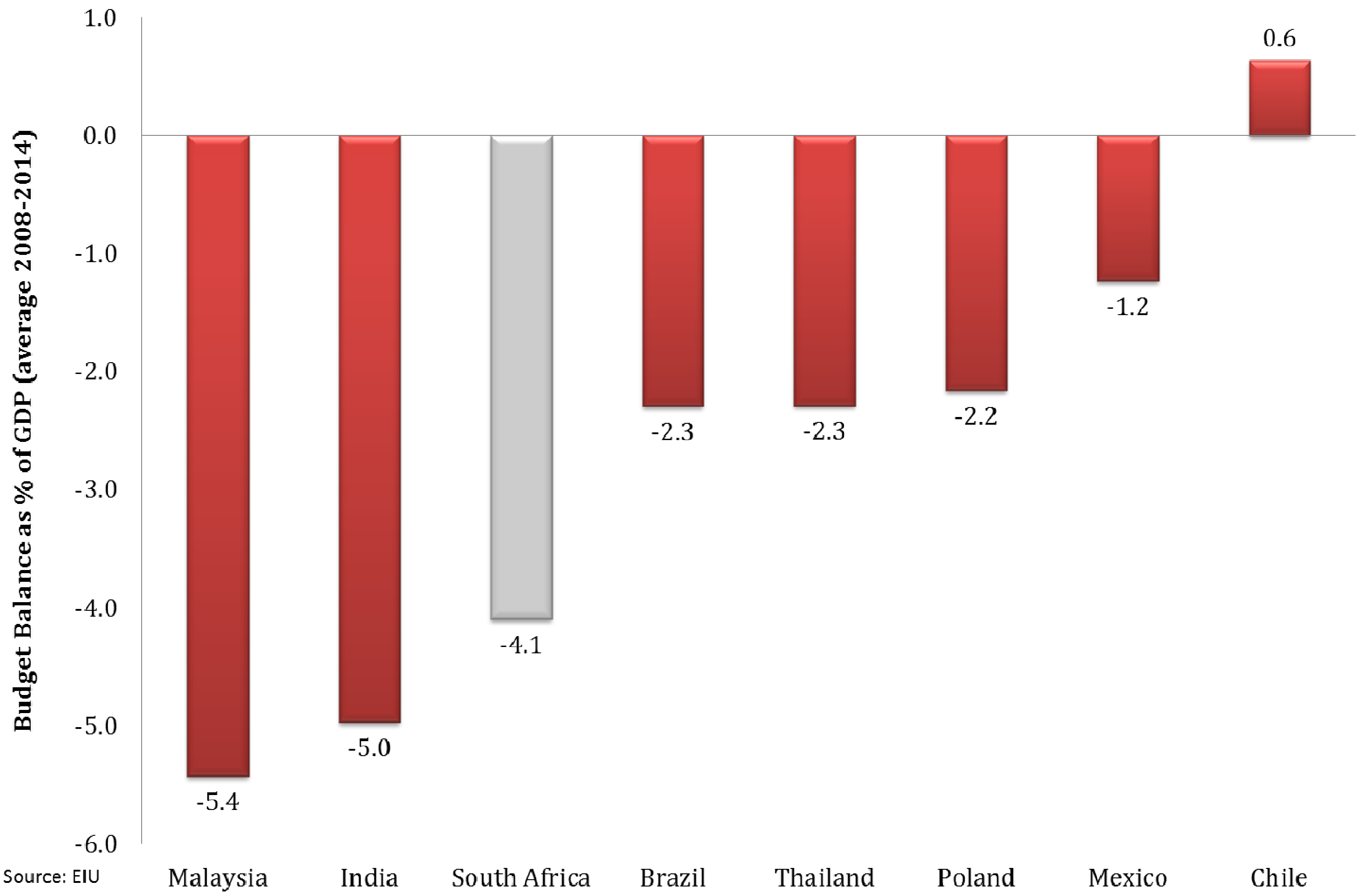
Economic context

- In the 2011 MTBPS the Minister of Finance highlighted difficult choices which lay ahead for South Africa and the compromises which would need to be reached.
- The challenges South Africa face include:
  - Slowing growth: 2011 growth downwardly revised from 3.4% to 3.1%, inline with market expectations, but is this still an optimistic forecast?
  - Risk from global contagion and potentially large impact on SA.
  - Impact on export sectors and in particular the manufacturing sector.
  - Tax collections continue to be subdued and in particular VAT receipts (R13.4 billion lower than the 2011 Budget predicted).
  - Higher borrowing costs in the face of volatile capital markets.

Fiscal framework

- Wage bill reached 42% of government revenue - up from 31%, 4 years ago. Fastest growing component of current expenditure over the past 10 years.
- SA Government debt has increased the most compared to a group of peers and is set to reach 40% of GDP by 2015 which is at the upper level of the accepted benchmark for developing and emerging countries according to the IMF.
- Reduction of the budget deficit from 5.5% of GDP in 2011/12 to 3.3% in 2014/15. Rapid envelope shrink.
- Public sector borrowing requirement reaches 8.1% of GDP in 2011/12 but declines to 5.1% in 2014/15.

International comparison: budget deficit to GDP



Source: EIU

Adjustments

- Under spending on municipal capital budgets has increased from 14% in 2008/09 to 25% in 2010/11.
- Provincial under spending has risen from 8.3% to 16% over the same period.
- Unforeseen and unavoidable expenditure of R1 billion.
- R48 billion of additional money allocated over the MTEF period.
- R3.7 billion in roll-overs or unspent money.
- R4.4 billion to cover the cost of higher than expected wage agreements (R3.2 billion provinces, R1.2 billion national).
  - This suggests that funds will be diverted from certain other priority programmes.
  - In particular capital expenditure and maintenance

The Minister has argued the unsustainability of the current fiscal path….

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Indicators of Sustainability	2011/12	2012/13	2013/14	2014/15
Revenue as % of GDP	27.3%	27.0%	27.3%	27.7%
Expenditure as % of GDP	32.9%	32.2%	31.8%	31.0%
Total Gross Loan debt as a % of GDP	39.3%	41.1%	42.2%	42.4%
Budget deficit as % of GDP	-5.5%	-5.2%	-4.5%	-3.3%
Compensation of Employees as % of Total Consolidated expenditure	35.0%	34.5%	33.8%	33.6%

…And will be publishing a document which sets out the longer term fiscal framework, but based on what?

Scenario planning would assist in making informed choices.

7% Growth
Fast track

- Which leads, jobs or growth?
- What is the position on the 7% growth.
- Is there agreement on economic policy fundamentals.

5%
Growth achieved between 2003-2008

- Created 2 million jobs over the period.
- Can we create these jobs again?

3-4%
Current trajectory over the next 3 years

- Lost 1 million jobs during the crisis when growth averaged 0.1% and merely gained 150 000 between September 2010 and June 2011.

Double dip -
worst case scenario

- Implications of fall-out from Eurozone?
- What does that mean for the NGP targets, NHI, Social security reform, debt financing?

Government's spending priorities

Spending priorities emerging from the MTBPS

- Social protection will grow at 7.2% over the MTEF, which is 1.7% of real growth. Is this sufficient for assisting the poor to survive in the current circumstance of high unemployment and rising food prices?
  - As Chapter 2 mentions, 14 out of the 18 administered price components in CPI are above the upper bound of the inflation target of 6%. These are prices set by government and we should thus take more cognisance of the impact of this on the poor.
  - Social protection expenditure rises from R147.8 billion to R182.3 billion by 2014/15. Awaiting the costing of the Social Security Reform discussion paper.
- Infrastructure: R802 billion for infrastructure investment over the MTEF:
  - R292 billion of investments in the energy sector (Not clear if this includes nuclear plant funding).
  - R226 billion in transport and logistics.
  - Hospital and other health construction: R39 billion.
  - Education infrastructure: R32 billion.

Under/expenditure by departments

- Underspend not just about rolling over funds. It has negative implications on service delivery. The ‘surplus’ could have been allocated to departments in ‘need’ of these funds.
- Overspend equally problematic. Means resources are not being spent efficiently, poor planning.
- There should be mechanisms in place to address over or under expenditure.

Expenditure by vote	% of Audited outcome: 2010/11	
4. Home Affairs	-10.5%	over
5. International relations	6.8%	under
7. Public Works	11.3%	under
9 Government communications and ITC	5.1%	under
13. Stats SA	24.0%	under
14. Arts and Culture	8.5%	under
15. Basic Education	22.7%	under
16. Health	6.5%	under
21. Correctional Services	5.0%	under
27. Communication	49.9%	under
28. Economic Development	12.2%	under
36. DTI	6.8%	under

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Is this a tale of the two faces of the State?

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- Efficient fiscal policy focusing on responsible management of government finances and creating an enabling environment.

  Versus

- Ineffective, inefficient and wasteful three spheres of government which lead to poor service delivery, especially for marginalised individuals?

Is the budget pro-poor?

Policy Gaps: job creation

- 210 000 jobs created in 15 months in the public sector (up until June 2011).
- Indication that private sector is not creating enough job opportunities.
- Private sector must drive job creation and create a dynamic economy.
- Government expenditure and employment creation can compensate for low private sector activity in the time of economic downturns. However, this is not sustainable.
- Is the policy choice incentives or regulation?

Policy gaps: job creation cont.

- How are savings (underspend) realised and inefficiencies cut?
- We need a transparent process and an audit of programmes in government.
- How cost effectively are we creating jobs?

Details	Jobs fund	EPWP (2011/12)	Training layoff scheme	Distress Fund
Amounted allocated	352 000 000	1 575 198 000	64 900 000	3 900 000 000
jobs created	115 226	328 304	8 054	35 846
Cost per job created	3 055	4 798	8 058	108 799
Number of companies benefitted			35	98

- EPWP – R73 billion allocated to fund the EPWP over the MTEF.
- EPWP contributes to poverty alleviation, but…
- Concern is on the number of short-term jobs created by the programme. Does it actually improve future employability? Is CWP the answer?

Policy gaps: financing the NHI

- Green paper released in August 2011.
- Lack of a financial feasibility study for funding the NHI.
- No indication in the MTBPS on how the NHI will be funded.
- No funding proposals except for increase of funding for health sector from R113 billion in 2011/12 to R140 billion in 2014/15 which is also intended to cover the NHI pilots in 10 districts to start in April 2012.
- Concern on whether the Department of Health can efficiently manage the NHI ‘budget’ given the R5 billion unauthorised expenditure.

Policy gaps: education

- Improved access to education since the introduction of fee free schools in 2007.
- In 2010, 8.1 million learners in 20 000 schools benefited from this policy (Grade 1-9).
- Quality of education remains a central concern.
- In the 2011 Annual National Assessments (ANA), Grade 3 learners performed at an average of 35% in Literacy and 28% in Numeracy, while in Grade 6, the national average performance in Languages is 28% and for Mathematics 30%.
- Challenges identified include: inadequate management, inappropriately trained teachers, lack of basic resources in poor schools, and low levels of achievement in literacy and numeracy test scores.

Policy gaps: education cont.

- The Department of Basic Education (DBE) plans to reprioritise spending to address these challenges over the MTEF.
- Positive step is the ANA which will continue and be rolled out to grade 9 in 2011/12.
- However, the DBE has not yet adopted a clear policy direction to address the current low literacy and numeracy rates in grades 3 and 6.
- While the DBE plans to provide free textbooks to all learners by 2014, one of its priorities should be training teachers to use these learning materials.

Policy gaps: NGP

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- The aim of the NGP is to set out the framework for a new growth path to address issues of decent work ,as well as the reduction of poverty and inequality.
- The basis for this new growth path according to the framework is the “restructuring of the South African economy to improve its performance in terms of labour absorption as well as the composition and rate of growth”.
- No budget allocation made as yet for it. Expected next year.
- But where should the focus lie? What does pro-poor and inclusive growth mean?
- The WB classifies pro-poor growth as “Rapid and sustained poverty reduction required inclusive growth that allows people to contribute to and benefit from economic growth”.
- The focus is on both the “pace and pattern of growth” and the labour intensity.

Policy gap: NGP continued

- Growth must occur in areas and sectors where the poor live and are economically active.
- Where do the poor live?

Income Poverty	Headcount ratio	Poverty shares
Rural Formal	39.0%	5.5%
Tribal	74.0%	52.8%
Urban Formal	27.1%	27.9%
Urban Informal	58.6%	13.8%

- More emphasis required on rural development - limited focus in the NGP and no mention in Budget except in terms of the R60 billion to "transform informal settlements into fully integrated and dignified built environments.
- Will the jobs be decent? Are they indeed labour intensive and absorb low skilled workers?

Policy gap: NGP continued

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- Structural change in the economy resulted in a sectoral shift in the skills demanded by the economy, such that skilled employment rose at the expense of unskilled labour.
- Policies need to be clear on how this trend will be reversed.
- Composition of employment, by skills level:

	Skilled	Semi-skilled	Unskilled
1995	24.7%	45.2%	30.1%
2001	21.9%	48.7%	29.5%
2004	22.1%	46.5%	31.4%
2008	23.8%	47.1%	29.1%
2009	24.5%	46.9%	28.6%
2011	25.5%	46.3%	28.2%

Source: Stats SA, LFS and QLFS, Own calculations based on skills classification of Oosthuisen (2005). Bhorat (2010)
Skill level classification according to occupation as follows, skilled are Managers, professional and Technical (ISOC 1-3), Semi-skilled are Clerks, Sales and services, skilled agriculture, craft and related trade and plant and machine operator (ISOC 4-8) and unskilled includes elementary (ISOC 9) and domestic workers.

Policy gap: general concerns

- The fact that the wage bill has reached 42% of government revenue and is the fastest growing component of current expenditure in the past years is of concern:
  - Compensation of employees is crowding out capital expenditure. Especially under spending on municipal capital budgets have increased from 14% in 2008/09 to 25% in 2010/11.
  - By agreeing to 3 year wage agreements, stability could be given to government planning.
  - Public service wage agreements in excess of inflation. In 2009/10 local government level increased by nearly double the inflation rate.
  - Minister of Finance called for wage moderation i.e. wage demands from unions and clear direction from cabinet ministers, senior managers and the private sector on how this will be done.

Policy gap: general concerns cont.

- The OECD supports call for a increased wage co-ordination in the 2010 Economic Survey;
  - "Increased coordination could be achieved by bringing social partners together at the beginning of each annual wage negotiation round and getting agreement on guidelines for increases in that year. Actual bargaining would continue to take place in the same way as it does at present, but against the background of such guidelines. Government involvement in the process could help to make the trade-offs between wages, employment and unemployment clearer to social partners"
- Principles of wage moderation?

Conclusion: Is it pro-poor?

- Given the lack of detail, are these policies: NHI, NGP and Social Security Reform are indeed National priorities or rhetoric? Until these policies are properly costed and budgeted for, commitment is merely rhetorical.
- The poor are currently suffering from lack of service delivery, under spending in critical department worsens the situation.
- Pro-poor budgets need to go hand in hand with M&E and capacity building at the level of service delivery.
- Where would PPP's be useful? Role of the private sector in creating jobs?
- Lack of green and white papers circulated for public comment has reduced the transparency of policy making process.
- Money was not the problem with infrastructure but spending was. What will we do differently this time?

Conclusion: is it pro-poor cont.

- Given that the MTBPS sets the framework for policies ahead of the budget:
  - Are these the priorities we can expect to see in Feb
  - If so, what is new?
- Call for a national engagement on the Budget prior to finalising of the budget framework and the corresponding policies.