



Budget 2012: Options for the poor?

1. Introduction

Some commentators described Finance Minister Pravin Gordhan's budget speech as a fine balancing act – controlling the budget deficit while still finding more than R1 trillion to fund various infrastructure projects. This in an international economic climate that saw Greece needing a get-out-of-jail card to deal with its economic woes, and a few other European economies looking like they might suffer a Greek tragedy as well.

This briefing paper will look at some of the 'good' and 'not so good' aspects of the 2012 budget and highlight some of the challenges for the treasury over the medium term.

2. The Good

2.1. Social Spending

Yes, the budget is about crunching the numbers and ensuring that they all balance out – that's the business end of the budget. However, a budget is much more than just numbers, it's essentially about people; and in our 18th budget since democracy we should be asking, 'What are the options for the poor'?

Social spending, which includes expenditure on social grants, social security funds like the UIF, free healthcare, free water and electricity, and education (especially no-fees schools), makes up 57 % of government expenditure for 2012. Because of this seemingly high percentage, some argue that such social spending is not sustainable for a developing country like ours. However, there are also those who argue that not only can we afford it, we *must* afford it because if not, what other option do the almost 16 million¹ social grant beneficiaries have?

According to the Budget Review document, "the average value of the social wage for a family of four in 2012/13 was about R3 940 per month"². In the context of our high unemployment rate, with widespread poverty and inequality, the money spent on our social spending budget is definitely a beneficial option for the poor. But it is more than this: it is an important part of the relatively stable social dynamic that we experience in South Africa. Were it not for these grants, we could expect vastly greater levels of social unrest. The grants system operates, therefore, as much to the benefit of the employed and even the wealthy, as it does to that of the poor.

2.2. Improving Spending Management and Combating Corruption

Corruption and financial mismanagement are the bugbears that will scupper any plans the State may have of improving the lives of its citizens. The State loses between R25bn and R30bn a year because of corrupt practices³ – much of which is due to corrupt tender allocations and other financial mismanagement. The announcement by Mr Gordhan that steps are to be taken to stamp out the corrupt allocation of tenders is welcomed.

These steps include:

- Appointing a chief procurement officer who will have the overall responsibility for monitoring procurement across government departments;
- Vetting all procurement officers. Currently only senior public servants are vetted, but the new plans will extend this to lower-ranking public servants;
- The development of a national price reference system that will ensure that

there are no deviations from acceptable prices; and

- Improving the ability of departments to set specifications for tenders. This is to complement the regulations issued by the treasury that require all departments to submit annual tender programmes and limit variations to orders.

One of the most significant announcements in this regard is that the Department of Public Works is to audit almost 4 000 lease agreements. The objective of the audit is to identify irregularly-contracted leases; establish a reliable lease register; and provide data for a review of the validity and cost-effectiveness of all government property leases.

2.3. The National Health Insurance Scheme

While the NHI received only a passing mention in the Minister's speech – just to let everyone know that government has not finalised the funding options yet – all is not doom and gloom. While the planners are still busy working out exactly how we will pay for the NHI, there are already some positive-sounding spin-offs.

Firstly, most of us will agree that the infrastructure of many of our hospitals is in a sorry state, and not much has been done about it for a very long time. However, the impending roll-out of the NHI has spurred the government on to respond to the crisis by making available R426 million for the initial work on rebuilding Chris Hani Baragwanath in Soweto; King Edward VIII in Durban; George Mukhari in Garankuwa near Pretoria; Limpopo Academic; and Nelson Mandela Academic. Would the upgrading of these hospitals, or the envisaged upgrading of 30 nursing colleges (with a budget of R450m) have been prioritised were it not for the NHI? A counter-argument could be made that government should have budgeted for these upgrades anyway, but would they have felt the urgency to do so?

Secondly, the ten NHI pilot sites to be established this year and next year will be a shot in the arm for the districts that are chosen. The treasury has allocated, through conditional grants⁴, R150m; R350m; and R500m over the MTEF cycle to establish these pilot sites. According to the Budget Review, the pilot sites will provide primary care services through 'integrated teams of specialists (obstetricians, gynaecologists,

family physicians, anaesthetists, midwives and nurses) . . .' While these sites will test interventions necessary to implement the roll-out of the NHI, the benefits – such as the overall strengthening of the district's health system – to the chosen districts will be welcomed by those who need it most. Yet again one wonders if these chosen districts would have enjoyed these interventions were it not for the NHI.

2.4. Infrastructure Projects

The spending on infrastructure projects took centre stage not only in President Jacob Zuma's State of the Nation address, but also in Mr Gordhan's budget. This massive expenditure is, of course, not only about providing goods and services to make our living and working conditions better but, as importantly, about creating jobs.

Although the Budget Review lists 43 major infrastructure projects with a combined budget of almost R3.2 trillion (a figure often quoted and which made many a tax payer nervous), it also mentions that not all of these projects will see the light of day – some of them are still in their feasibility stages, while others will be subject to more scrutiny. The good news, however, is more evident in the 'smaller' infrastructure spending such as the R4 billion to upgrade Metrorail's ageing rolling stock with an additional 233 new passenger rail trains⁵; R4.7 billion to Eskom for the installation of solar water geysers; R1.8 billion for municipal water infrastructure; and R3.9 billion for upgrading informal settlements.

3. The Not-So-Good

While much can be lauded in Minister Gordhan's budget, there remain many concerns. The very same things that were mentioned under the 'good' heading can be negatively affected by the State's incapacity to implement its financial policies and plans.

Take, for example, the inability of municipalities to spend their infrastructure budgets in the last financial year. Only 68% of the infrastructure budget was spent, due to a combination of corruption, under-skilled managers, and poor planning.

While many would rightly laud the efforts of the State to create employment through its Expanded Public Works Programme (EPWP), alarm bells

should start ringing when one considers that some sectors in the EPWP are not reaching their projected targets. The Department of Environmental Affairs has created less than half of the 1.15 million jobs it promised for the period between April 2009 and December 2011. The entire EPWP has only managed so far to create less than a quarter of the two million 'full-time equivalent' jobs⁶ that it projected doing by 2014. The various EPWP sectors⁷ are already struggling to reach their targets and it is safe to assume that they will again find it difficult to create just over 1 million job opportunities.

The funding of the NHI is another aspect of the budget that seems to take the shine off the scheme as a whole. It was anticipated that treasury would at least have some sort of funding model available by now, but Minister Gordhan disappointed everyone when he said nothing about it, but rather announced that a discussion document on the funding of the NHI is forthcoming.

4. The Challenges

4.1. Human Resources for the NHI

The successful implementation of the NHI will not depend only on a much improved infrastructure and improved hospital management, but also on finding enough medical staff to deliver the necessary medical services promised by the NHI. As already mentioned, there are plans afoot to improve the management of hospitals and rebuild or improve hospital infrastructure, but it is the human resources needs that will prove more difficult to overcome. According to the Department of Health's (DoH) draft Human Resources Strategy document, released in 2011, the full roll-out of the NHI (by 2025) will require that government train at least 1 312 anaesthetists; 4 145 general practitioners; 409 gynaecologists; 234 paediatricians; and 718 surgeons⁸. According to many commentators on health, South Africa currently trains only about two doctors per 100 000 people, whereas successful implementation of the NHI will need at least five to six doctors per 100 000 people⁹.

4.2. Youth Unemployment

Job, jobs, jobs is the ever recurring refrain from government, but despite all the government's initiatives, South Africa is still not creating

enough jobs. It is even more difficult for those between the ages of 18 and 30 years of age where unemployment is as high as 40%. Government is acutely aware of the challenges, and last year Minister Gordhan announced plans for a youth wage subsidy to be implemented by April this year, with a budget of R5 billion (over a period of three years). Opposition parties, academics and business were encouragingly positive of the plans.

The subsidy would involve government paying a portion of a young employee's salary; this should, in principle, encourage businesses to employ youngsters because it would be less costly to employ inexperienced youngsters. The subsidy was meant to work as a 'pay as you earn' tax system administered by the SA Revenue Service (SARS).

However, since the announcement last year the implementation process has been stalled by protracted discussions between government and labour at the National Economic Development and Labour Council (Nedlac). Labour, and especially Cosatu (and others like the People's Budget Coalition), are highly critical of the current format of the proposed plan. Cosatu argues that the subsidy would encourage businesses to employ youngsters on a temporary basis because it would be cheaper than employing them permanently. Cosatu has veto powers at Nedlac and indications are that they will not hesitate to use these to scupper the plan for a wage subsidy – the challenge is for government to find workable solutions to this impasse.

4.3. Speaking With One Voice

Greater synergy between the various ministries and departments is needed if any of the big infrastructure projects are to be successful. It is counter-productive when members of the cabinet convey mixed messages. For example, Minister Gordhan announced in his budget that he foresees a bigger role for the private sector in infrastructure financing and management. This is encouraging news, bearing in mind that one of government's weaknesses is a lack of public sector management skills. However, at a conference days after Minister Gordhan tabled his budget, both Transnet CEO Brian Molefe, and Minister of Public Enterprises Malusi Gigaba were less enthusiastic about private sector involvement.

5. Conclusion

Everyone – from investors, business owners, unions, and everyday citizens – would have found something either encouraging or disheartening about the budget. The challenge for all of us is to

find the courage to look beyond our narrow interests and see whether the budget really provides options for the poor.

Kenny Pasensie
Researcher

¹ An estimated figure for the 2012-13 budget cycle.

² National Treasury of the Republic of South Africa (2012): *Budget Review 2012*.

³ In a 2011 presentation to the Portfolio Committee on Justice & Constitutional Development, the then head of the Special Investigative Unit, Willie Hofmeyer, indicated that the State loses approximately 20% (or R25bn to R30bn) of the procurement budget due to corruption.

⁴ The conditional grant is an interim funding measure for the first five years of the NHI.

⁵ This is a result of a cabinet approved programme aimed at replacing the existing old stock over a 20 year period. The Passenger Rail Agency of South Africa indicated that more than R130 billion is required to replace its old stock.

⁶ Full-time equivalent jobs are classified as 230 working days a year for each individual employed in the programme.

⁷ The EPWP operate in the environment, infrastructure, economic and social sectors.

⁸ <http://www.medicalchronicle.co.za/wanted-83-000-health-professionals-to-make-nhi-work/>

⁹ <http://new.hst.org.za/news/less-talk-and-more-implementing-needed-nhi>

An annual subscription to CPLO Briefing Papers and other publications is available at R250 for individuals and R750 for institutions.

This Briefing Paper, or parts thereof, may be reproduced with acknowledgement.

For further information, please contact the CPLO Office Administrator.