

A CRITICAL ANALYSIS OF THE MACRO-ECONOMIC POLICIES IN
POST APARTHEID SOUTH AFRICA AND THE RESULTANT EFFECTS
ON BUDGETARY PROVISIONS FOR DEVELOPMENT IN THE
LIMPOPO PROVINCE, WITH SPECIFIC REFERENCE TO ROADS
INFRASTRUCTURAL PROVISION.

By

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CHAPTER ONE (1)

INTRODUCTION TO THE MACROECONOMIC POLICIES IN POST APARTHEID SOUTH AFRICA

1. Approach to the study

1.1 Aim of the study

The purpose of the study is to assess how the evolving post-apartheid macro economic policy framework (GEAR) affects the Limpopo Provincial Government spending patterns, and in particular spending on roads infrastructure and the possible effects on development in general.

Roads infrastructure provision is very critical to economic growth/activity as well as social services provision and development in any country or province. With the evolution of the macroeconomic policy in post-apartheid South Africa, it is important to assess its impact on roads provision as an vehicle for development.

A study of the budgetary provision and spending on roads in the Limpopo Province will be conducted to evaluate both medium and long-term implications for development. If there are no sufficient resources made available for roads, Government may in the long run merely contribute to its own existence, rather than making a meaningful contribution to development throughout the Province.

Should there be no meaningful economic growth, resulting in jobs and a better life, the Limpopo Province Provincial Government will have hardly contributed in any meaningful way

to development, especially given the infrastructural backlogs and the extent of the needs of the people in the Province (i.e. poverty, illiteracy and unemployment).

The purpose of the research is to unveil the practical implications of GEAR on the Government 's contribution to development in the area of roads infrastructure spending, as well as to give alternatives as to how the situation can be improved. The intention therefore is to undertake a case study of how the macro economic policy affects roads infrastructural provision in the Northern Province.

The research will include an investigation of the budgetary allocation to roads infrastructure, an analysis of the status of roads in the Northern Province, whether the net asset value of roads infrastructure is likely to improve or decline and the implications for development throughout the Province.

The study will determine as to whether there has been increased investment in roads infrastructure in the Northern Province as advocated by GEAR and the RDP. To achieve this, the study will investigate as to whether there has been a decline in real Provincial budget allocations for roads in the Northern Province and what are the likely consequences of these allocations. A study of the relationship between the policy pronouncements and actual application will be undertaken.

The rationale of the study is to enquire concerning the effects of the macroeconomic policy and the application thereof, on roads provision in the Northern Province, which, is very critical for both economic growth and a better life for the people of the Province. The research aims at contributing to policy improvement and formulation, as well as

towards planning and further research in dealing with this important aspect of development. Funding for roads construction and maintenance is very complex and difficult for most governments. It is difficult partly because it requires massive capital investment, technical and managerial skills that may not be available in the public sector. The probability of the regime change within a reasonable time, based on periodic elections, may also pose a challenge to sustain a long-term massive infrastructure development. This is due to the fact that a regime change may also lead to the reformulation of policy priorities. There are no clear cut answers. The study intends unravelling some of the complexities in the Limpopo Province and proposing a model and strategy for roads provision.

Other infrastructural areas such as housing, electrification, municipal infrastructure provisions are treated differently as they have a dedicated national fund with clear targets. Roads infrastructure, which is very important for economic growth and efficiency especially in a rural Province such as the Limpopo needs special attention, if there is to be hope that the socio-economic situation in the Province is to improve. (Division of Revenue Act, 2002)

Clear targets have been set for the delivery of water, houses, clinics, electricity etc., as part of the infrastructure package. These infrastructural sectors are critical for social consumption, though they also impact immensely on economic activity. One can argue that if jobs are to be created, then the burden of highly subsidised houses and free health care could be ameliorated in a long run. This will mainly be because working people will be able to build their own houses and provide for their own medication, whereas roads provision will remain generally a critical public infrastructure domain.

In the opening of parliament speech (2003) President Thabo Mbeki alluded to the need to reduce dependency of social welfare "Accordingly, the government must act to ensure that we reduce the number of people dependant on social welfare, increasing the numbers that rely for their livelihood on normal participation in the economy. This also espicially relevant to the accomplishment of the goal of enhancing the dignity of every South African." (Mbeki: State of the Nation Address at the opening of Parliament: February 2003.)

1.2 Importance of the Study

The study is occasioned by the evolution of the macro-economic policy framework in post-apartheid South Africa, and its possible impact on development. There have been debates both among academics, policymakers, unions, business people etc., on what will be the likely impacts of the evolving policies on the lives of the people of South Africa. Roads infrastructure as one critical variable of development, is used as a research area to determine the impact of such emerging policy perspectives.

With the advent of the new democratic Government in South Africa in 1994, the Reconstruction and Development Program (RDP), was adopted by Government as the framework to guide governance and development in South Africa. Soon after the adoption of the RDP, it became apparent that there was a need to develop a clear and focused macro-economic policy to serve as a basis for the implementation of government programmes. As a consequence, Government adopted the Growth, Employment and Redistribution Strategy (GEAR), as its macro-economic policy from which all government activities were to take their cue.

Several strands emerged as a way of interpreting and responding to the adoption of the macro-economic policy. There are those critics who argue that GEAR is a departure from the RDP, and therefore the immediate needs of the poor will not be addressed. Others have welcomed GEAR, and this group mainly comprise two strands, i.e. those who see it as a practical implementation mechanism, and those who agree with GEAR as being a better and more realistic policy and strategy option than the RDP. Marais (2002, 87) argues GEAR strategy entailed a package of stern adjustments allegedly aimed at achieving higher and more labour-absorbing economic growth, thereby reducing poverty levels.

GEAR's policy implications have been summarised as follows:

- slashing state spending to drive the budget deficit down to 3 % of the GDP by the year 2000.
- Keeping inflation in single digits
- Reducing corporate taxes and providing tax holidays for certain investments
- Gradually phasing out exchange control regulations
- Encouraging wage restraint by organised workers
- Creating a more flexible labour market, through deregulating certain categories of unskilled workers and exempting small business from aspects of the new labour law regime, and
- Restructuring of state assets

"The higher growth path depends in part on attracting foreign direct investment, but also requires a higher domestic saving effort. Greater industrial competitiveness, a tighter fiscal stance, moderation of wage increases, accelerated public investment, efficient service delivery and major expansion of private investment are integral aspects of the strategy. An

exchange rate policy consistent with improved international competitiveness, responsible monetary policies and targeted industrial incentives characterise the new policy environment. A strong export performance underpins the macroeconomic sustainability of the growth path" (Marais, *ibid*, 87).

The fiscal policy approach in the Macro-economic strategy (GEAR) has numerous implications for Provinces, especially a Province such as the Limpopo Province, which was neglected for many years by the former Government. Though it is argued that the Northern Province is rich in resources (minerals, agriculture, tourist attractions, etc.), it still remains one of the poorest provinces, with a very high unemployment rate of 46% (1996 Census). In order to turn the economy of the Province around, infrastructure (roads in particular) can play a very critical role. This is precisely because infrastructure provision is a critical component of a sustainable economic and social development. The availability of proper roads has economic and social spin-offs. Roads are critical in terms of enhancing production and commodity exchange. Investors would consider the availability of communication system, including roads infrastructure, when they make investment decision. This element has led to theories on the location of industry\firm in regional economics. Smith (1999, 1) argues that it is truism that, in any community, adequate levels of infrastructure provision is essential to support and encourage economic development, and it therefore follows that for economic growth to be sustainable, the level of infrastructure provision must keep pace with economic development. It is further affirmed that roads infrastructure plays an important role in terms of clustering and facilitating access to jobs and social facilities.

In concurrence with this view, Kessides 1993, ix) affirms that in an aggregate sense, the character and availability of infrastructure influence the marginal productivity of private capital, public investment thus complement private investment.

He further indicates that at the micro-economic level, the effects of infrastructure is seen through:

- Reduced costs of production- it affects profitability, levels of output, income and employment, especially SMME's. It has an impact on transaction costs and access to market information-thus permitting the economy to enjoy efficient gains.
- Structural impacts on demand and supply- infrastructure contributes to diversification of economy, in rural areas, for example, by facilitating growth of alternative employment and consumption possibilities.

The state of roads in the Province, especially in rural areas are in a poor condition (Note that 89 % of the population live in rural areas: Census 1996) There are those who are of the opinion that the roads net assets worth is declining, and it may be very expensive and almost impossible to replace the roads should the present negative situation be allowed to continue. (Limpopo Province MEC for Public Works budget speech 2000)

The problem of roads in the Limpopo Province is exacerbated by the fact that the level of roads infrastructure development is below the necessary standard. As per the strategic plan of the department of public works for 2003/04 there is an estimated backlog of R2.5 billion worth of provincial government-funded new infrastructure which need to be built, and a further R4.9

billion required for preventative maintenance and rehabilitation of existing provincial infrastructure, as well as an additional R8.3 required for upgrading the existing infrastructure.

According to the Plan for Reconstructing Flood-Damaged infrastructure in the Limpopo Province as of July 2000, approximately R2.35 billion worth was damaged, and of this amount R1.3 billion was in roads. Trends suggest that not enough is spent on infrastructure development, and this may affect the net asset value. If indeed it is correct, that the net asset value is declining due to lack of and/or poor maintenance then the future picture looks gloomy.

1.3 Location of the study

The study looks at the evolving macro-economic policy framework in post apartheid South Africa, and in particular the fiscal policy implications for the Limpopo Province 's budgetary process.

The provincial budgetary allocations over several years will be analysed, to determine the major expenditure items as well as allocations to the provincial roads.

The Limpopo Province, and its six district areas will serve as the geographic location, where the impact of the policy frameworks will be analysed.

1.4 Problem definition

There is a need for the Limpopo Province to develop a proper financing strategy for roads, which takes into cognisance the South African post-apartheid macro-economic policy position.

Such a roads strategy should help in accelerating economic growth and development in the Province. It should be based on fundamental economic pillars for the Northern Province.

Should the Province not develop a proper roads development strategy, which takes cognisance of local socio-economic conditions as well as the broad national fiscal policy framework, then the developmental challenges will not be addressed.

1.5 Research Methodology

The methodology followed was that of policy review and synthesis. The analysis included policies guiding the macro-economic and development discourse in South Africa as well as sector specific policies, e.g. fiscal policies and intergovernmental fiscal relations. The study further included policy pronouncements by the President and Ministers especially addresses to parliament and budget speeches.

A further policy synthesis was done with regard to the Provincial Growth and Development Strategy. Historical budgeting data, annual departmental strategy plans, annual reports, and MEC's budget speeches was analysed.

Documentation encompassing policy positions of labour, business, non-governmental organisations, academics and researchers was collated and analysed. The methodology applied in this text is influenced by the selection of this case study.

Lastly another source included media coverage of debates and contributions to the overall South African policy discourse.

CHAPTER TWO

ECONOMY, ADMINISTRATION AND POLICY FORMULATION

Provincial Economy

In an attempt to examine the provincial economic performance and strategy put forward to turn around the provincial economy it is important to analyze these issues within the historical context. A brief review of the situation in the 1980 and mid 1990s tends to show an interesting picture. The following table (table 1.) below indicates the heavy and increasing reliance on the services sector in the provincial economy in 1994. The primary sectors and particularly mining is still very important and contributed 28 percent in 1994 - although sharply down from 48 percent in 1980. The secondary sectors of manufacturing, electricity and construction contributed about 18 percent, up from 12 percent in 1980 - the increased contribution since 1980 is the direct result of the rapid strengthening of the electricity sector. The relative contribution of manufacturing and construction (normally the most dynamic sectors in a developing economy) has stagnated since 1980.

The figures shown below (table 1.) actually show that the Province has failed to develop structurally since 1980 with the notable exception of the increase in electricity production, a function of Eskom. The increased reliance on government services funded by taxes - generated in the rest of the RSA, the relative stagnation of the construction and manufacturing sectors - normally the most dynamic sectors in a developing economy, and the continued reliance on the primary production sectors of mining and agriculture (although to a lesser extent than in 1980) are indicators that the provincial economy has structurally stagnated.

Table 1

Limpopo Province: Relative contribution to GGP by economic activity (at current prices), 1980 - 1994

Economic Sector	1980		1991		1994		1994
	R'000	Percent contribution	R'000	Percent contribution	R'000	Percent contribution	Percent contribution
Agriculture	248027	17.9	1073857	10.6	1124610	7.9	Primary Sectors 27.9
Mining	419147	30.2	2204130	21.6	2841175	20.0	
Manufacturing	110921	8.0	732594	7.2	1001165	7.1	Secondary Sectors 17.9
Electricity	11663	0.80	833770	8.2	1108549	7.8	
Construction	43012	3.11	307310	3.0	426280	3.0	
Trade	137057	9.9	1108071	10.9	1662715	11.7	Tertiary Sectors 54.2
Transport	75092	5.4	380564	3.7	532214	3.8	
Finance	90333	6.5	576992	5.7	1097624	7.8	
Services	253279	18.2	2962018	29.1	4364095	30.8	
Total	1388529	100.0	10179305	100.0	14158427	100.0	100.0

Source: DBSA, Limpopo Province, statistical Macro-economic Review, 1995

The Limpopo Province Growth and Development strategy is premised on taking advantage of the competitive factor conditions in agriculture, mining and tourism to turn the economy of the Province around. According to the 1996 Census, 44% of the population in the Province is without apparent cash income, which correlates with the unemployment level. The level of human development, as measured by the Human Development Index for the Province is 0.47 (1994). Standard 5 (grade 7) is the highest level attained by most people in the province (47.9%), followed by standard 6 to 10 (36.7%). Amongst those aged 20-years and above 36.9% have no formal schooling, the majority of which are women. The following

table (table 2.) indicates some of the socio-economic indicators for the Limpopo Province as compared to the national figures.

Table 2
Socio-Economic Indicators

INDICATORS	LIMPOPO PROVINCE	SOUTH AFRICA
Human development index 1991	0.470	0.677
GDP per capital	2 288	8 418
Literacy rate 1994	74.27	82.77
Infant mortality	55.91	42.0
Labour absorption capacity 1994	42.1	53.9
Unemployment rate 1995	41.0	29.3
Nominal GGP, 1994 (RM)	13 791.0	382 562.0
Growth 1980-1994	5.2	1.1

Source: DBSA Limpopo Province development indicators, 1996.

Given the national averages, it is clear that the level of development in the Limpopo Province is far lower if compared to the other Provinces. For instance the contribution to the GDP per Provinces according to the 1994 figures was as follows: Limpopo Province 3.6%, Mpumalanga 8.2%, and Gauteng was 37.7%. There are strong arguments asserting that the Province is one of the poorest mainly as a consequence of the policies of the previous government. The Province emerged from three former homelands, which were used as labour reserves, hence the high level of labour migration from the province.

The Limpopo Province is a predominantly rural. 89% of the population is rural according to 1996 Census. As a consequence of urban bias, and the legacy of apartheid; major urban areas in the province have well developed infrastructure, capable of providing the requirements of modern production process. On the other hand, several large rural settlements are unable to realize their full potential in economic development mainly because of inadequate infrastructure. These disperse settlements pay a high premium on transport costs and communication links. There are more than 1500 villages in the province with an average population of less than 4000 people each. There is no economic rationale underlying the spatial location of the majority of these villages. Agricultural and mining products require road transportation. Given that the province will rely on foreign direct investment in order to develop the identified sectors, the role of roads infrastructure cannot be over emphasized. One of the major weaknesses of the Province is the lack of sufficient linkages between the rural and urban areas, as well as the direct linkages between certain strategic urban areas; e.g. Ellisrus and Pietersburg.

The strategy to turn the economy of the province around would depend on the success of identifiable spatial linkages. The N1 corridor for example is at the heart of linking with SADC countries as well as linking some of the major trading centers in the province. The Dilokong Spatial Development Initiative (DSDI) intends linking Pietersburg to the Maputo corridor through Burgersfort, taking advantages of abundant minerals in the Sekhukhune areas. At the center of the transfrontier co-operation is trade linkages with SADC as well as the promotion of tourism. The success of the spatial initiatives within the region is dependant on good and reliable roads and

infrastructure generally. This strategy is based on taking advantage of the provincial location, its advantages and the potential in agriculture, mining, tourism and the export promotion.

From available data the economy of the Province can be divided into the following groups. The first group includes those regions contributing 20 percent or more to the GGP. These regions are Bushveld, Central and Lowveld. The second group consists of only the Northern region, which contributes between 10 and 20 percent of the GGP. And finally the last category, namely Bushbuckridge, the Southern and Western regions contributes less than 10 percent of the provincial GGP. Economies of Southern, Bushveld and Bushbuckridge areas depend on a relatively narrow range of economic activities. In the Central, Lowveld and Western areas, economic composition seems to be more diversified. In 1994 the GGP of Bushbuckridge was the third largest; even larger than that of the Central region and only slightly lower than that of Bushveld and Lowveld.

However, remuneration paid in Bushbuckridge at the time was the highest in all regions. Community services are by far the largest sector contributing approximately 30 percent of the provincial GGP. If anything, the service sector has shown a marginal decline in terms of its importance in the economy during the past five years or so. Agriculture and manufacturing sectors are increasingly becoming smaller. The provincial economy compares unfavorably with the rest of the country in the fields of manufacturing transport and financial business services.

The contribution of agriculture is now estimated to be four percent compared to eight in 1995. Manufacturing declined from seven percent to 4.2 percent according to the same source. Due to the strong real growth, significantly higher than the national average, the Limpopo Province contribution to the national economy has increased from approximately 3.7 percent to 5.5 percent in 2002.

Table 3
Limpopo Province's contribution to national GDP

	GGP: Limpopo Province (R million)	National GDP (R million)	Limpopo Province Contribution (percent)
1995	20 230	548 100	3.69
1996	22 129	618 417	3.58
1997	24 252	683 744	3.55
1998	29 480	735 086	4.01
1999	32 665	795 575	4.11
2000	35 768	873 637	4.09

Source: Department of Finance and economic affairs: Limpopo 2002

One of the major implications of the higher level and the relatively strong growth in the GGP is that the GGP per capita is considerably higher than the official estimates. The average annual growth in nominal GGP as a factor cost had been 12.1 percent over the period 1995-2000 mainly due to increase in remuneration. The figures show that remuneration is increasing more rapidly than gross revenue. Public sector salaries account for more than 50 percent of total remuneration in the province. At this juncture it is important to briefly review the politics of the post-apartheid development strategy.

SOUTH AFRICA 'S OVERALL DEVELOPMENT FRAMEWORK

The South African development policy framework is guided by a commitment to reconstruction and development. This is informed by the historical realities of a nation emerging from being formally subjugated into separate, disjointed and differently catered for communities. The apartheid system aspired to create "many countries and systems" in one country. The South African history can be characterised as being: " ... a bitter one dominated by colonialism, racism, apartheid, sexism and repressive labour practices. The result is that poverty and degradation exist side by side with modern cities and a developed mining, industrial and commercial infrastructure. Our income distribution is racially distorted and ranks as one of the most unequal in the world. Women are still subject to innumerable forms of discrimination and bias, rural people and youth are marginalised. A combination of lavish wealth and abject poverty characterises our society." (RDP White Paper 1994:7)

The South African historical phenomena has created a distorted society, with very poor townships in urban areas, as well as poor villages in rural areas. Infrastructure development and maintenance has been neglected. The post-apartheid policy impacting on development should take cognizance of this historical legacies.

The post-apartheid policy framework notes that South Africa is emerging from an old order, which was premised on serving a rich and powerful minority. Vast sections of the population were excluded from basic services. Another problem was that even when the rich and the powerful were served, the former Government relied on an overburdened fiscus. Apartheid

financing was therefore not sustainable. (White Paper on Transport 1998)

Emerging from the old system, the present government had to embark on restructuring and growing the economy in order to be able to finance basic services for all. There has been debates in South Africa around whether the economy should be grown and thereafter services should be provided to the broader community, or whether as we grow and restructure the economy that should run simultaneously with the extension of services to the broader society. The approach adopted will therefore have a lot of implications to the provision of roads infrastructure and development.

It is on the basis of the above context that in as much as the development paradigm should lead to the creation of more wealth, redistribution is important so that the communities hitherto denied of basic services, should have access to such services and the wealth of the country. There is therefore a need to find a correct balance between addressing social needs (at times through mere welfare and grants approach) and investing in the economically productive and sustainable sectors of our economy. There is a strong emphasis by Government on the need to empower the historically disadvantaged sectors of the society through government investments.

If sustainable development is to occur in South Africa there has to be a balance between economic investment and consumption by the state through the macro-economic strategy. President of the World Bank (World Development Report 1999/2000) argues that any growth not addressing social needs and the environment is not sustainable. This current development thinking underpins the need to integrate both

development and growth. For the South African situation the debate should go further to look at the balance on the allocation of resources between social services and economic infrastructure provision. This could be measured by the fixed investment as a percentage of the gross domestic product, or alternatively a percentage of the overall budget which goes to economic investment. Chapter three shall look at the spending patterns by Government in the Northern Province in terms of social services and investment in the economic sector.

Since 1994 the South African Government has emphasised the need for macro-economic stability, and a balance between growth and redistribution: "The RDP takes the view that neither economic growth by itself or redistribution on its own will resolve the serious crisis in which South Africa finds itself. Therefore, to achieve a successful economy the Government will adopt an integrated approach to reconstruction and development. This will involve the promotion of a more equitable pattern of growth, and equitable distribution of assets, services and access to markets, and the maintenance of macro-economic stability." (White Paper RDP 1994:22)

Furthermore as early as in 1994 there was a realization and recognition that the deficit has reached disturbingly high levels in the early 1990's and there was a need to adopt a cautious borrowing strategy. Given the need for the relaxation of exchange control and the competitiveness level of South Africa Government had to even be more careful on foreign borrowing. Government committed itself to a progressive reduction of the overall deficit.

The Government 's approach on fiscal discipline was to be critical element for the sustainability of the RDP in the medium to long-term. "Excessive government deficits will result in higher inflation, higher real interest rates, balance of payments problems and lower economic growth, thereby undermining the RDP. Given the inherited pressure on the balance of payments, the impact of such deficits becomes more immediate, reducing the flexibility to redirect expenditure to priority areas." (White Paper on RDP 1994:30).

The analysis of the stance of Government on the macro-economic questions is important, because economic growth and stability will mean more resources (tax base) for Government. This will further require an exposition of how such resources are spend, especially in the financing of roads infrastructure.

With the above perspective in mind, including the experiences up to 1996, it became evident that there had to be a clear and focused pronouncement and commitment to a new macro-economic framework. Government realised that economic growth of around three per cent in 1995/96 did not come with the required job creation to also effect income redistribution. "It was widely recognised that the present growth trajectory of about 3 percent per annum: fails to reverse the unemployment crisis in the labour market; provides inadequate resources for the necessary expansion in social service delivery; and yields insufficient progress toward an equitable distribution of income and wealth" (GEAR 1996:1)

GEAR policy was implemented in 1996 as a response to the unemployment and redistribution difficulties identified. The GEAR approach is predicated on the assumption that through labour market flexibility, foreign direct investment, cutting of the public sector wage bill, and restructuring of state

assets, more resources will be available for the Government to provide for social services. There was a recognition, however, that there will be cuts in spending by various national government departments and Provinces to address the deficit target "..., the scope for increased public spending on social services would be severely limited. Medium term fiscal projections incorporating a 3 percent growth scenario, a gradual deficit reduction, the recent public sector wage settlement, and severe cuts (15 %) in real spending in several government functions, indicate that there would be sufficient resources to increase real aggregate spending on social and community services by at most 3% per annum, which is barely above the population growth rate. The additional funding available would not cover 15 percent of current medium term departmental expansion plans." (GEAR 1996:)

The South African Government set a target of creating 252 000 new jobs in 1997 to 409 000 in the year 2000. It also needed to attract foreign capital inflows of 4% of GDP, achieve an acceleration in the average GDP growth to 4.2% per year between 1997 and 2000, reduce the fiscal deficit to 3% of GDP by 1999. (Statomet 1998:3).

At the core of the fiscal policy (GEAR) is an endeavour to reduce the budget deficit, avoid a continued tax burden, reduce government spending relative to the gross domestic product, speed up the restructuring of state assets, attract more foreign direct capital investment, as well as to contribute positively to the gross domestic product. Based on the acceptance that Government spending in real terms would decline, presupposes that certain functions and projects will have to be compromised. Naturally public sector statutory commitments will not be compromised, i.e. salaries, welfare pensions and grants, and those with immediate public responses

(outcries) such as health services. This poses a threat to investment in infrastructure, both from a national and provincial perspective.

The overall impact of the macro-economic policy on the South African economy is of primary importance to roads infrastructure. It is when the country is internationally competitive, and has a growing economy that redistribution and development can meaningfully take place.

From around 1997 through to 1999 the world economy experienced a crisis, arising out of the crisis in the Asian economies, and subsequently the Russian and the Latin American market related problems. This hostile international economic environment affected the performance of the South African Economy. Whenever there is world economic crisis and contagion most countries will revert to serving industries within their own countries.

GEAR is presently praised for ensuring that the South African economy was not badly affected by the international market volatility. At present, the future of the South African economy looks good, i.e. there was significant growth in the last quarter of 1999, inflation was the lowest in 30 years, interest rates have been brought down to around 13%, from a high of 26% in 1998. On the overall predictions for economic growth in 2000 and beyond are for a growth of above 2.5%. "The conservative policies behind the government 's broad economic framework have propelled South Africa back on the foreign investment community 's radar screens. Minister of Finance Trevor Manuel has cut government spending and brought the budget deficit to below 3% of gross domestic product, inflation has hit a 30-year low, and interest rates are on a downward trend." (Mail and Guardian Editorial January 2000).

GEAR has not achieved a number of its targets. Although the fiscal deficit has declined from 5.4% in 1996 to 3.7% in 1998, and less than 3% in 1999, performance in job creation and economic growth were not satisfactory. The South African economy grew by 1.7% in 1997, 0.8% 1998, and 1.9% in 1999 (Stats SA). As mentioned by Hlangani in Sowetan of April 2000, the Congress of South African Trade Unions (COSATU) through its Secretary General argues that 500 000 jobs have been lost since 1994 and thousands of quality jobs have been replaced by casualised sub-contracted sweatshop and temporary jobs. This has meant that many more people have been pushed into poverty. A report from the World Bank on the World Economic Outlook on 12th April 2000 predicts a brighter outlook for the South African economy for the coming few years, though on the downside unemployment is mentioned as a problem. It estimates unemployment to be close to 40% taking into consideration discouraged workers who have given up looking for work. COSATU (2000, 83) argues that probably the area of greatest contest in society during the first period of democratic governance was in the area of economic policy, more particularly over the appropriateness of the Growth Employment and Redistribution macro-economic framework.

COSATU (ibid, 84) argues key features of GEAR which are inappropriate for the developmental vision included the arbitrary limits placed on expenditure and revenue levels, and the framework's excessive reliance on private sector investment to ensure RDP delivery. It further asserted that export orientation should not be emphasised to the exclusion of expansion of the domestic market, due to the fact that production for the domestic market is more job creating than production for exports.

Amidst the poor performance vis-à-vis the targets (economic growth and job creation), there is a problem of disagreements with labour on GEAR. Given the labour markets rigidity (GEAR) and high cost of labour coupled with low productivity (in international standards), the issue of disagreements affects the competitive ranking of South Africa. The need for consensus on macro-economic policy becomes even more important, given the intensity of competition among emerging markets for fixed foreign direct investments.

Amidst the disagreements RSA President Mbeki argues that in all instances that discussions have occurred with labour they have as the ANC (Government) reached common and sensible positions. A meeting of the ANC, the Communist Party and Cosatu took place in December 1999, to discuss the macro-economic performance of South Africa and compared that with how other developing countries are fairing, namely South Korea, Colombia, Canada. The meeting looked at a whole swathe of statistics, in rates of investment, savings ratios, doctors per 1 000 people, internet connections, electricity connections, etc. South Korea emerged ahead of all the countries being compared, and one of the stark realities was the percentage of GDP that went into savings. One of the critical agreements was that if South Africa was to catch up with South Korea, it needed to improve on savings and investment. (Sunday Times, 2000 February).

It is imperative for all the important role-players to agree on what should be done in South Africa in order to raise the rate of investment. This pertains amongst others to looking at the consumption percentage as ratio of the Gross Domestic Product. In the same Sunday Times of February 2000 President Mbeki further highlighted the need for economic investment as follows "We looked at figures which compared social spending.

When you look at those figures you can see that South Africa beats all those regions - I'm talking of government money. And you see that all of them beat South Africa with regard to economic spending. Everybody was very shocked by those figures. Everybody said it's quite clear that if we do not increase the proportion of the budget that goes to economic activity we will never catch up with South Korea. Next time we will discuss this investment issue and we will include some of the matters that are contentious, whether they include the budget deficit, tariffs, measures generally to encourage investment in the economy, the savings issue." (Sunday Times, 2000 February). This is indicative of the fact that there is a likely convergence among Government and labour on key macro-economic challenges facing South Africa.

In his opening of parliament speech for 2003, the President (Thabo Mbeki), again put emphasis on the fact that the macro-economic fundamentals are in place and as such the South African economy is doing well "Indeed, the country has managed to stay the course of growth, with the growth of the Gross Domestic Product for 2002 estimated at 3,1%. Gross fixed capital formation grew by almost 8% during the year. We have now had 10 consecutive years of positive growth. Manufacturing grew by 5,4% in 2002, the fastest growth since 1995. Our currency has wrested back the losses it suffered during 2001. During 2002, it recorded its first annual gain against the dollar in 15 years." (Mbeki: State of the Nation Address at the opening of Parliament 2003).

The above assertion therefore, addresses the need for prudence, with regard to how far any country can go in terms of consumption (mainly government spending on social services) as a ratio of the Gross Domestic Product. Though the RDP may have set certain targets, it is clear that the GEAR approach

will not necessarily accommodate all the social needs as initially expected. This means that there needs to be some more focus on getting the economy to perform rather than developing the standard of living merely on the provision of social needs. This may attest to the argument that GEAR is a deviation or departure from the RDP.

Economic investment also includes the need for sufficient investment in a conducive infrastructure (including roads), which implies the need for greater involvement of the private sector. The Northern Province is starting at a very low base of initial dependency on natural resources (agriculture, mining etc). If the situation is to improve qualitatively, greater economic investment becomes even a matter of urgency.

Many analysts however predicted more economic growth in South Africa for the years 2000, 2001 and beyond. As stated by Barber, the International Monetary Fund (IMF) expects SA to grow at 3.8% in 2000 and 4% in 2001. These forecasts, released on the April 12, 2000 in the International Monetary Fund (IMF)'s World Economic Outlook, are above the 3.5% growth the South African Finance Department expected in 2000 and the 3.1% for the year 2001. The fund says SA growth will be buoyed by rising European demand for its exports, higher metals prices and effective fiscal management. (Business Day, April 13, 2000: 1)

Given the South African historical distortions and backlogs such a projected growth may not be able to absorb the rising unemployment rate. Poor Provinces like the Limpopo Province may not benefit immediately. It therefore becomes more imperative that Provincial Government should invest even more, if it is to take advantage of the projected growth.

Most people agree with Government about the projected growth in the coming immediate years. According to Citadel chief investment officer Dave Mohr, the indicators point to an upside growth of three percent or even more. For 2001 he forecasted an economic growth rate of four percent. Mohr attested the projected growth to an improvement in equities, which he also expected to improve in 2001. Accordingly we should witness a strong world growth and lower domestic interest rates in years to come. Most companies should expect to achieve more returns on their investment, which should propel the desire to hold local shares. Mohr further argues that the macro-economic policies of the Government, put in place in the past few years, had contributed to the recovery in the economy. With these policies in place, there was a likelihood of more positive spin-offs emerging in economy. (Sowetan, April 2000).

"Real gross domestic fixed investment rose by 7.2% in the first quarter of 1998, significantly boosted by the expansion of Telkom SA Limited." (South Africa supplement:GEAR Harvard October 12, 1999). Social services in this instance referring to education, health, security and welfare services.

Provincial Government

Most government in the new South Africa is regional. The regional administration established in 1994 spend about two thirds of the national budget and employed vast majority of the country's 1.5 million public servants. Some 400,000 of these are the former factories of the old apartheid "homelands" or putatively self-governing black territories, which became labour reservoirs for white South Africa. Regional governments are responsible for those aspects of administration, which affect the everyday life of citizenry,

health, pension payments; education housing water and infrastructure. When people give judgments about the government's success in making a better life for them they are evaluating mainly the performance of regional government and administration.

Provincial governments do not have much discretion in determining policy, but they have considerable latitude in interpreting policy and implementing it. Their capacities are also limited by their lack of any significant source of independent finance - their budgets are allocated from central government - but disbursement of such funds gives their politicians considerable real power, nevertheless no adequate analysis of modern South African politics can overlook the way these administrations operate. The establishment of nine regional polities owed much to the imperatives of a negotiated transition to democracy in which the ANC was persuaded of the wisdom of making concessions to smaller parties.

The case for South African democracy's assuming a federal form was based chiefly on the supposed political benefits of a multi-centred political dispensation in ethnically divided societies. Dividing executive authority between central and regional government would give minorities a stake in the system. In a post-nationalist politics characterized by a dominant majority party, federal or regional devolution of power held out to small parties with no hop of winning office at the center, the prospect of achieving executive control at subordinate levels.

Federal governments also protect local or regional interests against big central government. Less conspicuous in the South African advocacy of the merits of federalism was the possibility that it would bring government closer to

citizenry, making it more accessible and accountable. The devolution of power might enhance democracy allowing smaller communities more capacity to influence or determine the behavior of politicians. Notably absent though from the South African motivations for regionalized constitutions were any arguments about efficiency or developmental benefits.

Firstly we deal with administration. When things go wrong in South African government more often than not they go wrong in the regions. This is not altogether surprising. Some of the regions on their inception were confronted with the task of amalgamating several separate civil services from the old white provincial bureaucracies, whatever administrative arrangements may have existed for Indians and Coloured people and the former homelands, each of which had developed their own managerial style and most of which lacked technical skills and professional integrity. The new boundaries also brought together competing or rival political elite often very jealous of each other's influence.

Not surprisingly those provinces which have since 1994 acquired a reputation for relatively efficient performances of services - Gauteng, Western Cape, Northern Cape and the Free State - are those which have been least encumbered with the legacies of homeland administrations. In the case of Gauteng the bureaucracy was reconstructed anew because the decision to base its administrative center in Johannesburg rather than Pretoria meant that it did not have to assemble itself around the old Transvaal Provincial Administration. The new regional government of Gauteng could draw its recruits from the public service training institution concentrated on the Witwatersrand.

Some of the difficulties then, which regional administrations have experienced, are attributed to shortages of technical or professional skills. In the Limpopo Province for example of 290 doctors employed in public hospitals in 1996-itself a woefully inadequate total for a population of about 6 million-only 20 were South African citizens, the rest were foreigners. Not that the Limpopo Province's service is generally undermanned: it employs one third more people than the considerably more populous Gauteng. Even Gauteng though suffers from a shortage of properly qualified accountants.

The absence of effective control systems encouraged fraud and waste-bad habits, which have been around for a very long time and which only, now have come to light. The Central government has attempted to address these problems by discriminating against the richer or better resourced provinces in budgetary allocations, Gauteng and the Western Cape in particular. Increased funding to poorer provinces though has only accentuated their administrative difficulties: they lack the capacity to spend money efficiently. The skills, which are concentrated in the urbanized provinces, do not follow the redirection of public funding: teachers and health professionals and technical staff move instead into the private sector. The facilities which are most affected by this exodus or budgetary cuts are of course most likely to be located in the poorest communities.

Reconstruction and Development Program

The essentials of the Reconstruction and Development program can be captured within the context of the alleviation of poverty, and the reconstruction of the economy. These objectives are interrelated. Balanced economic growth is impossible without the simultaneous promotion of economic

development. Without growth there could be no development. Economic growth without development would fail to bring about "structural transformation," that is, a more advanced economy and a more equitable and prosperous society. The government, the RDP argued, should play a major enabling role in integrating growth with economic restructuring and social development. Policies concentrating purely on promoting growth would accentuate existing inequalities and maintain mass poverty and these would soon stifle growth.

The RDP proposed five ways to combine growth with development:

- Meeting basic needs,
- Upgrading human resources,
- Strengthening the economy,
- Democratizing the state and society, and
- Reorganizing the state and the public sector.

These activities should involve and empower ordinary people: "development is not just about the delivery of goods to a passive citizenry". The RDP should be people driven, i.e., it should deepen democracy by enabling people affected by development projects to participate in their planning. Economic reconstruction and social development should be mutually reinforcing. Expansion of infrastructure would stimulate and strengthen the economy and provide popular access to better services. A more modern infrastructure the RDP argued would help to improve South African export capacity. The improvement in infrastructural development will assist in turning around the South African economy which is deeply afflicted by a structural crisis.

Manufacturing was unproductive and dependent on low wages and imported machinery. It made little contribution to foreign exchange earnings and it failed to create new jobs. Within

the wider industrial economy heavily concentrated ownership created social tension and prevented competition. Labour worked inefficiently and its historic repression retarded the accumulation of skills. Heavily subsidized commercial agriculture was often inefficient. Government expenditure required high personal taxation and a growing deficit. Meanwhile private capital flowed out of the country. Economic restructuring should be geared to increasing national investment in manufacturing, job creation and basic needs.

South Africa should become a significant exporter of manufactured products. Internationally competitive industries should be strengthened and integrated better with other sectors of economic activity. Anti-trust legislation would be needed to spread and deracialise business ownership. Foreign investors should receive the same treatment as South African businessmen. Policies should ensure that foreign investment creates as much employment and real knowledge transfer as possible. The government should help small and especially black owned enterprises through its allocation of contracts and by requiring financial banks to lend more capital to small firms. In agriculture subsidies and controls should be removed and support services given to those in greatest need - poor farmers, especially women.

The expensive pursuit of self sufficiency in food should be abandoned and farming encouraged to become more labour intensive and environmentally sustainable. The RDP also expected the private sector to contribute to fulfilling basic needs. Some of the basic needs proposals were clearly intended to be implemented mainly through government activities. These included the rationalization of existing health expenditure and services in favour of primary health care, public works program to provide employment and supply

clean water and electrical connections to communities without them. Private companies though, were expected to collaborate with the government in construction of low cost housing and helping the poor to buy them.

Reconstruction and development should be an all-embracing effort, the programme's drafters exhorted. Development forums would bring people and all major stakeholders together in formulating and implementing RDP projects. These bodies should represent political parties, NGOs, business and community associations. Organizations in civil society must be encouraged to develop their own RDP programs of action and campaigns within their own sectors. It is argued in the RDP that government expenditure should not be increased significantly. Many of its objectives could be accomplished through the reallocation of government expenditure. Market forces could also achieve certain RDP goals. For example, deregulating agriculture would the RDP's authors hoped, release resources for redistribution. Socially desirable investment by the private sector, for example in low cost housing would represent a major contribution to RDP financing. Much of the economic growth and restructuring would be prompted by the expansion of consumer demand, which would follow the building of houses and the extension of electricity and piped water. Better labour productivity would follow the institution of education and training programs. The RDP has meant different things to different people.

There was a left understanding of the RDP which probably conformed to the way most political activists understood the program. COSATU and SACP leaders tended to read the RDP as a decisive break with past policies; in particular they emphasized those sections in the document, which demonstrated the economic value of a particular type of state intervention

in the economy. Their understanding of the RDP was encapsulated quite well at the SACP's 9th congress in 1995. The RDP had four essential dimensions delegates were reminded. These were (1) redistribution - this should be a central characteristic of government activity (2) economic reconstruction along a new growth path directed at inward development (3) the state's assumption of the role of coordinator of development and (4) development as people centred or people driven process.

This was not the only way the RDP was understood though. The government in its 1994 RDP White Paper which committed itself to restricting the growth of the public sector as well as endorsing privatization, seemed to interpret the RDP in a less populist fashion. The ambiguity in the original base document provided plenty of authority for more socially conservative readings of the RDP. Much of the program's language accorded well with current orthodoxies among development agencies concerning the role of the state; "not as a direct provider of growth but as a partner, catalyst and facilitator," with private enterprise participating in the provision of welfare and utilities.

Business supporters of the RDP taking their cue from such an aphorism drew attention to a different set of the program's features (1) development as a process, which depends upon a partnership between the state and private enterprise (2) a thinner more efficient less expensive state (3) an internationally competitive economy and (4) a better-educated and more productive workforce. There have been other more cynical views among business. Especially notorious was the remark made in 1995 by the chairman of Barlow Rand, who gleefully told a shareholders meeting that his company "would be feeding off the carcass of the RDP for years to come."

Finally there was the popular expectation about the RDP. Political parties which polled public sentiment before the 1994 election generally found a consistent ranking of the things that people felt a democratic government should achieve: jobs (above all else), water (in rural areas) houses, peace, land. Understandably this was the way in which the ANC projected the RDP to its supporters as a program geared to meeting basic needs during the 1994 general election. Ordinary people were most inclined to understand the RDP as the provision of benefits and opportunities: a better living environment, improved services, and enhanced life chances. How successful has the government been in realizing its objectives in the Reconstruction and Development Program?

This depends upon whose criteria of success serve as the basis for evaluation. If we keep in mind the "left" version of the RDP, with its emphases on redistribution, inward economic reconstruction, state coordination of development and popular participation the record is uneven. With respect to redistribution within the limits of conservative public finance there has taken place a fairly substantial reallocation of resources and services. The relatively low cost of this and its impact in certain quarters do represent a real indictment of the old regime. So much more could have been achieved when goods and services were cheaper than they are today.

The scoreboard for economic progress is less substantial. Except in the vaguest terms, government has yet to publish an industrial policy that will identify the priorities for public investment so as to encourage certain kinds of economic venture. The left's argument that growth will be significantly boosted by the new domestic markets for

manufactures created by better living standards represents a prospect which is still fairly remote, though electrification could play a very important part in expanding local markets. The state's capacity as a coordinator has been quite weak.

Development projects with notable exceptions like water, are implemented through provision governments and as we have seen, both their political complexity and their bureaucratic shortcomings make implementation of development policies extraordinarily difficult. Coordination requires imagination and vision and the state's managers have often chosen to ignore the NGO sector, which frequently possesses the appropriate experience and knowledge of what is needed. It is also worrying that the state policies themselves are often poorly integrated to achieve the most important goals. Finally, the state's commitment to people-driven development seems to have been fluctuating and ambivalent. In many areas the trend has run against popular participation, as the current emphasis in housing policy for example, is on "mass production." The collapse of the development forums and the weakness of community-based organizations make it all more difficult to engage citizens in development projects.

What about the business community's expectations of the RDPs? Certainly there is plenty of evidence of the state's willingness to share the responsibilities for meeting the "basic needs" with private enterprise, sometimes its critics argue, to the detriment of the supposed beneficiaries of such programs. It may be significant for example, that some of the most inanimately designed housing schemes have been inner city terraced housing which will remain within the public sector to accommodate rent - paying tenants. Business would like to see a smaller and less expensive state: given the political

pressures for job provision the government has demonstrated restraint in not enlarging the public payroll.

Those representing corporate business argue that South African economic competitiveness remains restricted by low levels of worker productivity and legislation that promotes labour market inflexibility. Better educated and hence more productive workers seems a remote prospect given the government's failure to improve the quality of public schooling. Politicians though are not businessmen; they cannot be expected to arrange their priorities using the same values as stockbrokers. Government programs have attempted to address a range of concerns across a deeply divided society. The shortcomings of public policy in its conception and implementation have reflected these divisions but the limited achievements all the more impressive because of them.

The Budget Speech

The Budget Speech presented on 20 February 2002 by the Finance Minister Trevor Manuel made five key interventions in support of development and the war against poverty. First, this budget is strongly oriented towards growth, providing for an average increase in real spending of over 4 percent a year for the next three years. Second, it provides for an intensification of spending on alleviating poverty, including increases in old age pensions and child support grants and an enhanced response to HIV/Aids. Third, there is increased investment in infrastructure, particularly in support of urban renewal and rural development. Fourth, it strengthens the fight against crime by, among other things making available the resources to employ and additional 16000 policemen and women. Fifth, it provides tax cuts for individuals, further

tax incentives for investment and a more generous tax regime for small business.

The 2002 national budget policy was crafted against the background of considerable uncertainty with regard to global growth prospects. The rapid growth that characterized the latter part of the 1990s stalled in 2001. It is worth noting that this is the first time since the mid-1970s that there has been such a comprehensive slowdown in the global economy. Advanced capitalist social formations are expected to grow by 0.6 percent this year. Amid this, South Africa's economy has shown impressive resilience. It is easily forgotten that the average rate of growth in real gross domestic product between 1994 and 2000 was 2.7 percent. If the year 1988, which is a year of exceptional international turmoil, is excluded for purpose of analysis then growth averaged 3.1 percent. The economy grew by 3.4 percent in 2000 and about 2.2 percent in 2001, underpinned by a moderate recovery of investment and a strong export performance in the first half of last year. But of course our economy is not immune to international developments, which have temporarily unsettled growth and inflation trends.

The Budget is about the government and the people of South Africa working together. Building a better life for all is a challenge the government shares with business, unions, communities and ordinary poor people. Municipalities rely on local residents to pay for most of the services they provide. The Budgets contributes to this partnership by helping municipalities pay for services for poor people. It provides money for water and sanitation, housing and electricity. This means that some of these services can be provided free. These programmes will contribute R3.2 billion to local infrastructure spending next year. The government will also

help local councils prepare plans for job creation and social development. Very poor areas according to the Budget, have been identified as part of Government's urban renewal and rural development programmes. That means more money will go to underdeveloped townships, inner cities and rural communities. In these areas national and provincial departments will work with councils and local organizations to improve services create business opportunities and build strong communities.

Main budget expenditure will be financed through moderate growth in revenue and a deficit of 2.1 percent of GDP in 2002/03 decreasing to 1.7 percent in 2004/05. Real non-interest spending across national and provincial government will grow by 4.1 percent a year over the next three years. In nominal terms it rises from R256 billion in 2002/03 to R298 billion in 2004/05. Prudent fiscal management has resulted in lower interest costs, thereby realizing some R10 billion of additional resources for spending on services over the next three years. Debt service costs are expected to fall from 4.8 percent of GDP in 2001/02 to 4.4 percent next year and 4.1 percent by 2004/05. Whereas in 1998/99 we were spending 20.2 percent of our budget on interest costs, for 2002/03 this comes down to 15.7 percent and is expected to fall below 15 percent by 2004/05. This is clearly a policy choice that has started to pay dividends.

The outstanding revenue performance for the year up to 2002 is largely the outcome of a sharp improvement in company tax receipts. The 2002 budget framework creates an enabling environment that allows us to respond creatively to the challenges of social development and work in partnership with communities to build a healthy vibrant future for all. Recognizing the need to reinforce the growth momentum of the

economy, the 2002 budget aims to investigate several key policy initiatives. As in last year's budget, investment in infrastructure is prioritized. Economic performance is also enhanced by a cluster of measures focused on enhancing the quality of public expenditure. These include the overhaul of the shape and organization of the public finances and a robust new framework for finance accountability across all three spheres of government.

The most important contribution the government makes to long-term growth and development is investing in people. Given that most of the social spending is at the provincial sphere, the biggest transfers in the budget are to this sphere, rising to R152.4 billion in 2004/05, an annual average growth rate of 7.9 percent. With stable finances and improved financial management, the strong growth in transfers to provinces will reinforce accelerated delivery of programs of poor people. The biggest increases in the 2002 budget went to municipalities. These allocations rise by 18.3 percent a year over the medium-term economic framework period to R10.9 billion in 2004/05. This reflects government's strong commitment towards the delivery of basic municipal services and infrastructure to the poorest of our people.

The MEC for Finance, Economic Affairs and Tourism in Limpopo Province presented his Budget Speech on (15-03-2002) which reflected Minister (T. Manual) of Finance' Budget Speech delivered on the 20 February 2002. The budget speech was premised on the need to increase economic growth, reduce the scourge of poverty and inequality, through a number of strategies; including the implementation of the Integrated and Sustainable Rural Development; reforming procurement policy in the province, improving health services; increasing the amount of social welfare grants and the number of beneficiaries,

support and development of SMME sector and investment attraction in tourism, mining and in agricultural sectors. Through out the budget the main argument was greater sensitivity towards meeting the basic needs of people (MEC Budget, Limpopo Province 2002:2). "The budget seeks to increase economic growth accompanied by real change, reduction of poverty, inequality and vulnerability. It seeks to reduce the gulf between the poor and rich, seeks to protect the weak and the poor, especially women, children and the elderly." (ibid). Further good news is that the government finances remain healthy; the MEC emphasized.

As far as the provincial economy is concerned, Limpopo grew at an average of 5.5% in real terms between 1995 and 2000. The growth rate in 2000 reached 3.9% in real terms and the Gross Geographic Product (GGP) was about R40 billion. Government shares the largest part of the GGP. Recent trends 1998-2000 tend to show a decline of government's share of the economy which means that other sectors are beginning to grow. Mining is showing signs of recovery from 18.5% GGP to 19% over the period 1998 to 2000. The trade sector has been the fastest growing sector showing an increase from 17.6% to 18.3% of GGP. This reflects a strong local demand for goods and services as well as growth in the tourism sector. Unemployment continues to decline, and Limpopo saw an encouraging 0.9% increase in employment. However, it fell below the population growth rate of 2.3% per annum. This issue raises an important question about the dynamics of the South African Population Policy which was adopted by Parliament in April 1998; in relation to economic growth.

Conclusion

In this chapter we have argued that, the Limpopo Province Growth and Development Strategy is premised on taking

advantage of the competitive factor conditions in agriculture, mining and tourism to turn the economy of the province around. The province is predominantly rural. As a consequence of urban bias and the legacy of apartheid, major urban areas in the province have a well-developed infrastructure, capable of providing the requirements of modern production process. On the other hand several large rural settlements are unable to realise their full potential in economic development mainly because of inadequate infrastructure. The increased reliance on government services funded by taxes, the relative stagnation of the construction and manufacturing sectors- normally the most dynamic sectors in a developing economy- and the continued reliance on the primary production sectors of mining and agriculture are indicators that the provincial economy has to be transformed.

CHAPTER THREE

FISCAL POLICY AND ITS DYNAMICS

INTRODUCTION

This chapter will depict and analyze the national fiscal policy and intergovernmental allocations of revenue to provinces. It will examine the factors considered in determining how much financial grants are made to Provinces, in particular to the Limpopo Province. This will also include guidelines and conditions with regard to how the monies so allocated should be expended. It will further depict how Provincial budgets from 1995 to 2000 were allocated among various expenditure items, in particular social services, personnel expenditure, economic sector, and infrastructure investment with special reference to roads. In addition to the analysis of the budgets spanning up to the year 2000, a reflection will be done on the projected budgets of the next medium term expenditure framework period up to the year 2004. The funding of provincial roads will be looked at in the context of the backlogs, present asset net worth, the required roads infrastructure, and the actual financing of roads infrastructure. The budget allocated to the Department of public works will be analyzed especially with regard to the ratio going to the financing of both roads construction and maintenance. Institutional and policy issues pertinent to roads financing will be dealt with.

An analysis of the performance of the infrastructure cluster in the Limpopo Province will be done. The infrastructure cluster include mainly the departments of Public Works and Local Government. This is critical as the cluster 's

legislative, institutional and policy framework has a major bearing on infrastructural development.

NATIONAL FISCAL POLICY (FFC FORMULA)

The Fiscal and Financial Commission is mandated in terms of Section 214(2) of the Republic of South Africa Constitution, Act of 1996, read together with Section 9 of the Intergovernmental Fiscal Relations Act of 1997, to make recommendations which will ensure an equitable share by the various spheres of Government. Any new or additional policy mandates entrusted to any sphere of Government should be studied and factored in, when the Fiscal and Financial Commission makes recommendations. The statement made by the Commission, namely, attests this to: "The Commission is of the view that arbitrariness should be eliminated from the system and that an approach which encourages policy-makers to place costing at the center of their decision-making processes will go a long way in achieving this. It is good fiscal practice for policies and norms and standards to be formulated with due regard to their financial and fiscal implications. This is especially critical where more than one sphere of government is affected by those decisions. (Financial and Fiscal Commission-Recommendations 2001 - 2004 MTEF Cycle - May 2000:1)

The greater bulk of the Limpopo Province budget comes from the national allocation. It is therefore important to locate the study of roads financing within the context of how national government allocates and prescribes the use of provincial grants. Moreover the national government also has a role to play in the direct financing of roads. The argument presented here is that whereas roads infrastructure is critical for development, and secondly that at a macro-policy level there

are pronouncements in support of a progressive financing thrust for roads. In reality however the financing formula does not provide for the sufficient provision of roads in the Limpopo Province. The Finance and Fiscal Commission came with a formula in 1996 to be applied to budgetary provisions for up to the 2000 budget. Since 1996 the provincial equitable share has been determined using a formula based on individual demographic and economic profiles. While taking into consideration the budgetary evolutions over the period, the study will like to use the factors considered in allocating budgets to provinces, using the 1999 and the 2000 Provincial Equitable Share Formula. Table 4 below depicts the variables and the factoring used to derive a formula for the division of revenue among the provinces.

Table 4

Distributing the equitable share, 1999 Budget

Percentage	Education	Health	Social Welfare	Basic Share	Economic Activity	Institutional	Backlogs	Target Shares
Weighting	40.0	18.0	17.0	9.0	8.0	5.0	3.0	100.0
E. Cape	18.5	17.0	19.6	15.5	5.9	11.1	20.7	16.8
Free State	6.3	6.5	7.1	6.5	5.1	11.1	5.6	6.6
Gauteng	12.3	14.7	13.9	18.1	43.2	11.1	5.0	15.7
Kwazulu-Natal	22.1	21.7	19.6	20.7	18.9	11.1	23.0	20.7
Mpumalanga	7.3	7.2	6.5	6.9	4.7	11.1	8.5	7.1
Northern-Cape	1.9	2.0	2.2	2.1	1.6	11.1	1.3	2.4
Limpopo Province	15.7	13.3	13.7	12.1	1.7	11.1	22.9	13.5
North West	8.0	8.6	8.7	8.3	5.1	11.1	9.5	8.2
Western Cape	7.9	8.9	8.8	9.7	13.7	11.1	3.6	8.9
TOTAL	100.0	100.0	100.0	100.0	100.0	100.1	100.0	100.0

Source: National Department of Finance, 2000.

An exposition of the various components as weighted and factored is briefly presented hereunder, namely education, health, welfare, basic share, economic activity, institutional, and backlogs.

Education Component: A greater emphasis is based on the primary and secondary schooling, using mainly enrolment figures as well as school going age as per the Census statistics. As a way of discouraging out-of-age registration the school age cohort is double weighted.

Health Component: The total population is taken into consideration, although the following approach summaries the factor: "The allocations to provinces is significantly larger than that to local government, although the local government allocation is projected to grow over the Medium-term Expenditure Framework (MTEF) period. As explained below, the greater allocation to provinces is mainly due to their smaller fiscal capacity and their role in providing tax-funded public goods. Hence, the formula for equitable share allocations to provinces includes shares for education, health and social security. The shares are also derived from the relative population size of each province, backlogs, economic output and an institutional component covering the costs of running a provincial government. The allocation to local government, in turn, supports the provision of basic services to poor households, and its institutional component is related to the running of a municipality." (Intergovernmental Fiscal Review 2000, page 4).

The natures of services provided by provinces are such that revenue cannot be sufficiently raised to cover for the infrastructure needs. Mostly provinces provide for Education and health services (which are mainly free), provide for social security services (mainly grants) covering old age and disability grants, child support grants, school feeding scheme, etc. These fall under the recurrent expenditure. Local Government, however has access to its own revenue and in terms of current policy framework, municipalities are allowed to borrow. Roads construction and maintenance of provincial roads constitute a major developmental challenge for the province and should be expended from the provincial revenue. Whereas the Finance and Fiscal Commission formula is biased towards social services, provinces are yet expected to provide for roads.

Roads are critical for economic output, and like other critical areas should be a variable for determining provincial allocations. Conditional grants relevant to infrastructure are specifically towards health and education infrastructure. Other infrastructure priorities have dedicated budgets and nationally determined budgets. Examples in this regard include water, telephones, and houses.

A further analysis of subsequent years' budgets revealed some changes in terms for percentage revenue shares for provinces. Table 5 (Distributing the equitable share, 2000 Budget) reveals such adjustments.

Table 5

Distributing the equitable share, 2000 Budget

Percentage	Education	Health	Social Welfare	Basic Share	Economic Activity	Institutional	Backlogs	Target Shares
Weighting	41.0	19.0	17.0	7.0	8.0	5.0	3.0	100.0
E. Cape	18.5	17.0	19.6	15.5	6.5	11.1	20.7	16.9
Free State	6.3	6.5	7.1	6.5	5.3	11.1	5.6	6.6
Gauteng	12.3	14.7	13.9	18.1	41.0	11.1	5.0	15.5
Kwazulu-Natal	22.1	21.7	19.6	20.7	17.0	11.1	32.0	20.6
Mpumalanga	7.3	7.2	6.5	6.9	4.9	11.1	8.5	7.2
Northern-Cape	1.9	2.0	2.2	2.1	1.7	11.1	1.3	2.4
Limpopo	15.7	13.3	13.7	12.1	3.0	11.1	22.9	13.6
Noth West	8.0	8.6	8.7	8.3	5.7	11.1	9.5	8.3
Western Cape	7.9	8.9	8.8	9.7	14.4	11.1	3.6	8.9
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: National Department of Finance 2000.

The effects of the changes of the 2000 budget as compared to the 1999 budget is that three Provinces will get an additional 0.1 point in target share, namely Eastern Cape, Northern Province, and Mpumalanga. Gauteng and Kwazulu Natal shall loose 0.2 and 0.1 points in target shares respectively.

The Financial and Fiscal Commission recommendations for the 2001-2004 medium term expenditure framework cycle used "Coated Norms approach" in arriving at what should be recommendations for the division of revenue among the various provinces. In

terms of this approach "The equitable share will be divided into a constitutionally mandated social services (S) element, a Basic (B) Element, and an Institutional (I) Element" (FFC: Recommendations for 2001-2004 MTEF CYCLE: Page 2).

The next page (Background to MTEF recommendations) depicts the various variables, which informed budgetary allocations until 2000. It goes further to indicate the formula used since the financial year starting in 2001. For the next three-year MTEF cycle, starting in 2001, the FFC proposes that constitutionally mandated basic social services be provided and that preferred method for determining the necessary resources be the costed norms approach.

The formula certainly focuses on providing for constitutionally mandated basic services, again with an explicit focus on education, health and welfare: 'The FFC formula has used the costed norms approach in arriving at the formulae for constitutional mandated basic services in education, welfare, and health.'

Apart from the social services other elements mentioned include an institutional element set equal to the minimum cost of operating government institution. An attempt has been made to provide for conditional grants, which will be allocated to provinces to specially support the reduction of social infrastructure backlog. This is further support to education and health in particular.

Background to FFC recommendations

In 1996, the Financial and Fiscal Commission recommended the application of a formula based system to achieve:

- An effective division of revenue between provinces;

- An efficient allocation of resources;
- Fiscal equity in the provision of services; and
- The development of fiscally sound and democratically responsive provincial governments.

The Formula recommend in 1996:

$$P = S + M + T + I + B$$

Where: P is the provincial allocation

S is a minimum national standards grant to support provincial education and health care services;

M is a spillover grant to provide financing for services with interprovincial spillover effects;

T is a tax capacity equalization grant;

I is an institutional grant to finance the core legislative functions; and

B is a basic grant to fulfill constitutional responsibilities.

The new FFC recommendations build on the previous formula are as follows:

Provincial Equitable share (PES) = S + I + B + T and (Where: S+ (E + H + W)

S is a national standards grant to support the provision of constitutionally mandated basic education, primary health care and social security for provinces;

E is an allocation for basic education;

H is an allocation for primary health care;

W is an allocation for social security;

I is an institutional grant to finance the cost of running provincial governments;

B is a combined basic grant to fulfill constitutional responsibilities at the discretion of provincial governments; and

T is a tax capacity equalization grant

(Source: financial and Fiscal Commission, Recommendations
2001/4 MTEF Cycle May 2000)

A schematic presentation of the provincial allocations over the next MTEF is presented below:

Table 6

NATIONAL DISTRIBUTION OF REVENUE TO PROVINCES 1995-2004

PROVINCE	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2	2002/3
	Budget	Budget	Budget	Budget	Budget	Budget	METF ESTIMATES
Limpopo Province	10 818 116	10 891 964	11 484 618	12 397 529	13 559 509	14 414 704	15 191 939
Eastern Cape	15 790 820	15 044 775	15 479 069	16 370 918	17 679 899	18 489 652	19 202 080
Kwazulu- Natal	16 148 157	17 288 370	18 183 215	19 187 084	21 156 946	22 170 756	23 326 311
Gauteng	12 403 807	13 571 413	14 580 534	15 602 958	17 413 485	18 333 426	19 361 118
Western Cape	9 831 980	9 239 285	9 831 905	10 195 503	10 941 351	11 198 543	11 497 135
Free State	5 741 367	5 804 389	6 433 458	6 683 038	7 249 605	7 532 061	7 843 717
North West	6 847 074	6 987 334	7 523 071	7 987 257	8 621 412	9 010 796	9 364 233
Mpumalanga	5 008 819	5 073 270	5 728 942	6 212 686	6 943 276	7 427 562	7 910 383
Northern Cape	2 112 645	2 055 263	2 136 645	2 372 508	2 474 421	2 600 124	2 720 298
Local Government							
National Departments							
Others							
TOTAL							

Source: Intergovernmental fiscal review 2000: National Treasury.

As indicated before in terms of the national formula for provincial allocations, the northern Province has received the following percentages of monies allocated for provinces over

the period spanning from 1995 to date, including projections for up to 2003.

DISTRICUTION OF THE PROVINCIAL BUDGET

The following table provides detailed information on the provincial budget allocation given to departments between 1995-2001

Table 7

Distribution of Provincial Budget

VOTES	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1
Office of the Premier	69,193	474,766	126,687	74,964	103,419	104,251
Finance and Economic affair						386,023
Trade, Industry, commerce	85,676	105,986	120,460	124,646	66,135	
Environment and tourism	48,519	126,098				
Agriculture	540,989	519,678	534,574	546,602	552,190	669,429
Education					5,921,444	6,378,486
Education, arts, sports, cult.	3,838,820	4,818,886	5,660,739	5,733,398		
Sports arts and culture						27,910
Health	1,543,756	2,053,046	2,095,831	1,906,185	2,282,196	2,549,600
Transport	216,031	222,696	239,656	188,944	186,507	205,232
Public works	774,072	487,611	692,316	617,671	685,641	1,027,006
Finance and Expenditure	432,644	487,611	131,452	282,143	261,996	
Welfare	1,387,026	1,517,970	1,685,234	2,063,714	2,355,716	2,570,694
Provincial Service commission	43,954					
Traditional affairs	59,434					

Legislature	18,382	28,180	27,684	26,184	20,453	19,706
RDP	157,709					
Land, Housing & Local government	248,816	297,156	308,368	264,491	290,992	
Housing			10,244	21,394	19,379	
Housing & Local Gov.						631,630
Safety and security		3,585	5,544	4,560	4,633	5,679
Statutory					14,630	20,799
TOTAL	9,465,021	11,451,369	11,638,789	11,860,896	12,765,331	14,596,445

Source: Budgets adjustments 1995 to 2001, Limpopo Province Legislature.

Table 8

SUMMARY OF EXPENDITURE ACCORDING TO STANDARD ITEMS

Standard Items	1995/6	1996/7	1997/8	1998/9	1999/00	2000/01	TOTAL
Personnel exp.	5,282,310	6,310,388	7,633,613	7,784,928	8,283,000	9,037,395	
Admin. Exp	454,489	739,681	366,380	206,055	352,508	328,314	
Stores and livestock	723,704	664,085	481,435	465,330	542,274	564,077	
Equipment	303,089	426,517	304,130	132,519	140,269	197,849	
Land & Buildings	150,884	78,820	46,291	38,484	37,426	35,030	
Professional and special services	835,946	1,278,566	816,390	718,391	643,529	744,567	
Transfer payment	1,573,663	1,930,178	1,967,852	2,359,317	2,601,474	3,471,205	
Miscellaneous expenditure	140,936	23,134	22,698	155,872	150,221	197,209	
Total estimated	9,465,021	11,451,369	11,638,789	11,860,896	12,750,701	14,575,646	
Statutory	(10,227)	(12,084)	(13,342)	(12,550)	14,630	20,799	
Nett Total	9,454,794	11,439,285	11,625,44	11,848,346	12,765,331	14,596,445	

Source: Limpopo Province 2001

An analysis of the budgets over the period spanning 1995 to 2001 financial years reflect several trends. There have been a number of changes in the structure of government (composition of departments) over the period. Greater part of the budget goes towards education, health and welfare. The bias attests to the national formula, which is bent towards social services. According to the national guidelines 80% of the provincial budgets must be spent on social services. The actual budget for the next MTEF 2001-2004 is provided hereunder according to votes, as well as classification of expenditure.

Table 9

LIMPOPO PROVINCE METF PROJECTIONS 2001-2004

VOTES	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual expenditure	Estimated expenditure	Budgeted expenditure	Medium Term	Expenditure
	R'000	R'000	R'000	R'000	R'000
Office of the Premier	91,903	105,313	109,317	113,384	125,029
Trade, industry & tourism	64,875				
Education	5,853,700	6,378,972	6,860,193	7,383,796	7,707,867
Agriculture & Environment	562,682	669,915	621,409	755,133	776,306
Local Government	285,574				
Health	2,220,545	2,550,064	2,634,907	2,884,950	3,115,076
Transport	186,758	205,718	233,091	268,803	272,579
Public Works	690,331	1,027,492	796,196	957,697	1,053,365
Safety and Security	4,318	6,143	7,087	7,726	8,450
Finance and Expenditure	242,258				
Welfare	2,328,767	2,570,694	2,754,254	3,003,725	3,346,894
Provincial Legislature	30,130	35,157	35,895	39,325	41,655

Housing and Water	17,782				
Local Govern. & Housing		632,094	719,702	778,095	926,808
Finance, Economic Affairs		386,509	661,696	626,235	802,546
Sports, arts and Culture		28,374	30,171	33,179	39,381
TOTAL	12,579,643	14,596,445	15,463,920	16,852,048	18,215,956

Source: Limpopo Province 2002

Table 10

ECONOMIC CLASSIFICATION OF EXPENDITURE

Current Expenditure					
Salaries and related	8,455,484	9,097,236	9,302,289	9,982,097	10,483,168
Other goods and services	1,402,916	1,178,441	2,245,357	2,473,874	2,770,186
Interest Payment					
Transfers	2,309,596	2,560,658	2,724,473	2,955,041	3,275,804
Subsidies	35,945	30,307	35,989	37,801	38,312
Grants - other levels of government	22,530	38,840	48,027	60,611	71,650
Capital Expenditure					
Machinery & equipment	88,512	111,907	154,774	151,672	152,023
Land & buildings	2,529	1,633	1,303	23,181	26,375
Infrastructure	231,089	185,686	493,998	747,233	957,324
Other Fixed capital	11,242	14,150	29,423	29,725	36,123
Capital transfers	19,800	837,587	428,287	390,813	404,991
TOTAL	12,579,643	14,596,445	15,463,920	16,852,048	18,215,956

Source: Northern Province. Government Finance statistics (GFS), Budget statements 2001-2002, presented to Provincial Legislature.

Given the above-mentioned background at this juncture it is important to examine some of the programmes implemented within the infrastructure cluster in the province. The infrastructure cluster comprises of the departments of Public Works, and Local Government and Housing.

These programmes include:

- Roads and bridges program
- Property and facilities management
- Government buildings
- National Community Based Public Works Program
- Integrated Development Planning
- Promotion of Local Economic Development
- Transformation of Municipal Structures

An overall analysis of performance of Government in relation to these programmes for period up to 2002, reflects the following trends:

Roads and bridges program

As per the strategic plan for 2003/4 of the department of public works R140million was required in 2001/2 for preventative maintenance, and only R7million was allocated. This is just one example of the dire under budgeting for roads Infrastructure development. "The provincial roads network consists of over 21 218 kilometres of which 6 020 kilometers are surfaced and over 15 198 kilometres are gravel. This includes all major roads (surfaced and unsurfaced) linking towns, villages and settlements in the Province. However, it does not include streets in towns and villages, which are the responsibility of local sphere of government.) (Strategic plan 2003/4: Department of Public Works 2003)

The Department has completed many projects. For example, 840km of roads were regavelled, 175km of roads were rehabilitated, 207km of roads were upgraded from gravel to tar, 3 bridges were built at Mafefe and many more were rehabilitated or repaired in the rest of the province. The Ga-Madjadji access road was also upgraded. Altogether, 23 HDI contractors and 25 HDI consultants benefited from the programme at a total value of R46.7 millions. These, undoubtedly, have contributed to improved transportation, better accessibility to the rural areas, job creation and tourism attraction. However, it is indicated that due to financial constraints, there is still a huge backlog that needs to be address.

Property and facilities management

The data presented on property and facilities management, which is an ongoing process, indicates that much has been accomplished. For example, R27, 584,369.00 were generated through the disposal of redundant state properties. Concerning the vesting of provincial land, 198 item 28 (1) certificates of the R293 townships have been issued; registration has also been completed. The format and database from the creation of a comprehensive provincial property register has been developed. Seven portions of land have been transferred for housing development, 8 portions have been leased out to private tenants, and 19 lease renewals and new agreements have been processed. However, much leaves to be desired in the area of redistribution of land since 97% of the population are still crammed into the former homeland area, disposal of redundant state properties where only 17.3% (N = 175) of the identified properties for sale (N = 1014) have been sold. Also 100% revenue collection is still far fetched.

Government Buildings

The Limpopo Province inherited buildings from the former Transvaal Provincial Administration, Venda, Gazankulu and Lebowa homelands. Currently Government has six districts established with the intention of bringing Government services and co-ordination closer to the people. Progress in the maintenance of government buildings and infrastructure (excluding schools, colleges, hospitals and clinics) can be described as "marginal". The infrastructure works were aimed at preventing further deterioration of the buildings. The backlog of work still to be done is described as "major". Financial constraints were blamed to be the cause. Only 63.9 % (R 261m) of the required annual budget (R 408.3m) was provided. Resources allocated for this function are insufficient, and there is a risk of infrastructural decay. (Annual Report 2001/2, Department of Public Works).

National Community Based Public Works Program

Many job opportunities have so far been created under this program. The national and provincial governments have also invested huge amounts of money in it. The national government contributed about R136.5m (66.6%) and the provincial government contributed about R68.4m (33.4%) Having poverty alleviation, economic growth and job creation as critical to development this state intervention have gone a long way in addressing the plight of the poor. In relation to the broader unemployment level in Limpopo Province, this is a "drop in an ocean". The framework for growth and development indicates that the target for the real reduction of unemployment after population growth should be 35% by 1999 and 30% by

2004.Limpopo Province's Growth and Development Strategy 2000) According to Statistics South Africa (2000), the unemployment rate for the province stands at 40%. The economic growth target is 3.5% by the year 2000 and 5% by the year 2004. Sources indicate that the national economic growth is still between 3% and 4% per year. All these figures show that much effort is still to be put in poverty alleviation.

Integrated Development Planning

The Integrated Development Plans Municipalities should strive to address socio-economic development problems of the total area of jurisdiction. An analysis of the Management plan for the Department of Local Government and Housing(2001/2), reflects that development planning still remains a major challenge as many of the municipal plans are not comprehensive enough. Most of the plans that were developed were based on the Development Facilitate Act of 1995, which was used to develop the Land Development Objectives requirements of those areas which emphasized Urban biased spatial development. A review of the plans tends to show that the involvement of communities on economic needs was limited in most instances. The need to develop spatial Planning for sustainability and viability of the Municipalities cannot be over emphasized. It should be mentioned that in terms of the System's Act of 2000 and the constitution of South Africa Act of 1996 demand that Local governments should be developmental in nature and cover the socio-economic well being of the total area of jurisdiction.

Promotion of Local Economic Development

To activate local wealth creation by promoting job creation, investment and development of small micro and medium-sized enterprises within the framework of the RDP. To that end the following steps have been put in place:

- Mobilise investment both locally and internationally.
- Reengineering municipal resources to support SMME's with entrepreneurial skills development, access to new technologies that will enhance their production as well as access to markets and credit. Markets should be developed in rural areas.
- Develop Agricultural, Transport, Marketing, Tourism and Industrial Strategies in order to enhance local economic development.
- Review tender policy and by-laws, which inhibit ordering from SMME's in order to end discrimination against micro and small enterprises.
- Develop policies that make it possible for SMME's especially previously disadvantaged groups, to participate in the procurement system of the Municipality.
- Leverage government and international Donor Fund to support Local Economic Development projects; and
- Foster partnership with other stakeholders in support of poverty alleviation and job creation projects in all clusters; e.g. agriculture tourism and in industry. The progress of the process so far is therefore assessed as good; though much work need to be done in capacity building, skills development, consolidation of service delivery and in governance.

The Department of Provincial and Local government, through the Local Economic development Fund, makes LED funds available. At National 32 projects have been funded so far. The total estimated amount budgeted for the program in the Province for the period 1999 up to 2004 is R58m. The extent to which this program addresses poverty and job creation is highlighted below: in relation to temporary and long-term jobs created. The number of temporary jobs (TJ) created are as follows: Nkidikitlana poultry project created 39 (TJ), Vegetable garden, brick making and broiler community projects in Louis Trichardt, 200 producer-co-operatives in Aganang, 198 (TJ), Modjadji hydro phonics vegetable flowers project in Bela-Bela, 50 (TJ) Thabazicubi hydro phonic vegetable flower project in Waterberg district, 60 (TJ), Waste recycling project in Makhuduthama Sekhukhune, 18 (TJ) and 205 (TJ) were created in agricultural farming project in Lepelle in Waterberg district.

LED created a number of long-term jobs, (LTJ) in the following activities: Business hives, farming bakery and pottery in Mokgalakwena Waterberg district created 187 (LTJ), Nkidikitlana poultry project created 17, (LTJ), vegetable garden, brick making and broiler community project in Louis Trichardt, 70 (LTJ), Spirulina production project in Musina 49 (LTJ), Aganang producer co-operative 192, LTJ), Modjadji hydro phonics project in Mopani 60 (LTJ), Thabazinibi hydro phonic project in waterberg 30 (LTJ), Thohoyandou fruit and vegetable processing plant, 60 (LTJ) Makhuduthama waste recycling 10 (LTJ) and agricultural farming in Lepelle project, 45 (LTJ). In the final analysis a total of 970 temporary jobs and 885 long-term jobs were created.

Transformation of the Municipal Structure

To create a municipality capable of dealing with new challenges facing the area of their jurisdiction and to a certain extent, the country as a whole. To eradicate racism and create an environment for equality and justice. For that matter the following areas have been put on the agenda:

- Institutional transformation.
- Implement affirmative action and employment equity as part of the restructuring process.
- Develop a unitary administration system.
- Build capacity within the staff of the Municipality. Develop systems, policies and procedures that are suitable for the Municipalities.
- Develop visionary administrative and political leadership through training and capacity building
- Establish effective credit control measures and
- Establish effective financial management system procedures and control. The progress of the process made so far is good but we need to give some time for these developments to consolidate.

Data shows that this program has made a significant progress, for example in conducting free and fair local government elections, establishing municipalities, ensuring the smooth running of municipal transformation and 186 (83.7% water, sanitation, roads, storm water and electricity projects which were completed, as well as proper management of disaster incidents. 14 other projects were also completed (e.g., the Madombidzha Brickmaking, Manavhela Poultry, Midoroni Brickmaking, Muduluni and Vleifontein vegetable farming, Modjadji and Masemola Hydroponics farming). All the 32 municipalities completed their Interim Integrated Development

Plans. The Housing Board funded over 36 townships; 10 private townships were established, producing over 19000 residential houses, a business hotel and public resort and conference facilities. The Housing subsidy Scheme has also created about 250 jobs per 500 units. However, the demarcation of sites to address the backlog is going slow. Out of 15000 sites to be demarcated, only 46.1% (6918) has been completed. (Annual Report Department of Provincial and Local Government 2001/2)

Conclusion

The nature of services provided by provinces is such that revenue cannot be sufficiently raised to cover for the infrastructure needed, within a short period. We have argued that the 1996 Financial and Fiscal Commission recommended the application of a formula based system in resource allocation. An analysis of the budgets over the period spanning between 1995-2001 financial years seems to indicate that, a greater part of the budget goes towards education, health and welfare. This attests to the national formula which is bent towards social services. And finally the assessment of infrastructure program and projects seems to indicate this trend of the national fiscal formula.

CHAPTER FOUR

INSTITUTIONAL REFORMS, INFRASTRUCTURE AND FINANCIAL MANAGEMENT

Perspective

Whether were South Africans to gain access to affordable, quality services is integrally linked to the performance of the intergovernmental system, the motion of an equitable share of nationally raised revenue, allocated as entitlement to provincial and local governments. The constitution distinctively assigns service delivery roles to the three spheres of governments and substantial spending of social household and economic infrastructure occurs in the provincial and local government spheres. The post-apartheid system therefore aims to democratise state institutions, redress inequality and extend services to the broader population. The system comprises three "spheres" of government namely national, provincial and local. They are spheres, rather than tiers of levels, to reflect that they are distinct governments in their own rights each accountable to its own legislature or council.

South African's fiscal system is based on a revenue-sharing model, with provinces largely dependent on transfers from the national government, while municipalities are only partially dependent. The underlying principles of the system as we have argued are grounded in the constitution and related legislations, and its functioning has evolved since 1994. The different spheres of Government play interrelated roles in support to social and basic services sectors. A major fiscal challenge is to support these roles through effective revenue mechanisms. The National Departments of education, health, social development and housing department focus on policy making and monitoring rather than implementation. While

national government has responsibility for few per capita-type expenditures, provinces and local government are responsible largely for such population dependent functions. "The constitution assigns provinces key delivery functions for social services, which include school education, health, social grants and welfare services and housing; provincial roads; and agriculture support. While comprising 89 per cent of provincial spending, these public services generate little or no revenue and have to be funded through national transfers" (Intergovernmental Fiscal Review 2003: National Treasury). Provincial budget totaled R121,4 billion in 2001/02, comprising R117,5 billion of transfers from nation, and R3,9 billion own revenue.

Local government generally has more fiscal capacity than the provinces. Although there are big variations among municipalities, they raise on aggregate about 90 percent of own revenue. However, although budgeting on the expectation of collecting all their revenue, many municipalities do not collect a significant portion of revenue, many municipalities run into deficits at the end of the financial year.

The Government recognizes that the local sphere should be strengthened if it is to discharge its developmental mandate. It is therefore worth examining the intergovernmental fiscal system, in order to come up with strategies to improve national and provincial support to local government. There is also a concerted attempt to enhance cross - sphere linkages in local planning and budgeting, through the integrated sustainable Rural Development Support Programme and the Urban Renewal Strategy. Services delivered by the public sector, either directly or through a system of public regulation, are targeted at the delivery of public goods and quasi-monopolistic services, redressing poverty and stimulating

development. These services and expenditures are directly linked to Government's macro-economic policy objectives. It is therefore critical that the greatest possible outputs are achieved at the lowest possible cost.

Lessons from the Provincial experience

The new provincial government had little or no time to prepare for their establishment in 1994. The Provinces spent a lot of time just becoming operational, having had to merge 17 different administrations into nine new ones. Since there was a centralized budget process before 1994, most provinces had to develop capacity, expertise and management information systems. The pressure to extend service delivery in order to correct past injustices was so high that even before the end of 1994 people were calling for delivery. This was in the middle of self-formation. Many Provinces were not in a position to monitor or control the expenditure of departments. They had to depend on the one-year input driven budgeting system used at that time and lacked proper management system. As a consequence budget problems and financial pressures were not identified early enough.

Overspending, particularly in departments like education, health and welfare was only identified late in 1997 during preparations for the 1998 budget. During this time departments frequently ignored their budget, and provincial treasuries were unable to curb overspending on time. All provincial treasuries had to deal with over spending, albeit in varying degrees. Some ran large overdrafts and national government was forced to intervene when some banks refuses to extend additional overdraft facilities to two provinces. The implementation of a multi-year budget from 1998 onwards also helped provinces prepare more realistic budgets in line with policy priorities.

With the various difficulties at formation stages of Provincial Government as the system matured problems of a different nature came about. "Although budgeted expenditure provided for growth rates higher than inflation in 1999/2000 and 2000/01, actual provincial expenditure was less than actual provincial revenues. This resulted in surpluses of R3,5 billion and R3,3 billion respectively. While substantial proportions of the surpluses were planned for repayment of debts, part of the surpluses reflects lack of capacity to spend." (Intergovernmental Fiscal Review 2003: National Treasury:22)

In the same Intergovernmental fiscal Review it is argued that Provinces have implemented appropriate and far-reaching budget reforms which are poised to position provinces on a sound financial footing. Provinces should now focus on accelerated service delivery which is measurable and pro-poor.

Institutional reform and budget performance

The 2001 Intergovernmental fiscal review by National Treasury provides an in depth analogy in the area of institutional reform process in provinces. The last eight years saw significant institutional reform of South Africa's intergovernmental system. Provincial finances have seen a marked turn around since 1998 / 99. The newly implemented Public Finance Management Act (PFMA) and the expanded expenditure envelope for the 2001 / 02 to 2003/04 medium - term expenditure framework (MTEF), lay a base for provinces to reinforce by programmes and expand service delivery. Prudent financial management helped provinces turn a combined deficit of R 5,6 billion in 1997 / 98 into a surplus of R 0,6 billion in 1998/99. This entailed the creation and strengthening of new institutional arrangements, building management capacity

and streaming links between the different spheres of government.

More recently the PFMA has provided a firmer legal framework for accountable and transparent governance in national and provincial government. Stable budget and improving financial management means that provinces can now focus more on quality of spending and value for money. Total provincial revenue grew at about the same rate as inflation over the three years to 2000/01. National transfers grew at an average annual rate of 7.1 percent a year. Provincial own revenue grew by 9.3 percent because of these debt repayments; total provinces expenditure did not keep pace with inflation. The growth rate in provincial revenue over this period is however exaggerated by interest revenue derived from significant bank balances held as provinces accumulated surpluses to repay debts. (Intergovernmental Fiscal Review 2003, National Treasury:14)

Most of provincial revenue continues to be from national allocations. Two types of transfers make up the allocations, namely the equitable shares and the conditional grants, constituting 84% and 11% respectively. Of the total provincial revenue more than 95% comes from national. National Government determines what conditional grants should be used for, whereas Provinces have more discretion with regard to equitable shares.

In the context of co-operative governance and the maturation of the intergovernmental fiscal system, service delivery modalities takes different shapes in between the spheres. Various arrangements and changes are made for shifting services to other spheres. This affects how resources are allocated and transferred between the spheres.

An analysis of transfers, especially taking into consideration the equitable share reflects a favourable trend for provinces. The 2001/02 budget saw a significant increase in Provincial allocations. An average real growth of 2,2 per cent was earmarked for the three financial years spanning 2000 to 2004.

While provincial revenue generally kept pace with inflation over the three years to 2001/01 growth in adjusted provincial expenditure was somewhat slower. It grew at an average annual rate of 4.7 percent a year, from R 96,0 billion to R110,1 billion. This is 1,8 percentage points below the average inflation rate. However the lower growth must be viewed against the background of much faster growth in the period up to 1996/97. This culminated in huge budget overruns in provinces and a combined deficit of R 5,6 billion in 1997 / 98. To enable provinces to deal with their liabilities and to place spending on sustainable trajectory in line with revenue, growth in spending was sealed down in the period up to 1999/2000. Provinces had to budget for surpluses starting with R 0,6 billion in 1998 / 99. The cumulative surpluses in subsequent years have reduced provincial liabilities to negligible levels. As a consequence, provinces are now beginning to allocate more resources to priority programmes. (Intergovernmental Fiscal Review 2001:19)

Provinces had significant surpluses in the past three years. These surpluses are not purely unspent funds. The surpluses also include funds that are committed to specific projects that are underway or services that have been rendered for which payments could not be made by the end of the financial year. In addition to the surpluses, provinces set aside funds to cater for unforeseen contingencies and unanticipated expenditure. The coming into effect of the PFMA thus seems to

have made provinces more confident that departments can manage their finances better. (IGF Review 2001:20)

Through sound financial management, provinces have placed their finances on prudent fiscal management into tangible development that creates a better life for all South Africans. Current spending and budget trends suggest that provinces are consolidating social services delivery, increasing capital expenditure, and enhancing the quality of spending. Their capacity will continue to be tested by the need for social services and infrastructure. While expenditure trends are important, measuring actual performance and output is now increasingly important. This requires a focus on non-financial information like service delivery indicators. The purpose is to give public, as well as managers, a better sense of the quality of spending, the impact of policies and budget and to support forward planning.

Cross sectoral issues in the provinces

Many of the key services delivered by provincial government are labour-intensive. Of the one million civil servants employed by national and provincial government, provinces employ over 70 percent. Expenditure on personell constitutes 60 percent of total provincial budget, and over 64 percent of health and 89 percent of education expenditures. Public policy of the past four years has sought to maintain a balance in the budgetary expenditure items. A need was identified for stabilizing personnel expenditure at the provincial level, while increasing resources for recurrent non-personnel and capital spending. The objective was key in stablising provincial finances and improving the quality of services delivered.

Between 1997 / 98 and 2001/02 personnel spending declined by approximately 0.9 percent a year in real terms. The number of people employed by provinces declined by 8.5 percent or about 3 percent a year. This implies that provinces managed to contain personnel expenditure mainly through voluntary severance and natural attrition. The number of people employed in each province per one thousand citizens, raise some contradictions. For example Gauteng employs just 13,9 people per 1000 residents as opposed to the Northern Province 21,1. However Gauteng has 5,5 health workers per 1000 people whereas the Northern Province has just 4,4 . Gauteng has an average learner: educator ratio of 30,9 and the Northern Province 33,5.

While the Limpopo Province is overstaffed relative to Gauteng they have fewer health workers and educators. The bulk of this overstaffing is in departments such as agriculture, public works and roads. The real effect of these distortions is that while Gauteng can afford to have a capital budget of R 2 billion, the Limpopo Province has a capital budget of just one quarter of that. Unless Limpopo Province is able to reduce staff members in non- social sectors, it will not be able to employ more educators, health workers or allocate more capital expenditure.

The composition of staff in a province provides some insights into personnel issues. Whilst the average proportion of staff in the three non- social sectors is about 14,6 percent, and totals 106 341, the poor provinces that include former homelands have significantly higher shares of their personnel in the non-social sectors. Relatively poor provinces have higher shares, Limpopo Province at 23,9 percent (or 26 752) Free State 19,9, North West 18, Mpumalanga 18,4, Eastern Cape 15,1 and Kwa-Zulu Natal 10,8 percent. This totals to 93 502

staff out of 106 341. Provinces without former homelands like Gauteng only have 5,9 percent of their staff in on-social services and Western Cape 7,3 percent. Northern Cape is above average at 11,2 percent but lowest in actual numbers at 1703.

The reasons for these distortions in the balance between social and non-social sectors can be traced to the manner in which provinces came about. Provinces like Eastern Cape, Kwa Zulu Natal, Limpopo Province and Mpumalanga that incorporated homeland administrations are overstaffed relative to those that did not have to be integrated with former homeland administration like Gauteng Western Cape. The absence of a retrenchment too made it difficult to adequately align employment trends with policy and budget priorities. While natural attrition and voluntary severance are useful tools in rightsizing provincial structures, they do not allow for more targeted interventions in personnel management.

This skills mix of staff in each provincial sector must also be examined for example provinces have 40 percent of senior managers while employing 70 percent of all civil servants. National department have 60 percent of senior managers while they employ just 30 percent of staff. For more effective delivery, administrative structures in education, health and social development services are normally decentralized into smaller districts and cost centers. A second area to address is that of critical professional staff. Effective and expanded service delivery in health, education, housing and roads is dependent on the employment of skilled personnel. To attract and retain such professionals, remuneration packages, work conditions and non-remuneration benefits will need to improve.

The problem is even more serious in poorer provinces where even the private sector fails to retain sufficient

professionals in order to recruit and retain skilled professionals, particularly in areas such as management, finance, IT, health and project management poorer provinces may need to pay a premium. Policy to effect a better distribution between the private and public sectors and between provinces must take account of the emigrations of professionals from South Africa to richer countries. The Department of Public Services and Administration is developing policy to attract and retain staff with scarce skills throughout the public sector, but focusing on geographic disparities as well.

Infrastructure development

South Africa's post-apartheid government inherited considerable infrastructure backlogs in previously neglected areas. This has been especially prevalent in education, health, housing, clean water, roads and electricity; where provincial and local governments have major responsibilities. Since provincial systems do not accurately differentiate between maintenance and capital this analysis largely refers to both when it refers to infrastructure spending, provincial capital expenditure is organised into four functional categories:

- * **Housing** : national housing grants to provinces, when the programme was not operated by provinces.
- * **Roads** : construction and rehabilitation of roads for which provinces are responsible.
- * **Social** : Mainly schools, clinics and hospitals as welfare has negligible capital spending .

* **Other** : parks , tourism infrastructure, dams
and capital projects not classified in
other categories

Faced with many financial pressures provinces reduced spending on infrastructure maintenance, rehabilitation and construction over the three financial years ending in 2000/01. In response to this trend, the 2001 budget identified accelerated infrastructure service delivery as one of its main priorities. A targeted infrastructure initiative including a new conditional grant was facilitated by positive economic and financial trends and a significant expanded expenditure envelop. Progress in addressing infrastructure backlogs is set to continue over the next three years, but significant challenges remain. Core among these is the need to improve the institutional arrangements, particularly those related to placing and implementation in order to ensure sound provincial capital investment.

Trends by Provinces

Expenditure reduction in construction and maintenance to deal with budget shortfalls are common in public sector budgeting. South Africa's provinces were no exception to this. They cut their capital spending to deal with short term financial pressures created by debt, rising personnel costs and slow revenue growth. The decline of provincial capital expenditures and the reversal of that trend is an important development. Following a total provincial capital spending of R 8,1 billion in 1997/98 capital expenditure dropped by 24 percent to 6,2 billion the following year. Eight provinces reduced spending with Gauteng the only exception. The next year 1999/2000 was also lean with capital expenditure remaining below 1997/98

levels in seven provinces. Only Gauteng and Limpopo Province managed to have small increases.

Increased expenditure in infrastructure will be achieved by reforming the institutional and funding mechanisms. Capital project involve long term efforts to plan, design and develop project specifications. They generally require extensive consultation, their financing tends to be complicated, and design, engineering, procurement, tendering and other technical issues are often complex. All these factors can delay project planning, financing, management, and implementation.

South African's provincial governments are relatively new spheres of government. Their political and administrative staff do not always have extensive experience with capital project planning and management. Shortfalls in financial and personnel resources have also eroded provincial capacity in key areas, including infrastructure. Provincial capital investment capacity is often fragmented among provincial departments. The delivery model followed by most provinces involves public works departments as planners, implementing agencies, technical advisors or managers of contracts on behalf of line function management. Typical this arrangement involves unclear purchaser - provider relationships and insufficient performance incentives to ensure that providers deliver upon agreed results. There are also concerns that some provincial treasuries are not appropriately involved in capital project oversight.

Provinces tend to begin planning only after their allocations are finalized. This delays planning and construction and gives rise to rollovers and inefficient resource allocation. In some areas, provincial and national planning processes are not well

linked, with the result that provincial actions do not take full account of national priorities, norms and standards. Similarly, provinces use little of the available demographic and socio-economic information to inform the capital planning process. Both national and provincial treasuries have learned valuable lessons from the flood reconstruction projects, and are developing strategies out of the lessons to improve the efficiency and effectiveness of capital planning and management in the future.

In May 2001, the Budget Council's technical Committee on finance (TCF) agreed that provinces would revise plans to meet basic requirements of the Division Revenue Act 2001. The provinces will provide a summary of medium / long-term infrastructure investment plans, as well as a consolidated summary of three-year allocations. This will cover education, health, public works and roads, and rural development. Project in each sector will be listed, indicating start and completion dates and anticipated costs each year over the project life.

To support effective planning and management, several new practical steps are being considered or already applied.

- Provinces are actively exploring alternatives to the current public works model. Modification include introducing more clearly defined purchaser - provider contracts, and redefining the incentive system such as the excessive costs due to factors within the control of the provider have consequences for the provider. Clear provisions also necessary to deal with provider default.
- An option being explored in some provinces involves creating capital planning and management capacities

separate from the public works department. Some like the Limpopo Province, have also outsourced aspects of their capital investment programmes that tend themselves to public - private partnerships and other arrangements with the private sector.

- There is also merit in standardised and more regular reporting so that information can be aggregated across provinces. For example, allocation and expenditure information should distinguish between capital projects, rehabilitation, and current expenditure maintenance. Planning in each sector should be guided and informed by the latest data available. Provinces should increasingly make use of relevant data from government publications such as the School Register of Needs, Census 1999, Household Surveys, Measuring Poverty in SA, 2000 and other publications.
- All capital projects should be subjected to cost - benefit analysis with a thorough assessment of their budgetary implications. This should include operational costs throughout the life of the project, revenue streams expected and attendant risks. In the care of concurrent functions, national departments should assume a role in defining and / or developing norms and standards for the sector. Structured and more focused intergovernmental forums, e.g. Minmeccs, can guide this process.
- Finally, there would be merit in linking borrowing to capital budgeting. Linking the two could facilitate the protection of capital allocation, while at the same time ensuring that all borrowed funds are used to expand public capital stock. There are valuable lessons

to be learned from the step by - step process followed by public private partnerships projects. Of particular relevance are issues of affordability, value for money and assessment of the socio- economic and environmental impact of project.

Public Private Partnership

When rolling out service delivery, it became necessary throughout provinces to critique and come up with better ways of service delivery. In the spirit of the Reconstruction and Development Program, the need for partnerships is apparent. Where provinces do not have capacity, agreements are entered with the private sector for projects implementation. The private sector also consistently in an endeavour to seek investment opportunities engages Government, for partnerships. These partnerships are founded on the need for Government to spend less, while rendering more efficient services to the community.

National Treasury has come up with mechanisms for assisting a Government department and/or province which opts to enter into public private partnerships. Treasury regulations provides for modalities for such agreements, which should all the time aspire to ensure that the cost is reduced while the level of services improve. This should be possible as the private sector will have developed the necessary technical capabilities and competitiveness.

"Affordability is a cornerstone of fiscal management, and no less o in PPP. While a PPP may shift the capital financing requirement to the private party and thus defer budgetary impact over time, this still requires that a department's budget is able to honour the cost of the service - PPPs force

the public sector to calculate real costs. A number of provinces are embarking on PPP initiatives. Most are in the early phase of planning and feasibility studies. Since the promulgation in 2000 of the Treasury Regulation governing PPPs, Provinces are identifying a wide range of service sectors and infrastructure initiatives that lend themselves to PPP delivery." (IGF fiscal review 2001:110)

Implementation of Public finance Management Act

In recent years a very important Act of parliament, namely the Public Finance Management Act, was promulgated. This act was implemented for the first time in the financial year 2000/01. The act revolutionised and modernised the management of public finances. The fundamental objectives of the act was to build efficiency and effectiveness, bring about more strict accountability, enhance value for money in public expenditure, and improved reporting. Responsibilities of accounting officers were stepped up to improve even the management of procurement functions.

While creating a more streamlined and delineated system of financial management, the accounting officer was made to be at the centre of the fiduciary responsibility. Together with the creation of the chief financial officer responsibility, other civil servants 's responsibilities are thoroughly expanded.

The Act also brought about the need to improve systems, and capacity building. In the initial phases the emphasis was on government departments developing capacity to be able to implement the act. Several guides were provided, including Public Finance Management Act implementation guide, new Treasury Regulations and a Guide for accounting officer. In the same vein priority issues were identified, in order to

bring financial management to acceptable levels. Executing authorities or Members of the Executive Councils (MEC's) became more in the position to monitor the respective accounting officers in the management of their responsibilities.

The Early Warning Reporting System came about mainly to ensure that the authorities will be able to pre-empt financial difficulties on time. This became necessary during the crises in most of the Provinces in the period around 1997. The system is premised on monthly reporting which is able to detect trends in expenditure and revenue.

In the annual report of the Limpopo Province for 2000/01 regular reporting to National Treasury and departmental co-ordination are identified as core to prompt financial management. " Reports to National Treasury have been submitted on a monthly basis and all payments have been made timeously. Cash flow management norms and standards have been developed and rolled out to all Provincial Departments. New reporting frameworks and guidelines have been developed to ensure the correct implementation of the Public Finance Management Act and GFS." (Limpopo Province Annual Report for 2000/01).

The Public Finance Management Act also encourages improved corporative governance, and management of risk. Through Audit Committes, chaired by external parties, a risk profile is developed to assist in the formulation of an audit plan to be implemented by an internal audit unit.

Conclusion

An analysis of the intergovernmental fiscal relations depicts several strands, in as far as provincial finances are concerned. In terms of the legislative and policy framework, provinces will continue to rely on national for their revenue. These revenue as allocated is mainly earmarked for financing education, health and welfare.

Provinces have in the past years improved their capacity to manage their finances. Most provinces have turned around their indebttness and are now operating without major overdrafts.

Increasingly the focus on the management of provincial finances is on directing resources to the right priorities, as well as measuring perfomance with regard to service delivery.

CHAPTER FIVE

CONCLUSION.

5.1 EVOLUTION OF THE MACRO-ECONOMIC FRAMEWORK

In the period since the first democratic elections in 1994, the South African Government has done a lot of work in providing for a transformed legislative and policy framework. The second term of Government is to come to an end in 2004. Many in Government including the President have said that the first five years (1994-1999), was the era of forming the legislative framework, i.e. the assertion that 'the fundamentals are in place'. The second phase (1999-2004) was earmarked as the period of implementation.

It is evident from the study that the country does not have a 'national consensus' in relation to the macro-economic policy framework. There is no fundamental agreement between business, labour and government on the key pillars of the economic development strategy. The notion of restructuring of state assets, as a way of bringing in foreign direct investment is under dispute. Labour argues that the government's fiscal policies are too conservative, and the redistribution strategy in favour of the poor is not comprehensive enough.

An analysis of the performance of the South African economy, in the context of the world economy, as argued by the President in the opening of parliament address (2003), is that the economy is performing far much better than many developing economies. Indications are also that the Limpopo Province's economy has grown much higher than the national average, albeit the fact that it is from a very low base.

However the performance of the economy has not made a major dent on the unemployment levels in the country. Even though there has been the government has insisted on labour intensive programmes, that has not made a mark on the unemployment levels. On the other hand, most of the private sector initiatives are based on high-tech. Motor companies have won major contracts to produce cars for the foreign market but have rather relied on the usage of high technology, rather than labour. There has been, what Cosatu calls 'casualisation' of labour. Most companies including government departments and parastatals have outsourced some of the 'non-core functions' in order to deal with productivity and cost. The country's productivity levels have not improved significantly as indicated in the June statement of the Governor of the Reserve Bank.

On the other hand Government has invested in programmes that are intended to change the historical apartheid patterns, especially in relation to the welfare of the poor. A simple example is that old age pensions are the same for all racial groups in the country. Some of the interventions include free education up certain grades, free housing, child support grants, free health, primary school feeding schemes, and at local government level certain levels of free water and electricity for poor households.

The challenge however is the performance of the various programme, in as far as to whether they are reaching the targeted sectors. Some have argued that the investment in social services could also be directed towards capital formation, i.e. invest in job-creating projects which will be more sustainable in a long run.

Other state interventions relate to spatial targeting encompassed in the integrated and sustainable rural programmes as well as the urban renewal programme. Through these programmes poor areas with high densities are targeted for public investment, in order to address poverty and economic growth. Some of the challenges relates to the capacity of institutions in the public sector to implement the programmes for maximum beneficiation of the communities.

5.2 NATURE OF PROVINCIAL BUDGETS

The nature of provincial budgets is that they rely for their financing on national allocations. This is mainly due to the legislative taxing structure, as well as the fact that most of the functions rendered by provinces are not generating revenue. These functions include school education, health, welfare, provincial roads, agricultural support, etc.

Furthermore national budgetary policy framework for provinces dictates that eighty per cent of the budget should go towards education, health and welfare. One of the major problems in Limpopo Province is that of staff as a percentage of the total budget. Given that 20 per cent is allocated to the economic and infrastructural functions, and the problems of staffing, not much remains for roads maintenance and construction.

When provinces were established in 1994, many lacked financial skills and systems for efficient and effective financial management. Some ran into major deficits, and national government was compelled to intervene in provincial financial affairs more than once. However over a period of time, especially from around 1999 to 2002, there were major improvements in financial management capacity. What is

required qualitative improvements, which will focus on ensuring that public spending goes to the real priorities, and that there is a comprehensive performance management system.

5.3 LIMPOPO 'S INFRASTRUCTURE CLUSTER, AND FINANCING OF ROADS

A report of the infrastructure summit held in August 2001 concluded that there is a need for a high level co-ordination at national, provincial, local and parastatal levels with regard to infrastructure provisioning and the development of mechanisms and strategies to address huge infrastructure backlogs.

Firstly, there is a recognition that Limpopo Province has a major backlog. That co-ordination of infrastructure investment has not taken roots. A housing project will be implemented when those dealing with roads, water, electricity, and telecommunications are not aware. On the other hand the responsibilities of the various spheres of Government should be well defined. The roads falling under national, Limpopo province, and municipalities should be appropriately defined.

At a provincial level, the department of public works has a lot of employees forming part of the roads construction teams, although there is no sufficient engineering and technical capacity. Most of the municipalities in Limpopo Province do not have a single technical person to deal with roads infrastructure development. On a more broad level there is a need to address the issue of capacity.

It is evident that not enough resources are allocated to maintain the existing infrastructure, let alone the development of new roads. As in the world development report of 1994: inadequate maintenance is a universal failure of

those providing infrastructure in developing countries. A well-maintained paved road surface should last for ten to fifteen years before needing resurfacing, whereas if not well maintained it will severely deteriorate in half the time. Again as it has happened elsewhere during financial difficulties the Limpopo Province cut the roads budgets by almost half. "Curbing capital spending is justified during periods of budgetary austerity, but reducing maintenance spending is a false economy. Such cuts have to be compensated for later by much larger expenditures of rehabilitation or replacement. Because inadequate maintenance shortens the useful life of infrastructure" (World Development Report:1994)

5.4 RECCOMENDATIONS FOR FINANCING INFRASTURE AND ROADS.

A provincial pact on roads infrastructure financing and development is necessary between all the critical stakeholders. Within Government role delineation is necessary between the national government, provincial, district and local government levels. Each of the tiers should play a complimentary role.

In Limpopo for instance only the N1 is part of the national mandate, whereas all other roads fall either under the Province of municipalities. Many of the municipalities are still to develop capacity to deal with matters of roads infrastructure development. Given the historical neglect of Limpopo, by the former RSA government, an opportunity exist for national to take responsibility of some of the roads which regional (SADC) significance.

In the same vain, national government can create the necessary environment for the private sector to play a role, especially through the private-public partnerships. The principle of

Built Operate Train and Transfer (BOTT) can be applied. With the private sector there are many other role-players which include mines and commercial farmers. The many mines opening in Limpopo are going to affect the roads utilisation in the province. Partnerships can be ensued whereby common funding may be sought.

The role of communities is also very critical. The many villages in the Province where there are hardly any major economic activities can not be left out of the picture. Utilisation of appropriate technologies and labour intensive methods are relevant for the rural areas. More importantly is the access routes to the villages, especially for use by emergency vehicles like ambulances.

How then does Government build efficiencies on the scarce resources. Over and above co-ordination the efficiency of the various building teams should be enhanced by partnerships with the private sector. The institutional arrangements broadly speaking should be addressed, where all the role-players will play a supporting role.

Lastly Government should prioritise roads infrastructure financing and development. More resources should be made available to finance roads development as well as maintenance. The providers of financing, like banks, should provide favourable terms for the financing of roads. The state should put more resources in the skills development and training.

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