Responding to #FeesMustFall

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CABRI conference
7 March 2017| Ouagadougou

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Outline

- Medium term budgeting and the expenditure ceiling
- Context of the 2016 Budget
- The #FeesMustFall protests
- Reallocating resources towards higher education
- Reflections and conclusions

- **NB: US$1 = +/- R15**

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Medium-term budgeting in South Africa

- Medium-term expenditure framework (MTEF) approach adopted in 1997.
  - Budget compiled for next three years but appropriated annually
  - In October each year the Minister of Finance tables a medium-term budget policy statement, which sets out the macroeconomic and fiscal policy framework and the broad expenditure priorities
  - In February, the minister tables the budget and all the details of expenditure allocations.
  - In practice, all the key decisions about the budget- including major shifts in expenditure - are taken in October.
- MTEF projections facilitate discussion of an expenditure path, but they did not constitute a binding medium-term target.
- Until 2012 significant additional resources to be added in the next budget cycle – i.e. the MTEF was a floor, and budget process was focused on the additional resources.
- After 2012, government committed itself to not adding additional resources into the medium term non-interest spending projection – the MTEF became a ceiling, fixed in nominal terms.

Context of Budget 2016

- In May 2015 a three-year public sector wage agreement concluded. This absorbed all resources above baseline in the MTEF, including R60 billion set aside for new policy initiatives over the medium term.
- Economic growth and inflation revised significantly in October 2015 and again in February

		2015/16	2016/17	2017/18	2018/19
Real GDP growth	Budget 2015	2.0%	2.6%	3.0%	
% change	MTBPS 2015	1.2%	2.1%	2.7%	2.8%
	Budget 2016	**0.9%**	**1.2%**	**1.9%**	**2.5%**
Inflation	Budget 2015	4.8%	5.9%	5.6%	
CPI	MTBPS 2015	5.5%	6.0%	5.8%	5.8%
	Budget 2016	**5.4%**	**6.6%**	**6.2%**	**5.9%**

- Gross tax revenue for the 2015/16 fiscal year was revised R11.6 billion lower than the original estimate at the 2015 Budget.
- **South Africa faced heightened scrutiny from ratings agencies and bond investors.**

University education and the budget

- Since democratisation, South African university education had undergone a process of "massification", which had been inadequately funded.
- There had been massive increases in allocations to support enrolment of academically-deserving students from poor communities, but the number of students had grown faster than available funding.
- There is no clear national framework for financing students who – although not affluent – are above the modest threshold established the means test.
- As a result, many students face financial hardships that undermine their ability to succeed academically.
- The governing party and government had repeatedly committed themselves to "free higher education for the working class and the poor".
- However, there was little thought given to the financing of this commitment and there was no clear implementation plan.
- Government policy prioritised funding for vocational training colleges, rather than universities. But vocational colleges were ineffective, so students prioritised university education.

The #FeesMustFall movement in 2016

- During 2015 students had mobilised for the removal of a statue of Cecil John Rhodes at the University of Cape Town. The movement was successful and the statue was removed, creating a strong sense of possibility amongst students.
- In October 2015, the University of the Witwatersrand announced a 10.5% fee hike, far in excess of inflation. Students at Wits began protesting on 14 October 2015, with a sit in and lock down of the university.
- The protests quickly spread to other universities, particular UCT and Rhodes. The mass movement gained momentum and there was widespread public sympathy with the student's cause.
- On 21 October, students protested at Parliament while the MTBPS was being presented.
- On 23 October, while students protested outside the Union Buildings (the seat of government) President Zuma announced that there would be no increase in university fees in 2016

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Offering choices to government

- In December 2015, the Minister of Finance quantified the challenges and offered a full range of possible solutions, and asked cabinet to deliberate on the way forward.
- Three options were presented together with pros and cons of each
  a) Reprioritise expenditure within the existing limits, either by finding efficiencies or by closing down programmes
  b) Raise additional resources through taxation
  c) Raise additional resources through borrowing.
- In terms of option (a) the following could be considered
  – Close-down non-performing programmes
  – Rebalancing within the skills system
  – Large social infrastructure programmes
  – Cuts to administrative budgets
  – A general haircut – i.e. percentage cut to all programmes
  – Wage freeze across the public service
- In the end, Cabinet agreed that only option (a) could be entertained. Little guidance was provided in respect of which elements of spending would have to be cut.
- Later that day, the Minister of Finance was replaced…

Reprioritisations in the 2016 budget

R million	2016/17	2017/18	2018/19	MTEF total
Higher education	4 882	5 555	5 832	16 269
New Development Bank	3 750	3 500	4 500	11 750
Provision for contingency reserve	3 000	–	–	3 000
Small business development	150	158	167	475
Planning, monitoring and evaluation	50	100	150	300
Total	**11 832**	**9 313**	**10 649**	**31 794**

Source: National Treasury

R million	2016/17	2017/18	2018/19	MTEF total	% of baseline
National government	**6 163**	**6 355**	**6 717**	**19 235**	**0.8%**
Compensation of employees	1 499	2 981	2 729	7 208	1.5%
Goods and services	1 412	1 504	2 090	5 007	2.5%
Transfers to public entities	2 683	1 539	1 548	5 770	1.7%
Other national spending items[1]	568	331	350	1 249	0.2%
Provincial government	**3 551**	**1 659**	**1 620**	**6 830**	**0.4%**
Provincial equitable share	1 500	1 000	800	3 300	0.2%
Provincial conditional grants	2 051	659	820	3 530	1.2%
Local government	**2 150**	**2 015**	**2 650**	**6 815**	**2.2%**
Local government equitable share	300	500	1 000	1 800	1.1%
Local government conditional grants	1 850	1 515	1 650	5 015	3.7%
Total baseline reductions	**11 864**	**10 029**	**10 987**	**32 880**	**0.8%**

1. Transfers to private enterprises and households, as well as capital items

Source: National Treasury

Reflections and conclusions (1)

- National Treasury was able to respond to the pressure, demonstrate flexibility in the fiscal system and retain the credibility of the budget.
- This had some negative consequences.
  - It appeared to many that, if you put enough pressure, Treasury can find the money.
  - For students, two weeks of protest resulted in R16 billion additional resources.
  - For government departments, the possibility of mobilising additional allocations was demonstrated.
- Despite extensive transparency, the costs of the reprioritisation exercise were not fully understood. Treasury was hesitant to effectively communicate the costs, partly because they were politically unpalatable (e.g. the impact on service delivery)
- The reallocations towards university education is a regressive move in a very pro-poor budget.
- There are now less resources to fund other priorities (e.g. early childhood development).
- There was widespread public deliberation on the budget – a thousand flowers bloomed. National Treasury and the Minister of Finance adopted an open and engaged stance towards this debate.

Reflections and conclusions (2)

- The crisis could have been avoided if the pressure for student funding had been addressed years earlier – this pressure resulted from a failure of policy coordination.
- Because the system could not respond to the long-term build up of financial pressure, a short term, immediate challenge broke out.
- But the underlying imbalance has not been addressed (except by throwing money at the problem). Consequently a discrete challenge has became a continuous one.
- Since 2016, the in-year and medium term demands on the budget have increased significantly and the student protests continued.
- Budget institutions were effective in responding to short term pressure without undermining the fiscus, but ineffective in making policy makers and political leadership confront the long-term trade offs.

Thank you