ANC Whip
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Division of Revenue Bill, 2007

The Budget is a financial instrument which the ANC government uses to ensure that its policy programmes are brought into effect through the provision of the necessary financial resources.

Given that the programmes of the ANC government are targeted towards the poor, delivery and the budget are mutually re-enforcing elements of a common objective.

Hence the Division of Revenue (DOR) Bill is critical in ensuring that we track whether it speaks to the priorities that the ANC has set itself in terms of delivery in the different spheres of government.

It is a political instrument that has a specific focus and target, informed by ANC policy and priorities.

Therefore the 5 year plan, the Manifesto of 2004, set very clear objectives which the ANC is required to meet.

The DOR is one such instrument to achieve these objectives, and within its allocations tracking the priorities of the ANC government is essential.

The vertical division of funding in itself is politically determined.

The actual Division of Revenue is not based on a technical formula, but on the political judgment of the programmatic responsibilities of each sphere of government, and the capacity of each sphere to raise its own revenue and meet national policy responsibilities.

These programmes have equally been politically determined, very often at the National Conference of the ANC or at the NGC.

The decision as to where money goes is not just simply a structural decision between spheres of government but it represents and reflects a political choice between National, Provincial and local programme priorities.

Again when we examine the horizontal division between Provinces, much of what the Provinces must respond to are tied correctly to fulfilling Executive mandates and upholding Constitutional obligations.

With regards to the Equitable Share for each Province, again there are deep political considerations with regards to the amount each Province is given under the equitable share, such as rural demographics, poverty levels, population size, backlogs and political consideration of key development areas within the Province which could contribute to job creation.

Finally there is a strong correlation between successive State of the Nation Addresses and the DOR.

The Division of Revenue Bill reflects the legal division of revenue between the three spheres of government, vertically between National, Provincial and Local government and again horizontally between the Provinces. In addition, the Division of Revenue Bill, divides revenue, horizontally within local government through an equitable share of the budget, and divided horizontally by a formula.

The Division of Revenue contains the conditional grants and agency payments to Provinces and Local Government and of course funds retained for National Departments.

Section 214(1) of the Constitution of South Africa requires that every year a Division of Revenue Act determine the equitable division of nationally raised revenue between the three spheres of government.

The Intergovernmental Fiscal Relations Act (1997) prescribes the process for

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determining the equitable sharing and the allocation of revenue raised nationally.

The objectives of the Division of Revenue

Bill are as follows:

- To provide for the equitable division of revenue anticipated to be raised nationally among the three spheres of government for a financial year;
- To provide the reporting requirements for the allocations pursuant to such division;
- To permit the withholding and the delaying of payments in certain circumstances;
- promote better co-ordination between policy, planning, budget preparation and execution processes;
- promote predictability and certainty in respect of all allocations to provinces and municipalities in order that such governments may plan their budgets over a multi-year period;
- promote transparency and equity in the resource allocation process;
- promote accountability by ensuring that all allocations are reflected on the budgets of receiving provinces and municipalities; and
- ensure that legal proceedings in respect of division of revenue disputes between organs of state in the three spheres of government are avoided as far as possible.

For 2007/08, after setting aside a contingency reserve and state debt cost, a total of R478, 0 billion is divided between national, provincial and local government. This amount represents an annual average increase of 11.9 per cent over the medium term expenditure framework period.

This total amount was R418.4 billion in the financial year ending March 2007 and is set to increase to R586.4 billion in the next financial year, commencing 1 April 2008.

The proposed division of revenue takes account of the revenue-raising capacity of each sphere of government.

The two main funding channels from the National Revenue Fund to provinces and local government are equitable shares and conditional grants.

The equitable share is a block grant. Although equitable shares have no conditions attached, the spending thereof is governed by national priorities.

The conditional grants aim to enhance the delivery of specific services according to prescribed national norms.

With reference to the conditional grants to provinces, the 2007 Division of Revenue Bill introduces the following new conditional grants:

- **Community Library Services Grant:** to consolidate library services at provincial level. This grant provides R984 million to transform library infrastructure.
- **Gautrain Rapid Rail Link:** provides national government funding contribution over a period of five years to the Gauteng Government.The local government equitable share of nationally raised revenue grows from R18.1 billion in the financial year ending March 2007, to R20.6 billion in the financial year ending March 2008 and eventually to 29.4 billion in the financial year ending March 2009.

After excluding the RSC levy, the local government share grows at an average annual rate of 20.5 per cent per year over the MTRF period.

With reference to the conditional grants to local government, the 2007 Division of Revenue Bill introduces the following new conditional grants:

- **Bulk Infrastructure Grant:** designed to develop regional bulk infrastructure for water supply. This grant provides R300 million in the financial year commencing 1 April 2007 to reduce the backlog for regional bulk infrastructure.
- **2010 Fifa World Cup Stadiums Grant:** provides national government funding to design and construct stadiums or upgrade existing stadiums and supporting bulk service infrastructure in the World Cup host cities.

ANC WHIP

ANC Whip is a bi-monthly newsletter of the ANC Parliamentary Caucus that publishes a synopsis of the ANC work in Parliament. It is issued forthnightly while Parliament is in session by the Media & Communications and the Research Units in the Office of the Chief Whip.

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Job creation and employment security in the era of globalisation

Last week members of the National Assembly held a discussion on the topic: "Job Creation and Employment Security in the Era of Globalisation". We publish a background to the ANC's approach to the debate.

Globalisation is often described as a process which is aimed at integrating the world market where national commodity capital, financial and currency markets are joined together into a single market which operates according to a set of rules which apply universally.

Transnational corporations, multi-lateral institutions and governments of advanced industrialized countries have hitherto had the most influence in driving globalisation.

Unemployment and the loss of jobs in developing countries are still quite commonly associated with globalization.

The main arguments that the impact of globalisation is negative can be summarized as follows:

Multinationals have exported jobs from developed countries to developing countries through foreign investments and outward production in special economic zones.

Through trade liberalization, governments have encouraged the replacement of domestically produced goods with goods produced abroad.

The increased application of technology, especially in globally operating companies, can reduce the use of and dependence on labour.

Globalisation has had a huge impact on South Africa since the early 1990s.

The sanctions campaign meant that the economy was largely isolated from global integration during the 70s and 80s, with rapid integration into the global economy since then.

This meant that the full impact of globalisation hit South African workers very hard over a relatively short period.

COSATU has described this experiencing the 'shocks associated with globalisation in a condensed dose –not a pleasant experience for tens of thousands of workers, many of whom saw their jobs casualised or disappear.'

There are, however, other dimensions to the globalisation debate in that developing countries can boost their economic growth by increasing exports as well as, at the same time, diversify exports so as to reduce dependence on e.g. primary commodities.

There are also opportunities in terms of the technological advances associated with globalisation and increased potential for foreign investment.

However, a country like South Africa needs to be very clear about our strengths and weaknesses when engaging in the global economy.

One of our biggest challenges is South Africa's high levels of unemployment.

Despite consistently good macro-economic growth rates and a number employment creating initiatives by government, we have not managed to fully address the high levels of unemployment (25,6 % in March 2006, when using narrow definition) in the country.

The South African economy has, since 2004, been creating jobs at a rate of about 500 000 a year.

This is undoubtedly a positive development, but the number of jobs must be measured against certain pertinent factors.

If the jobs created are predominantly low-wage, casual and have limited prospects for career advancement, this will have very limited impact on advancing people so employed out of poverty.

The number of jobs needs also to be seen against the number of new entrants to the labour market and the ability of the economy to sustain these levels of job creation.

The ILO's 2005 study Key Indicators of the Labour Market (KILM) says that, within the trend of globalisation, different regions show mixed results in terms of job creation, productivity results, wage improvements and poverty reduction found that while in some areas of Asia economic expansion is fostering solid growth in jobs and improvements in living conditions, other areas *such as Africa and parts of Latin America are seeing increasing numbers of people working in less favorable conditions*, especially in the agricultural sector.

The KILM also says that for millions of workers, new jobs often provide barely enough income to lift them above the poverty line, or are far below any adequate measure of satisfying and productive work.

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The total number of working women and men living on less than $2 a day has not fallen over the past decade although at 1.38 billion it is a smaller share of global employment at just below 50 per cent, a decline from 57 per cent in 1994.
A trend commonly associated with globalisation is that of creating low-paying and temporary jobs.
The ILO has found that the problem in many developing countries is mainly a lack of *decent and productive work opportunities rather than outright unemployment.*
In a country like South Africa, with very high unemployment, we often encounter situations where people are simply too desperate for work and will work long and hard for very little because the alternative is to have no income at all.
This leads to situations where it becomes very difficult to enforce employment laws, especially with regard to vulnerable workers such as farm workers.
A further consequence of globalisation is that multi-nationals will simply take their business to countries that are even more impoverished, with more desperate workers and less inclination to enact and/ enforce labour laws.
Governments are also often pressured by the rules of the World Trade Organisation and the international financial institutions and the impact of globalised currency and capital markets to remove barriers to the free movement of commodities, finance and capital across the world.
Developing countries are often forced to adopt the Washington consensus of wholesale removal of trade tariffs and other non-tariff barriers as well as being subjected to full-scale competition through the removal of subsidies and deregulation.
The unequal balance of power in international economic relations often means that countries of the North are not subject to the same set of rules.
This is most clearly illustrated by the continued applications of a producer subsidy for European agricultural products.
These subsidized products compete with those from South Africa and other developing countries not only in the EU market, but also in third country export markets and even the South African market.
The eventual result of this inequality is always loss of jobs in developing countries.
Responses to globalisation
Developing countries have realised that they can only be effective in international forums by acting in partnership with each other.
The fostering and maintenance of partnerships such as the G77 plus and others is thus of fundamental importance in enhancing their collective negotiating power and perhaps more importantly, promoting South- South cooperation for development.
One important area that developing countries should focus on is transformation of the international financial and trading institutions to take on board the concerns of the developing world. One area that must be continued is that of issue-based cooperation through e.g. the G20 in order to give prominence to the issues of the South at the eventual resumption of the Doha Development Round and beyond. The finalization of the draft industrial policy framework will be of significant advantage to South Africa's international competitiveness.
This framework will be aligned to ASGISA and move from the premise that a degree of government intervention is critical to bringing about higher, more sustainable and broad-based economic growth.
A strategic and well-thought out industrial policy, by building the productive sectors of the economy and contributing to growing employment and poverty reduction, can make a significant impact on the lives of the poor.
At the same time, industrial policy should be designed specifically with the poor in mind, and sectors of the economy more likely to benefit them should be deliberately targeted.
These include agriculture, tourism and food processing.
There needs to be further engagement on those sectors targeted for increased investments as these should be aligned with the drive to promote our export capacity.
One of the most interventions that a developmental government can make is to put in place a labour market regulatory framework that promotes the creation and maintenance of decent and dignified employment.
However, the regulatory environment needs to be backed up by an activist state that engages employers continuously on their corporate social responsibilities to both their employees and to the communities in which they operate ■