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The relevance and possibility of attaining the Millennium Development Goals by 2015 in South Africa

Executive summary

This policy brief, on the relevance and possibility of attaining the Millennium Development Goals by 2015, is based on studies carried out by a number of national departments and international organisations. Key among them is a recent study that explores the economic impact of different options for creating and using fiscal space[1] to attain outstanding Millennium Development Goals (MDGs) (Chitiga et al. 2011). In this exercise, which made use of a Computable General Equilibrium (CGE) model, fiscal space was simulated by mobilising additional revenue (resources) through increased domestic revenue, and a number of possible scenarios were drawn up and analysed.

The findings of this study come as a confirmation of conclusions drawn up by previous studies. First, the study highlights the linkages between the various individual goals. For instance, MDG6 (the HIV/AIDS MDG, which will probably be reached) directly affects MDG4 (HIV-positive children under the age of five are more likely to die than HIV-negative children) and MDG5 (more HIV-positive mothers die giving birth than HIV-negative ones). Second, the study shows that increasing public spending would come with a number of challenges.

The development goals are highly relevant for addressing structural challenges of South Africa's economic and social development and the issue of fiscal space in the broader context of the country's macroeconomic policy mix. Accordingly, this brief provides some policy recommendations highlighting the need to approach the MDGs in the broader context of national development. Recommendations are also made to go beyond the possibilities associated with additional public spending needed to reach some of the goals and to consider innovative modalities of financing for the current MDG and the post-2015 development agenda.

1 Fiscal space is the difference between current public debt and the country's overall debt limit.

South Africa is advancing, but failing to fully achieve its considerable potential. (OECD 2013: 8)

Introduction and background

The main finding of the OECD economic survey released in March 2013 is that South Africa is progressing but has not yet achieved its full potential. On the positive side of the balance, the report mentions per capita incomes, which are growing, public services, which are expanding, and health indicators, which are improving. On the negative side, the report mentions an extremely high proportion of the population out of work, extremely high income inequality, and poor and hugely uneven educational outcomes. In that context, more than ever, attaining the MDGs will be key for the country to achieve its considerable potential inasmuch as they would appear as enablers or outcomes of development and thus tied to the country's development plans (OECD 2013). Such linkages are made clear in South Africa's 2010 Millennium Development Goals Country Report (RSA 2010). The relevance of MDGs for South Africa's development is thus clearly established.

The 2011 Chitiga et al. study goes further. It looks at the economic impact of different options for creating and using fiscal space to attain outstanding MDGs by making use of a Computable General Equilibrium (CGE) model. In this exercise, fiscal space was simulated by mobilising additional revenue (resources) through increased domestic revenue and a number of possible scenarios were analysed. Four simulations were made:

Chitiga et al. study – Scenario 1

The first scenario in the study tested the feasibility of reaching all the MDGs by 2015. Because of the time constraint this was found to be unlikely, even impossible, especially MDG4 and MDG5 (child- and mother-related health goals) – the actual values are too far away from the target values.

Chitiga et al. study – Scenario 2

The second scenario assessed the attainment of MDG2 (universal primary education by 2015). Increased government spending on primary education would have a positive impact on MDG2, other MDGs and the rest of the economy. This is because such additional public spending is not only about increasing teachers' salaries. Increasing the education budget means that the government hires more teachers, gives subsidies to children for transport, builds new schools, and so on. Figures 1, 2 and 3 show the positive impact that increased spending on education has on the other MDGs.

The performance of South Africa's health system since 1994 has been poor, despite good policy and relatively high spending as a proportion of GDP. (NPC 2012: 331)

Figure 1: Increased government spending on education: Impact on MDG4*

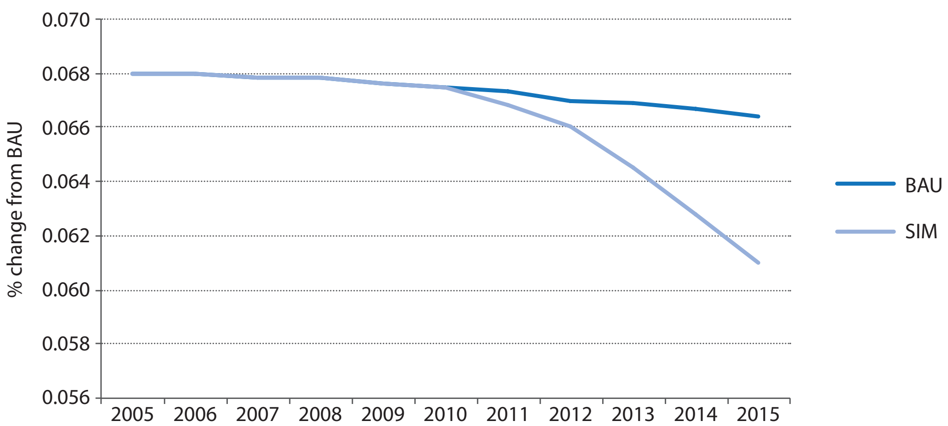


Figure 2: Increased government spending on education: Impact on MDG5*

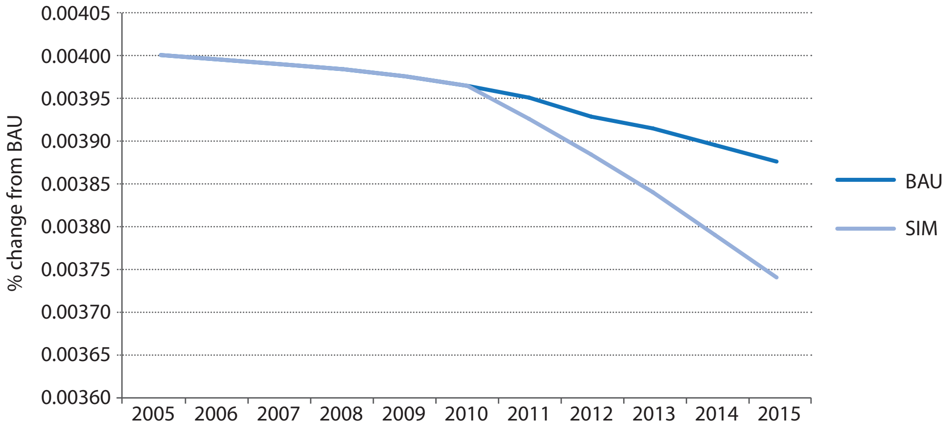
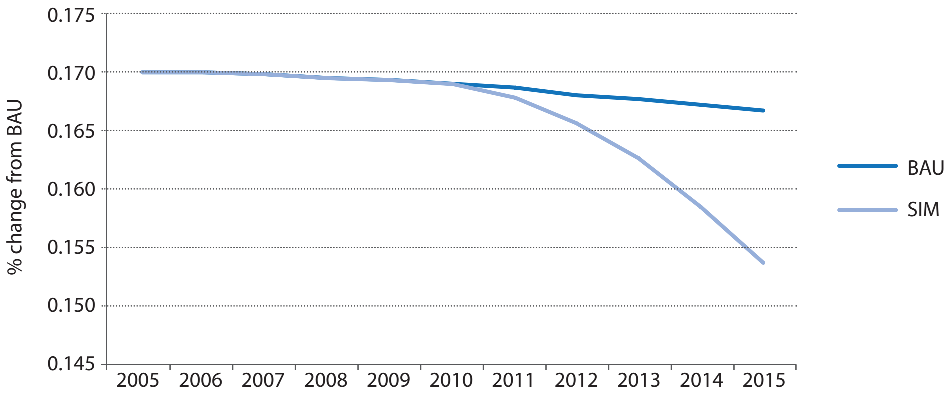


Figure 3: Increased government spending on education: Impact on MDG6*



Source: Figures 1, 2 and 3 from Chitiga et al. (2011)

Note: BAU – Business as usual; SIM – Simulation

* From increased expenditure on education (targeting MDG2).

The analysis showed that increasing education spending also has a very positive short-term effect on employment, as people are hired to teach and to build schools. The impact on student behaviour is also positive because of the fall in the number of student drop-outs. The long-term benefits include improved skills in the labour force.

Chitiga et al. study – Scenario 3

The third scenario assumes that MDG6 (HIV indicator) is reached in 2015 and government increases its spending on health services. In other words, the government builds extra hospitals where necessary, improves the transport system to enable people to reach health centres and allows more people to access free treatment, among other things. As Figures 4 and 5 show, targeting MDG6 has positive knock-on effects for other MDGs, especially MDG4 and MDG5 (child and maternal mortality rates).

Figure 4: Increased government spending on health: Impact on MDG4**

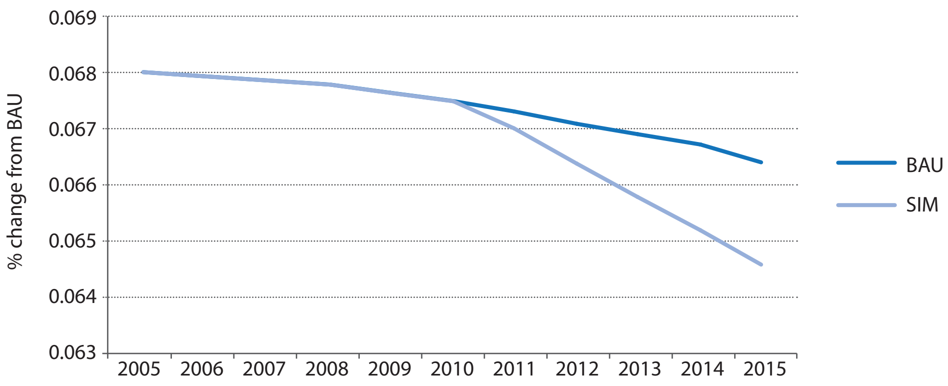
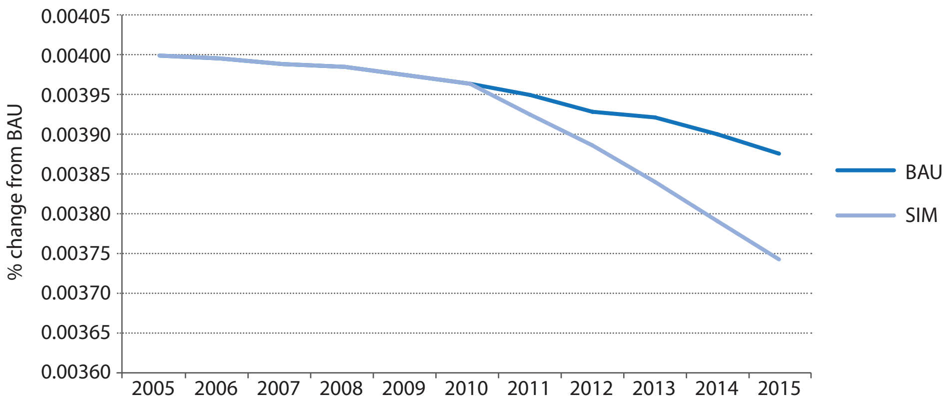


Figure 5: Increased government spending on health: Impact on MDG5**



Source: Figures 4 and 5 from Chitiga et al. (2011)

**From increased expenditure on health (targeting MDG6).

The general improvement of health also affects the education indicator (MDG2), as children who are not sick can go to school and follow a normal school life. However, the impact is less strong than that of increasing spending on education. Nevertheless, the entire economy benefits from increased employment as the government hires new doctors and nurses and commissions the building of new care centres. Unemployment decreases for each type of worker, especially for skilled and highly skilled workers.

The results were quite promising for universal primary education (MDG2) and combating HIV/AIDS (MDG6). However, in both of these simulations (scenarios 2 and 3) it was assumed that government does not set up a fiscal reform, meaning that government has to borrow (from local domestic firms) to finance the extra expenditure to attain MDGs. This is not sustainable in the long run.

The increased spending leads to an increase in public borrowing (mainly from domestic firms), which affects total investment. Increased government spending also reduces private investment as scarce productive resources are transferred from the private to the public sector.

Chitiga et al. study – Scenario 4

To avoid this crowding-out effect and the negative impact on total investments in the long term, a fourth scenario was drawn up. In this fourth scenario, the same simulation was run, but with the addition of a uniform tax on commodities in order to keep government's deficit constant. Therefore, the last scenario analysed the impact of a combined policy: reaching the MDG target and increasing indirect taxes to finance the policy. The result is that, as in the previous scenario, the health-related MDGs (4 and 5) improve, and child and maternal mortality decrease. However, a slight decrease is observed in MDG2, as this indicator depends on the graduation rate, which relies on several factors. Among them, household per capita consumption decreases sharply. This is due to the tax financing option adopted and explains the slight decrease in MDG2 observed. One possible conclusion is that increasing indirect taxes in order to reach the MDG target would harm household spending and eventually reduce any benefits.

Main findings of the Chitiga et al. study

The two main findings of the 2011 Chitiga et al. study can be summarised as follows:

1. There is an overall significant expenditure by government, but this has an uneven impact.
2. Fiscal space is an important issue.

Expenditure by government

As regards the first point, the study shows, as do previous studies on MDGs, that South Africa has put a considerable amount of effort and resources into development, and hence also the attainment of the MDGs. For example, in relation to MDG1 (eradicating extreme poverty and hunger), the country has gone from having 33.5% of its population living under two US dollars (USD2) purchasing power parity (PPP) per day in 2000, to a reduction of 25.3% and 16.8% in 2006 and 2010 respectively (RSA 2010). This is not surprising given that the government has been spending significantly large amounts of money on social grants, which have gone a long way in combating poverty (Table 1).

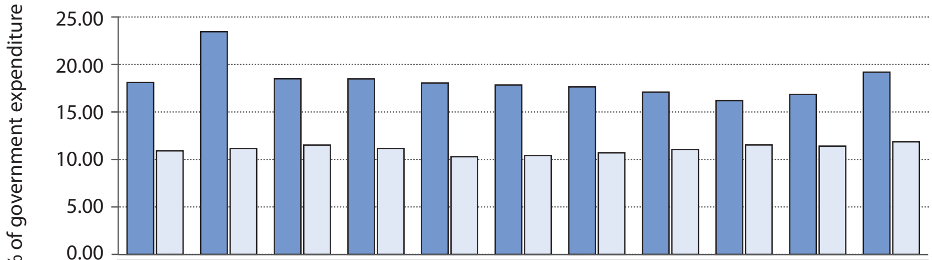
Table 1: Social grants expenditure, 2007/08 to 2010/11 (ZAR millions)

Period	Value
2007/08	62 467
2008/09	70 715
2009/10	79 260
2010/11	87 493

Source: National Treasury (2012)

Again, great strides have been made towards MDG2 (achieving universal primary education) and it is once more not very surprising as expenditure on education has been consistently high over years (see Figure 6). In 2010, expenditure on education made up almost a fifth of overall government expenditure.

Figure 6: Public spending on education and health, 2000–2010



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Education	18.11	23.45	18.5	18.49	18.06	17.85	17.65	17.1	16.2	16.86	19.2
Health	10.92	11.16	11.53	11.17	10.3	10.42	10.71	11.06	11.54	11.42	11.87

Source: WHO (2012)

The quality of education can be improved by making better use of available resources.
(OECD 2013: 34)

However, the results of such investments are uneven. In contrast to significant progress on some MDGs, such as MDG1, 2 and 3, South Africa's progress towards achieving the health-related MDGs has been slow. Based on current trends, the country will not reach the MDGs for child mortality (Goal 4), maternal mortality (Goal 5), and HIV/AIDS, malaria and tuberculosis (Goal 6) by 2015, according to the South Africa MDG Country Report of 2010 (RSA 2010).

Fiscal space

As regards the second point, and going beyond the specific situation of health sector, a key challenge for the government is how to spend its available resources optimally in its efforts to achieve the MDGs. It is clear from Table 2 that South Africa's expenditure on health is relatively high in comparison to that of its BRICS counterparts.

Table 2: Governement expenditure on health as a proportion of GDP for the emerging countries (BRICS), 2009

Country	Health expenditure (% GDP)
Brazil	9.0
Russia	5.4
India	4.2
China	4.6
South Africa	8.5

Source: SAIRR (2012)

These figures, however, mask the fact that the spending is skewed as half of that spending goes towards the private sector, which serves about 16% of the population (mainly the white population group). The majority of the population (comprising 84% and being mainly black African) rely on the other half of the expenditure. It is in this regard that a prudent decision for inclusive health coverage has been the proposal to introduce National Health Insurance (NHI). A more equitable distribution of the scarce government resources is required. Clearly, the issue at hand is one of creating and using fiscal space to attain outstanding MDGs. Managing that fiscal space is not easy, and government should therefore weigh up carefully the impact of increasing spending against the risk associated with increasing taxation rates, spending levels and deficit finance as each has its limits, as shown in the 2011 Chitiga et al. study.

Recommendations

It is recommended that:

1. There is a need to reaffirm the importance to be given to the issue of fiscal space and its relevance for achieving the MDGs. While not all MDGs will be achieved by 2015, the progress recorded on some goals would not have been possible without significant government intervention. The sustained educational progress over the past two decades – namely, the full enrolment at primary and lower secondary nearly achieved – is a case in point. Even though education quality remains poor on average and uneven across regions and population groups, achievements made on the quantitative side are unprecedented. However, the business as usual (BAU) scenario is not a viable option as the goals would not all be attained in such a scenario.
2. Breaking from the BAU scenario, the discussion on attaining the MDGs has to be approached from a broader perspective than the prevailing one where the goals are seen in silos. MDGs have to be part and parcel of the National Development Plan (NDP), the central objectives of which are to eradicate poverty and sharply reduce inequality by 2030, and the New Growth Path, which is an economic framework for the period 2010–20. Accelerating progress on health goals where the country is lagging behind targets,

Much of the increase in spending came through large increases in the public sector wage bill, while public investment has fallen as a share of total expenditure.
(OECD 2013: 8)

After 2015 we should move from reducing to ending extreme poverty, in all its forms. We should ensure that no person – regardless of ethnicity, gender, geography, disability, race or other status – is denied universal human rights and basic economic opportunities.
(UNHLP 2013: Executive summary)

and consolidating gains and/or avoiding falling back on goals where significant progress has been achieved, in particular Goals 1, 2 and 3, should all be seen as equally important. These goals are mutually reinforcing and their attainment will have positive impacts (or spillovers) on other MDGs. Hence, the national plan on universal health insurance for all, currently in pilot stage, should be viewed in terms of the benefits that it would bring, not only to health, but also to other spheres of welfare.

3. Breaking away from a BAU scenario, provincial and local government should further reprioritise expenditures. Prime targets could include, in respect of equitable share and conditional grants for 2013/14, moving towards attaining the MDGs. The discussion on fiscal space has to be related to the macroeconomic policy mix. In that regard, it should be noted that additional fiscal tightening seems unavoidable to contain the widening of the current account deficit. This is because the macroeconomic policy mix has been insufficiently supportive of growth while allowing large budget deficits to persist. The government is aware that it needs to raise more tax revenue than it presently does in order to support its development initiatives. As an example, it has recognised in the NDP the importance of improving infrastructure and providing investors with better policy and regulatory certainty. This will spur growth in sectors such as mining, and lead to a broadening of the tax base and hence tax revenue, which can be used for development. Broadening the tax base rather than increasing income tax and VAT in the current economic environment seems to be a more likely successful avenue for raising revenue for South Africa.
4. It may be worth trying to go beyond the short-term simulations as in the Chitiga et al. (2011) study and draw up scenarios with a longer-term time frame, considering, for example, 2030, which is likely to be the time horizon of the post-2015 development agenda currently under discussion. Moreover, MDGs should be seen as part and parcel of a transformative agenda, which comes with significant paradigm shifts[2] (UNHLP 2013). Furthermore, as the UNHLP report argues, three ingredients are crucial for successful implementation: global goals must be in sync with local goals; there must be global monitoring and peer reviews; and allowance must be made for stakeholder partnering.
5. In addition to domestic resources mobilisation, hypotheses could be made on other variables for development financing, including foreign direct investment (FDI), official development assistance (ODA), taxes on financial transactions and taxes on travel, to name a few of the innovative mechanisms currently under consideration for funding MDGs in the framework of global partnerships.

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2 The 2013 UNHLP report on the post-2015 agenda has identified five 'transformative' shifts. They are to 'Leave no one behind'; 'Put sustainable development at the core'; 'Transform economies for jobs and inclusive growth'; 'Build peace and effective, open and accountable public institutions for all'; and ' Forge a new global partnership'. Arguably, all of them are highly relevant in the South African context.

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