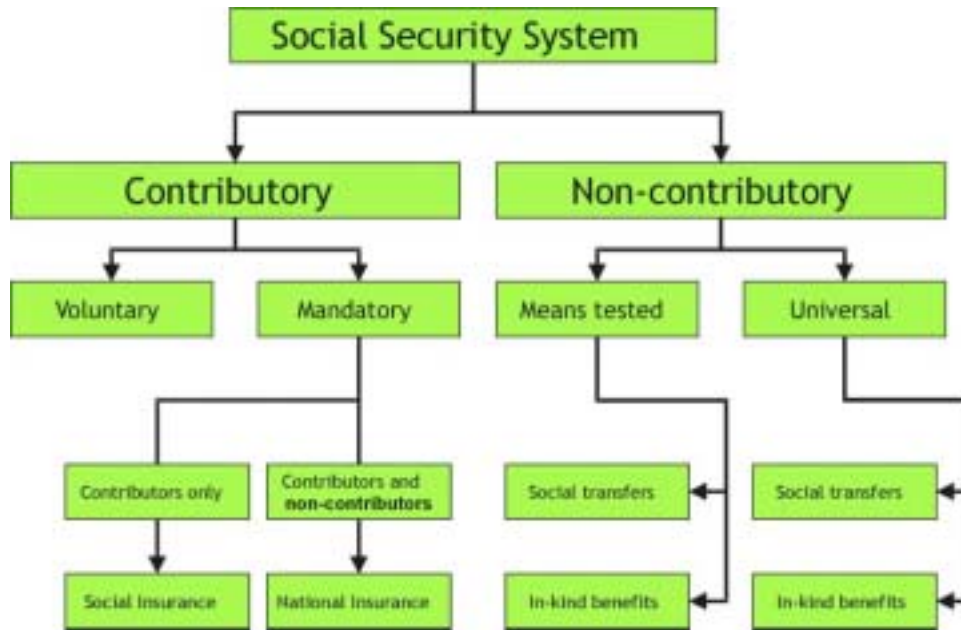


**Figure 19**  
**Generic financial framework of a social security system.**



and a social point of view. The former refers to technically efficient approaches to managing funds appropriated and spent differently from the conventional Government budget. The latter refers to redistributive and social solidarity goals. The overall objective is to harmonise technical efficiency with social solidarity requirements, so that the needs of the one do not undermine the other.

The principles underlying mixed financing options should arise logically from the character of the good or service and the key related policy objectives. Where variations from the general budget approach occur, operational requirements should be fairly easy to determine.

### 14.10.2 Recommendations

Mixed financing options, which include user charges, consumer tariffs, levies, and earmarked taxes, are of relevance only in cases of quasi-public or quasi-private goods and services. Once a good clearly fits into this range, efficiency gains are very likely through a move toward a mixed system.

As the grounds for mixed financing options relate primarily to the specific circumstances and nature of the good or service in question, no predisposition for or against such options can exist. For this reason, options should be assessed on a case-by-case basis. The level of funding always remains a policy decision based on Government priorities.

Once the nature of the good or service establishes that significant efficiency gains are achievable through mixed financing approaches, then a consistent operational environment should be established noting the following:

#### 14.10.2.1 Use of alternative revenue sources

In all instances where user charges, consumer tariffs, or levies are charged, the relevant institution or authority should maintain separate operational accounts.

#### 14.10.2.2 Financial accountability

Financial accountability should be delegated to the lowest appropriate level where separate operational budgets exist.

#### 14.10.2.3 Earmarked taxes

Earmarked taxes should not be considered as an alternative to the general budget but rather be used only in specific instances where the quasi-public nature of the good or service requires a direct relationship to be established between the contributor and the good or service to be provided. Insurance of one form or another and retirement contributions, where compelled by the state, would fall into this category.

Where earmarked taxes are considered, separate operational budgets are recommended to ensure consistency between the funds raised and the entitlements to be funded.

#### 14.10.2.4 Redistributive goals

As far as possible, specific redistributive goals should be achieved through general tax and budget allocations. It would not be inconsistent, however, for certain redistributive goals to be achieved amongst those paying a dedicated tax.

#### 14.10.2.5 Trading accounts

Where trading accounts are in place, appropriate mechanisms must be established to manage surpluses or deficits through either:

- A stabilisation account used to equalise balances on a multi-year basis
- An approach for topping up and repaying (i.e. lending) money from the general budget, where a surplus or deficit occurs
- The establishment of consistent criteria as to how redistributive elements interact with the general budget.

#### 14.10.2.6 Governance structures

An appropriate governance structure must be put in place if funds are managed outside of the usual public sector framework.

## 14.11 Social budget

Important to the revision of the social security system, is the development of a broader understanding of the inter-relatedness of all areas of social security, whether public, social insurance or private. The financial system is essentially a reflection of the institutional framework of social security. For this reason

social budgets, which measure all of social security expenditure, and not merely the on-budget items, have become important measures to evaluate the performance of such spending within a nation.

An evaluation of the South African system of social security shows (estimates for 2001) that overall 30,1 per cent of GDP is spent on both contributory and non-contributory benefits (including education) in both the public and private sectors. Around 12,6 per cent (R112,8 billion) occurs within the non-contributory public sector environment, while 17,6 per cent (157,8 billion) occurs in the contributory environment (figure 20 and table 12). Most social security expenditure or contributions occur within the largely unregulated private contributory environment (by this is meant that social solidarity principles are not protected).

### 14.11.1 Fiscal capacity and the prioritisation of social security expenditure

According to the 2001 Budget Review the total budget for 2001/02 is R258,3 billion up from R255 billion in 2000/01. Overall this allocation implies a reduction in Government expenditure from 28,8 per cent of GDP in 2000/01 to 27,4 per cent of GDP by 2003/04. Despite the reduced percentage of GDP, these allocations involve slight real increases over the period of the MTEF.

The 2001/02 financial year provides for the introduction of a contingency reserve of R2

**Figure 20**  
**Social security expenditure in South Africa (estimates for 2001).**

