

Optimization of Limpopo Provincial Budget- a micro economic analysis

South Africa has been known to implement sound fiscal policy since the early days of the new democracy.

Minister Manual managed to reduce the debt burden to quite acceptable levels, which in turn reduced the interest payments in government debt. The percentage of revenue to GDP was also close to the implicit target of 25%.

In the recent financial years rating agencies and other participants in the economy started to raise their concern regarding the increase of debt to GDP and the corresponding increase in debt repayments. To address these fears the Minister of Finance indicated that National Treasury will ensure that the budget on a macro level improves to more acceptable norms and standards.

The recent downgrade just added to the problem. This will lead to further budget cuts on provincial level.

These budget cuts on provincial level leads to difficult policy choices because the needs and demands on the provincial budget keeps expanding. The solution to the problem is to optimize the expenditure to ensure maximum efficiency and effectiveness.

In the first part of the paper a brief overview will be provided about the fiscal developments in South Africa since 1994. It will be indicated that the budget allocation on macro level is sound but the concern is on the micro economic efficiency.

A questionnaire was administered at the 10 departments in the Limpopo province to determine the percentage premium that Provincial government is paid for goods and services. The results are that provincial government can save at least 10% on its procurement budget. This will free an additional R6 billion rand of budget to reprioritize for other priorities than health, education and social development.

The conclusion is that considerable scope exists to optimize expenditure on a provincial level.