



BRIEFING TO SELECT COMMITTEE ON
APPROPRIATIONS ON THE ANNUAL
SUBMISSION 2013/14

7 August 2012

For an Equitable Sharing of National Revenue

BACKGROUND

- This Submission is made in terms of:
 - Section 214(1) of the Constitution (1996)
 - Section 9 of the Intergovernmental Fiscal Relations Act (1998)
 - Section 4(4c) of the Money Bills Amendment Procedure and Related Matters Act (Act 9 of 2009)

OUTLINE OF THE SUBMISSION

Moving People out of Poverty:
Supporting Innovation in
Intergovernmental Financing

Part I: Supporting Inclusive Growth: Jobs, Knowledge and Regional Development

- Job creation and IGFR system
- e-Education
- Budget review of public universities

Part II: Climate Change and Environmental Sustainability: Opportunities and Risks for Growth and Innovation

- Impact of climate change on rural areas
- Disaster management
- Waste management

Part III: Institutional Development for Inclusive Growth and Innovation

- Aggregate revenue and expenditure assignments and economic growth
- Alternative service delivery arrangements
- Capacity challenge in local government
- Gender-responsive budgeting



PART I: SUPPORTING INCLUSIVE GROWTH: JOBS, KNOWLEDGE AND REGIONAL DEVELOPMENT

Briefing on the Annual Submission 2013/14

1. PERSPECTIVES AND PROSPECTS FOR JOB CREATION AND THE IGFR SYSTEM

- 2009: SA's first recession in 19 years
 - Economy adversely affected by uncertain economic climate
 - 2010 data: economic recovery is underway, but not strong enough to restore jobs
 - 2011 data: unemployment decreasing slowly, but still above the pre-crisis level
- Major concern for policy in SA: sluggish economic growth combined with unemployment
- This chapter studies the relationship between job creation and fiscal policy concerns
 - Labour model embedded within an economy-wide framework

MAIN FINDINGS

- There are no easy answers
 - Higher government spending alone is not sufficient
 - Higher spending on infrastructure alone is not sufficient
 - Higher productivity growth alone is not sufficient
- Higher taxes and/or higher debt can have serious detrimental effects
 - Tax financing lead to decrease in employment for the whole period and
 - Crowd out of private investment compromising future growth
- Fiscal policy alone is not enough –complementary policies are required, distinguishing short term and long term interventions
 - The sooner a country begins, the easier it will be. For example, the best way to prevent public investment from crowding out private (i.e. productive) investment is to ensure productivity effects of public investment are taken into account today
 - Incorporating long-term considerations into the annual budget process is worthwhile

RECOMMENDATIONS

- Re-direct government spending toward activities directly or indirectly creating jobs
 - Health care, durable goods manufacturing, agriculture, community services and hospitality and food service
 - Government should promote lower-paying positions as there is highest potential for the most job gains
- Reduce unemployment by addressing factors other than weak demand for goods and services
 - Use mechanisms ranging from providing funding through block grants to direct government operation

RECOMMENDATIONS

- Encourage through the relevant Departments of Labour and Performance Monitoring and Evaluation those companies yielding the highest employment levels (directly and indirectly)
- Develop and implement credible job plans for each sphere in collaboration with a broad set of actors
 - Not only employers, but also unions, economic development agencies, SETAs, secondary schools, colleges, universities, vocational training centres and business support providers

2. FINANCING E-EDUCATION AND ACHIEVING POLICY GOALS IN ORDINARY SCHOOLS IN SA

- Chapter explores how to achieve effective and efficient financing of e-education
 - Chapter looks at financing e-learning component of e-education (other component being e-admin)
 - Limited financing of e-education at national and provincial government (except GP and WC) despite adoption of White Paper on e-Education in 2004
 - Number of e-school projects being run, including those promoted by DoBE, DoC and DST
- Main focus is on financing e-Education from DoBE budget

COMPONENTS OF E-EDUCATION REQUIRING FUNDING

- Financing e-learning left to provincial discretion
 - Schools differ widely across provinces, from those that have relatively good infrastructure to those where mud huts are used as classrooms
 - Given great diversity of learning environments, an intergovernmental financing mechanism must address specific components of e-learning across all provinces
- Some forms of e-learning require minimal expenditure but advanced forms require classroom broadband connectivity
 - Linking schools to government's virtual private network (VPN)
 - Make use of broadband networks built by Cape Town, Ekurhuleni, Johannesburg, Pretoria and Gauteng Province
 - Mobile broad band networks (small wiFi or wiMax networks) especially in rural areas

RECOMMENDATIONS

- Necessary to understand why the e-education challenge is not being met
 - Some reasons include the need for concerted cultural and technological adaptation, education is a concurrent function between national and provincial government, requirement for explicit budget allocations for e-education, supporting strategies and funding, building public accountability for policy implementation
- National and provincial education sector requires firm and expert guidance on designing e-education



e-Education Commission

RECOMMENDATIONS

- Limited data available on e-education expenditure and specifically on e-learning expenditure
 - Should be remedied through making explicit budget allocations in the annual budgeting process and through explicit reporting on expenditure on e-learning and e-education
- A well-structured IG financing mechanism should be established with explicit guidelines to provincial departments of education regarding the budget line items that require prioritization

3. BUDGET REVIEW OF PUBLIC UNIVERSITIES IN SA

- SA must transition from a low added-value economy to a more knowledge-intensive economy that combines low, medium and high-knowledge intensive productive activity in order to increase the proportion of medium to high income jobs
- Such a transition requires
 - a strong, adequately funded, post-school education system
 - comprising colleges, vocational institutions and universities
- This chapter focuses on the generic budget and funding framework for higher education.

MAIN FINDINGS

- Performance analyses show that the higher education system is moving towards, but not meeting in full, its national development goals. The main concerns stem largely from unsatisfactory output rates:
 - many universities have student failure and drop out rates which are high and well above national targets
 - graduate and research output rates in all but a few universities are well below expected national targets
- Current funding mechanisms are too “blunt” to steer the higher education system in effective ways. These mechanisms are being examined and reviewed by a Ministerial Committee set up by the Department of Higher Education and Training

RECOMMENDATIONS

- A new framework will have to be introduced in SA
 - Based on different funding principles and on a policy of institutional differentiation
 - FFC's concern: size, direction and impact of funding higher education and the post-school system as a whole
 - 3 major areas that require funding: higher education qualifications, further education qualifications, and research
- Consideration should be given to introducing a differentiated funding framework for a differentiated public university system by shifting from a unitary system to 3 funding frameworks (one for each cluster)

RECOMMENDATIONS

- Review of the funding framework needs to be supported by research on formulating a future funding model that divides revenue into funding higher education, further education and research, in the most optimal way
- In order to better understand and analyse the performance and funding of the FET sector, the HEMIS system should be expanded to incorporate FET sector data, or a parallel system should be introduced to collect relevant data for analysis of the FET sector



PART II: CLIMATE CHANGE AND ENVIRONMENTAL SUSTAINABILITY: OPPORTUNITIES AND RISKS FOR GROWTH AND INNOVATION

Briefing on the Annual Submission 2013/14

4. THE IMPACT OF CLIMATE CHANGE ON SA'S RURAL AREAS

- Objective: To evaluate the impact of climate change on agriculture productivity and establish vulnerability of municipalities
- Key Findings
 - Subsistence farmers: Results suggests that both crop farmers and livestock farmers will be affected by climate change, with the effects being more negative among the crop farmers
 - Commercial Farmers: Negative climate change effects will be felt more by crop farmers
 - Vulnerability: 20 Most vulnerable municipalities identified through a Vulnerable Index

RECOMMENDATIONS

- DEA and NDMC should develop a municipal vulnerability index and risk modelling tools to assist municipalities to assess their vulnerability to climate change and non-climate change disasters and determine associated contingent liabilities
 - Account for exposure, sensitivity and adaptive capacity
- DCoG should adjust the objectives, terms and conditions of the grant framework and administrative procedures for the MIG
 - Use of grant funds for climate adaptation and mitigation investments; investments prioritise and directly address the poor

RECOMMENDATIONS

- DCoG should restructure the Special Municipal Infrastructure Grant window in the MIG
 - Allow for municipalities to acquire or rehabilitate ecological infrastructure
 - Provide the funding window for rural municipalities to receive resources from global resources
- DAFF should expand provision of rural agricultural extension and support services for small scale farmers to facilitate their uptake of climate resilient farming strategies that enable them to proactively adapt to and mitigate the projected local effects of climate change

5. ALTERNATIVE FINANCING MECHANISMS FOR DISASTER MANAGEMENT IN SA

- Severity and frequency of natural disasters is increasing
 - Climate change, changing weather patterns, inefficient land use, growing population, assets in high risk areas
- Internationally the emphasis is placed on funding disaster risk mitigation (*ex ante*: planning, research, norms & standards) rather than risk coping (*ex post*)
- Challenges in SA:
 - Legislative, policy, institutional and funding frameworks not adhered to by spheres of government
 - Lengthy bureaucratic process to be followed in disbursing funds
 - Funding for disaster management has not been adequate/optimal in addressing events/cost incurred by provinces or municipalities

RECOMMENDATIONS

- Minister for Cooperative Governance and Traditional Affairs should streamline guidelines and gazette uniform standards governing and guiding the classification, declaration, assessment and response to disaster events in terms of the DMA and NDMF
- DCoG should, through the DMA, require the IDP's of municipalities, starting with the most vulnerable, to incorporate disaster risk reduction evaluations, strategies and measures – including:
 - Land use planning and management measures
 - Building standards

RECOMMENDATIONS

- Government should develop a policy framework for municipal disaster risk financing, that:
 - Differentiates between municipalities
 - Leverages private resources to fund long-term disaster risk management
 - Encourages and incentivises the use of innovative market-based financing
- National Treasury, in managing fiscal risks, should require environmental management and vulnerability objectives to be explicitly incorporated into the design of existing key municipal grant programmes

6. FINANCING OF WASTE MANAGEMENT IN SA

- Poor costing of capital, operation and maintenance and environmental implications of solid waste in municipalities leading to:
 - Unsustainable and poor cost recovery models
 - Poor revenue generation from WMS
- Solid waste recycling has potential to directly and indirectly create and induce green jobs
- There is need for a strengthened approach to waste management alternatives and their adequate financing
- While refuse removal is a FBS most municipalities do not have the resources to offer it to those who qualify

RECOMMENDATIONS

- Government should adopt a phased approach to the implementation of FCA by municipalities for solid waste management by the end of the 2015/16 financial year
- Government should take greater advantage of the opportunities for job creation in the solid waste sector, through enhancing the structure of incentives for municipalities to create “green” job through labour-intensive service delivery approaches

RECOMMENDATIONS

- DEA should delay the implementation of policy on the regionalisation of solid waste landfills until such time as the fiscal risks and benefits for municipalities in different contexts are better understood, and adequate decision-support measures for municipalities are in place
- Government should emphasize the expansion of access to solid waste services to poor communities while strengthening the policy framework the provision of Free Basic Refuse Removal Services



PART III: INSTITUTIONAL DEVELOPMENT FOR INCLUSIVE GROWTH AND INNOVATION

Briefing on the Annual Submission 2013/14

7. THE IMPACT OF AGGREGATE REVENUE AND EXPENDITURE ASSIGNMENTS ON ECONOMIC GROWTH

- Question: do SA provinces and municipalities play a useful role in promoting economic growth?
 - If yes, in what way: through revenue assignment, expenditure assignment or both?
- Method: modified endogenous growth model; data on provinces and municipalities (district and metros)
- Findings:

Effect on economic growth:	Provinces	Municipalities
Revenue assignment	Negative	Positive
Expenditure assignment	Negative	Negative

RECOMMENDATIONS

- Key tenets of national strategies such as the NGP and NPC's Vision for 2030 need to permeate into provincial and local strategies
 - Translate these tenets into complete sub-national strategies with full details on sustained implementation
 - Capital and labour inputs, as well multifactor productivity are key
- Economic development powers are well-placed at the provincial level while economic growth powers could be better placed at the municipal level

RECOMMENDATIONS

- Municipalities, and particularly non-metropolitan municipalities, should be encouraged to play a more direct role in economic growth
 - Assignment of greater revenue and tax handles to municipalities
 - In reviewing the fiscal framework, all of the elements of the fiscal framework should be re-assessed to support the growth-enhancing roles of municipalities
- Municipalities are not necessarily doing a good job at revenue collection from the public
 - Need for municipalities to improve their revenue collection efforts as this can contribute positively towards economic growth

8. ALTERNATIVE SERVICE DELIVERY ARRANGEMENTS: THE CASE OF MUNICIPAL AGENCIES

- In appropriate circumstances alternative service delivery (ASD) arrangements provide a creative way for municipalities to deliver services particularly against backdrop of limited financial and human capital resources
- In SA, use of agencies at the local level has dropped due to:
 - The need to bring about uniformity with respect to the establishment and form that agencies take
 - Onerous legislative requirements make it difficult especially for lesser resourced municipalities to use an ASD arrangement

RECOMMENDATIONS

- ASD arrangements, such as agencies, may in appropriate circumstances provide a creative way for municipalities to deliver services, particularly against the backdrop of limited financial and human capital resources
- Government should review existing legislation specifically S77 and S78 of the Municipal Systems Act and S33 of the MFMA, which places onerous expectations on municipalities around the medium term use of an ASD arrangement

RECOMMENDATIONS

- Establishment of municipal agencies or use of any type of ASD arrangement should be strongly tied to an adequate level of performance on the part of parent municipality to exercise effective oversight over the agency
- Legislation requiring municipal entities to make public details of their actual performance and plans should be strictly enforced and non-compliance reported to the Auditor-General
- Government should establish a central portal focusing on financial and performance-related information on municipal agencies

RECOMMENDATIONS

- Government (in particular National Treasury's PPP Unit) should put together a list of criteria to assist municipalities in deciding whether a sound business case for the creation of entities exists. The criteria should:
 - Establish whether benefits exceed potential costs
 - Ensure potential risks are mitigated
 - Focus on aspects such as measurability and asset specificity of the service in question

9. UNDERSTANDING THE DYNAMICS OF THE CAPACITY CHALLENGE AT LOCAL GOVERNMENT LEVEL

- Human capital forms the backbone of the public sector and, ultimately, the delivery of services
- Despite numerous attempts to attract skills into public sector, municipalities continue to face major constraints with respect to quality of public officials available to effectively deliver
- Capacity constraints are often used to mask the real causes of municipal non-performance
- Capacity building initiatives have to date been applied on a “one size fits all” basis
- Lack of independent evaluation of outcomes and impact of training initiatives

RECOMMENDATIONS

- Capacity building efforts should be comprehensive and sustainable, instead of quick fix, short-term solutions
 - Single capacity support agreement per municipality
- Environmental constraints specifically w.r.t. allocation of powers and functions and the formulation of conditional grants may need to be simultaneously adjusted
- Capacity building interventions should holistically coordinate individual, organisational and institutional-level dimensions of capacity building in a particular municipality over the medium term

RECOMMENDATIONS

- To improve the capacity of municipalities to perform their functions, there is an urgent need to stabilise the medium and senior management cadre of municipalities through greater insulation from political interference in the retention of skills and in the recruitment process
- Minimum competencies as entrenched in the MFMA should be enforced so as to ensure that appropriate technical skills are in place
 - Revenue management, supply chain management, sewerage and water treatment plant operators, road maintenance supervisors, health inspectors and planning and project managers

10. ASSESSING GENDER RESPONSIVE BUDGETING IN THE LOCAL GOVERNMENT SPHERE IN SA

- Objective:
 - To assess the gender responsiveness of municipal budgeting processes
- Key Findings:
 - Weak translation of gender equality commitments into fiscal commitments: limited gender responsive budgeting
 - Focus on equity and not mainstreaming of gender equality
 - Gender discourse is events driven
 - Lack of disaggregated data

RECOMMENDATIONS

- National and Provincial Governments should:
 - Run a pilot on gender budgeting in a few municipalities
 - Ensure that gender planning is institutionalised in municipal IDPs by sector
 - Provide gender budgeting good practice guides and toolkits
 - Provide guidelines for collecting sex disaggregated data
- Local Government should:
 - Institutionalise gender responsive budgeting process linked to IDPs
 - Build capacity for gender mainstreaming and gender responsive budgeting at the local level
 - Ensure gender-responsive appropriations and budget allocations
 - Ensure gender-sensitive public participation and consultations at local level



THANK YOU.

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