



**MAXIMIZING INTERGOVERNMENTAL AND FISCAL RELATIONS PROCESSES,
TARGETED TOWARDS THE POOREST AREAS IN THE COUNTRY**

6-7 OCTOBER 2020

**SECTOR PARLIAMENTS PLANNING SESSION
PARLIAMENT OF THE REPUBLIC OF SOUTH AFRICA**

PRESENTATION OUTLINE

- Role and function of the Financial and Fiscal Commission (FFC)
- Introduction
- Strengthening the Strategic and Effective use of Fiscal Policy – For Poverty Alleviation
- Strengthening the Coordination and Implementation of Fiscal Policy Across the three Spheres
- Building institutional capacity and momentum to sustain focus and budget allocation for Development
- Going Forward: What Will FFC be contributing to such dialogues
- Conclusion

ROLE AND FUNCTION OF THE FFC

- The Financial and Fiscal Commission (FFC)
 - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
 - Must function in terms of the FFC Act
- Mandate of Commission
 - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
 - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
 - Includes regulations associated with legislation that may amend or extend such legislation
 - Commission must be consulted in terms of the FFC Act
 - In brief the FFC makes recommendations to the three spheres of Government on the equitable division of nationally raised revenue. This mandate is derived from the Constitution and further detailed in, amongst others, the Intergovernmental Fiscal Relations Act, 1997

INTRODUCTION

- Even though progress has been made since attainment of political freedom, economic emancipation have been lagging behind due to issues of poverty, unemployment and inequality with women burring the brunt.
 - For instance, 52% of females are poor, whilst 74.8% of female headed households in rural areas are poor (Cogta, 2020) and Covid 19 have amplified these challenges including issues of GBV
- In a multi-governance system for fiscal policy to achieve the desired outcomes (reduce poverty, inequality, create jobs, economic growth) it requires
 - An efficient and effective coordination
 - An efficient, effective, agile and informed oversight mechanisms
 - A sufficient information/data. It has to be supported by evidence
 - Well capacitated and informed institutions
 - Proper alignment of priorities
- In some cases there are weaknesses in these factors.



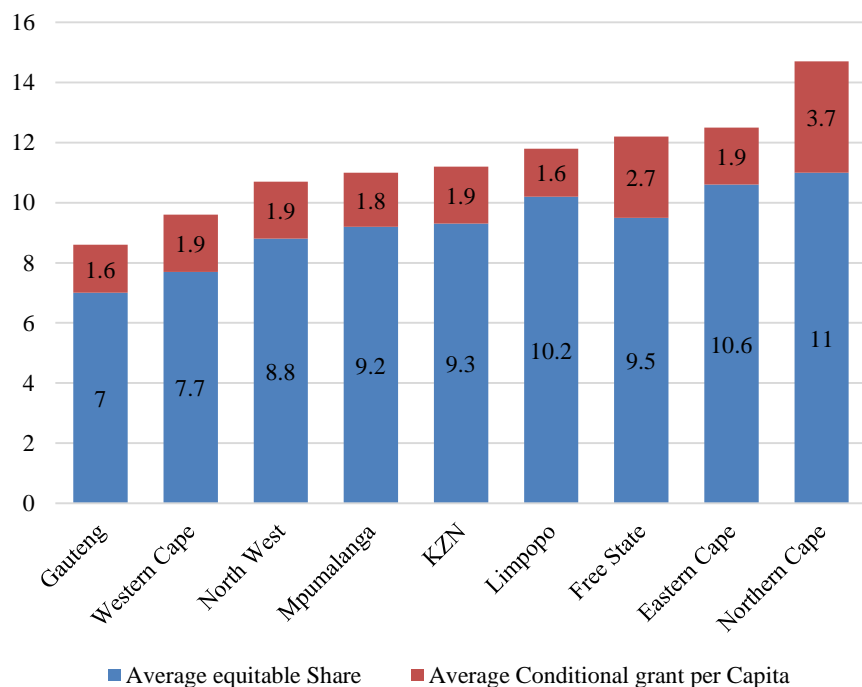
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**STRENGTHENING THE STRATEGIC AND EFFECTIVE USE OF FISCAL POLICY – FOR
POVERTY ALLEVIATION**

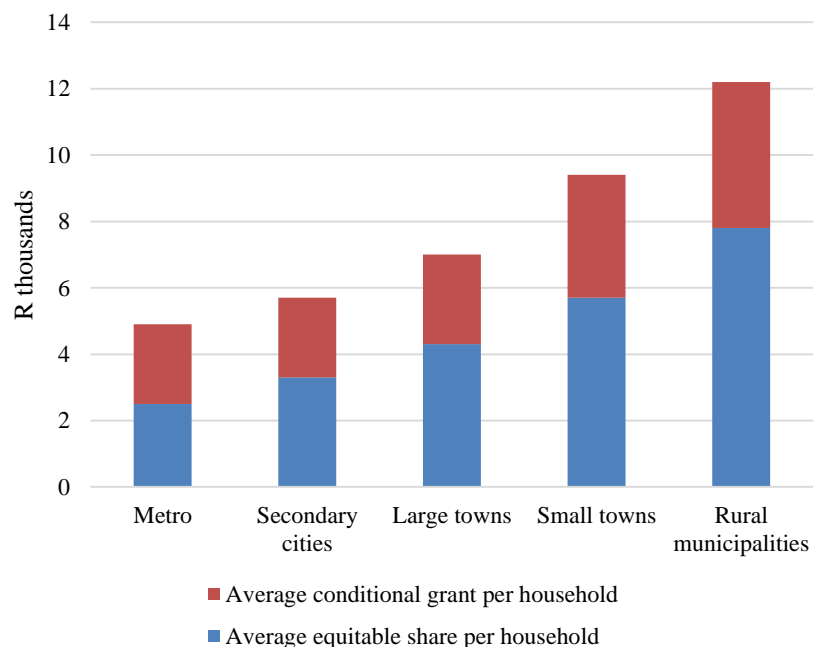
STRENGTHENING THE STRATEGIC AND EFFECTIVE USE OF FISCAL POLICY – FOR POVERTY ALLEVIATION

- Government has endeavoured to use fiscal policy to alleviate poverty and inequalities
- Although not effective, the PES and LES are fiscal instruments to address issues of poverty. They allocations through the Division of Revenue transfer higher per capita/per household amounts to rural areas- indicating that the division of revenue is highly responsive to rural development even after reductions to some grants

Distributional Impact of Provincial revenues



Local government transfers per household, 2019/20



BUT THERE ARE CHALLENGES THAT UNDERMINE EFFECTIVENESS OF FISCAL POLICY

Costing basic services

- Thus using uniform subsidy levels for the different types of municipalities, as currently done in the LES and PES formulae, are not ideal and can be improved upon. Having a cost structure that appropriately reflected the varying expenditure needs of municipalities and provinces is not fully achieved.
- Because the formulae cannot estimate costs, it cannot accurately respond to the basic service needs of municipalities and provinces.

Alignment of Priorities:

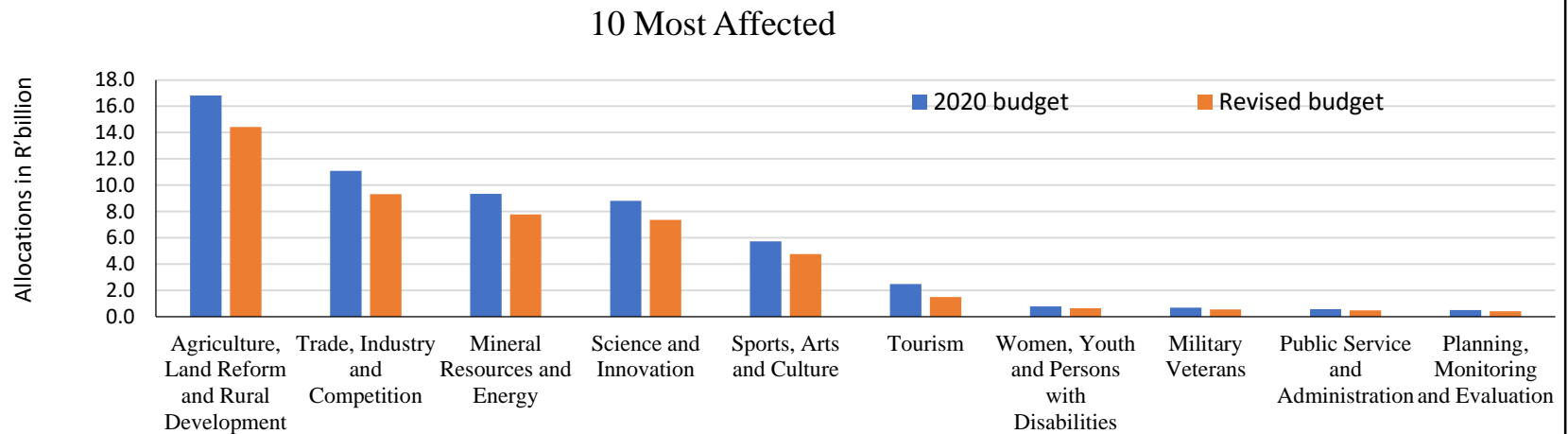
- Sometimes there is no alignment of municipal and provincial priorities with national policy

Balance between administrative costs and core services skewed:

- The actual costs of municipal administration services are higher than the cost of actual service delivery is troublesome, and indicates that less than half of operating expenditure earmarked for the benefit of the poor translates into services they directly receive.

More recently reprioritisations and budget cuts have negated the effectiveness of budgetary/fiscal policy instruments

REPRIORITISATION BY VOTE: ADJUSTED BUDGET VS 2020 BUDGET



- Government reprioritisation was also evaluated in terms of helping the nation achieve on set priorities namely: Economic transformation and job creation; Education, skills and health; Consolidating the social wage through reliable and quality basic services; Spatial integration, human settlements and local government; Social cohesion and safe communities; A capable, ethical and developmental state
- Despite Covid-19, reprioritisation should be consistent and aligned to government set priorities, and be a bridge to achieving NDP and Sustainable development goals.
- Aggressive reprioritisation from agriculture, Trade and industry, Science and innovation, Tourism and Women, youth and persons with disabilities will, in the long run negate achieving some of the above priorities.

REPRIORITISATION IN 2020 BUDGET

In the outer years the Commission implored government to prioritise some votes to ensure that national priorities are not neglected

- Agriculture; a lever for growth, rural development (through supporting subsistence and emerging farmers), ensures food security, and the land reform programme addresses directly issues of poverty and inequality.
- Science and Innovation; primary driver of economic growth and has the potential to influence technological change, research into disaster response measures and Covid 19 issues (in terms of testing for potential vaccine treatment as well as machinery/equipment such as ventilators) and catalysing research into the digital economy).
- Trade and Industry: Key to building a dynamic industrial and globally competitive economy
- Women, youth and persons with disabilities: This vote plays a crucial role in building a social cohesion and ensuring inclusive growth. Considering the increase in GBV, gender inequalities and discrimination, the budget is a potent instrument in the fight against this scourge.
- Transport; realisation of improved social and economic development, baseline cuts will affect among others the improvement on the transport network and the mobility of people and service provision as well as the maintenance of the provincial road networks.



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**STRENGTHENING THE COORDINATION AND IMPLEMENTATION OF FISCAL POLICY
ACROSS THE THREE SPHERES**

COOPERATIVE GOVERNANCE IS AT THE HEART OF THE SOUTH AFRICAN CONSTITUTION



Chapter 3 of the Constitution addresses cooperative governance (chapters 4 and 5 address the structure of national government; chapter 6 addresses provinces and chapter 7 local govt) National, provincial and local spheres which are “distinctive, inter-dependent and inter-related”

The word “spheres” is used to avoid any implications of a hierarchy

- The Constitution requires the sphere to cooperate with one another in mutual trust and good faith, including by—
 - informing one another of, and consulting one another on, matters of common interest
 - co-ordinating their actions and legislation with one another
 - avoiding legal proceedings against one another

CONSULTATION PROCESS BEFORE THE ANNUAL DIVISION OF REVENUE IS TABLED

 **Parliamentary Recommendations**

 **FFC Recommendations**

Mandate Paper



Technical meetings

Meetings with national sector departments

Function groups
Discussion across programmes delivering related functions

Intergovernmental Technical Committees
National Treasury and Provincial Treasury officials and SALGA officials

MinComBud Technical Committee
Senior officials from center of govt. departments

Political-level meetings

Budget Council

Finance Minister & Finance MECs



Budget Forum

Budget Council members plus



Ministers' Committee on the Budget

Extended Cabinet

MTBPS tabled in October - Includes proposed DoR and substantial changes to grants

Parliamentary hearings and recommendations on the MTBPS

MinComBud, Budget Council, Budget Forum and Cabinet consider post-MTBPS changes

Division of Revenue Bill tabled on Budget Day in February

FFC HAS EVALUATED CHALLENGES IN COORDINATION IN GOVERNMENT (1)

- Poor coordination is one of the challenges in the delivery of services
- Coordination structures in government are there but weak.
- Poor coordination leads to duplication, overlap and inefficiency and which leads to wastage of resources and non delivery
- FFC have evaluated coordination challenges on infrastructure delivery and found that:
 - Poor coordination is the source of Infrastructure Delivery inefficiencies
 - Local government infrastructure delivery performance is lagging despite the widely accepted view that capital investments are crucial for economic growth and development
 - FFC found that big infrastructure projects are not well coordinated by the three spheres

FFC HAS EVALUATED CHALLENGES IN COORDINATION IN GOVERNMENT (2)

- Another area with poor coordination is the capacity building initiatives
- Current Programmes to strengthen municipal capacity include
 - Municipal Infrastructure Support Agency (MISA)
 - National Treasury's Local Government Financial Management Reform Agenda
 - City Support Programme (CSP)
 - LG SETA, The National School of Government, DBSA's Vulindlela Academy
 - SALGA's support programmes
 - Sector departments, parastatals, the Auditor-General's Office, professional bodies, educational institutions and trade unions
 - Provincial Municipal Support
- And over R2 billion is spent on capacity building initiatives
- The main challenge is the coordination of different stakeholders in capacity building. It appears these initiatives are fragmented and overlapping and if so there is waste of resources. It has implications on the returns to such investments. On the ground returns seem to be low.

DISTRICT DEVELOPMENT MODEL

- Government has established a DDM to catalyse local economic development. Among other things, this model is meant to improve coordination and planning at local level.
- The Covid-19 pandemic has shown that coordination between different spheres of government is a big challenge.
- But will it work?
- DDM was launched against a backdrop of a significant number of districts that are dysfunctional, and laden with an unclear funding model.
- In his 2018 budget statement, the Minister of Cogta indicated that over 60 % of DMs were dysfunctional and many are underfunded.
- In addition, there is no clear cut resourcing of the DDM in the fiscus. How can this succeed without a proper funding framework.



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**BUILDING INSTITUTIONAL CAPACITY AND MOMENTUM TO SUSTAIN FOCUS AND BUDGET
ALLOCATION FOR DEVELOPMENT**

BUILDING INSTITUTIONAL CAPACITY AND MOMENTUM TO SUSTAIN FOCUS AND BUDGET ALLOCATION ON DEVELOPING CATALYSING PRIORITIES

- The following needs to be done to build institutional capacity an momentum:
 - Strengthen and provide research capacity to legislative boldies at national, provincial and local (Committees)
 - Embrace digital technology for oversight
 - Regular expenditure reviews/impact assessments/budget audits to assess the extent to which particular expenditures indeed resulted in the intended outcomes in line with the medium term strategic framework (2020-2024)
 - Poverty reduction programs and their budgets should be formulated in a transparent manner and should include women in decision making and participation
 - A selection of key state entities that have, or could have, responsibility and capability to oversee, drive or support policies that drive or accelerate poverty reduction another avenue to show government commitment to poverty reduction mechanisms
 - *The* effective monitoring of APPs as they inform departmental budgets. E.g. DPME
 - Provincial Legislatures are constitutionally mandated to exercise oversight role over the functioning of government including its performance with regards to policies and plans and they should be supported by evidence base information where they need to act
 - The District Development Model (DDM) -premised on institutionalising a programmatic approach to IGR.
 - It also seeks to ensure inclusive budgets based on the needs and aspirations of the people and communities at a local level with emphasis on LED programmes linked with the IDP processes
 - The success of the model is dependent on strong political will and that the adequate support is provided



GOING FORWARD: WHAT WILL FFC BE CONTRIBUTING TO SUCH DIALOGUES

GOING FORWARD

- In 2021 FFC will seek to provide evidence on the issues raised today, including:
 - Effectiveness of government expenditure
 - effectiveness of capacity building initiatives
 - Effectiveness of oversight institutions
 - Gender and fiscal policy
 - Food security and fiscal policy
 - Together, these projects will shed light on the effectiveness of fiscal policy in addressing poverty, inequality and economic development.
- Highlights of two of such projects are:

THE IGFR SYSTEM AND THE FOOD SECURITY QUESTION

- In 2017, 6,8 million (almost 20%) South Africans were food insecure; a great improvement compared to the 13,5 million households who were food insecure in 2002.
- Although at national level South Africa is food secure, the country is food insecure at household level.
- Food security varies widely by province, and rural-urban divides. Climate change has compounded the challenge of food insecurity. There is also every reason to suspect the Covid-19 pandemic has worsened the challenge of food insecurity as it has forced many people out of employment and albeit, driven many also into poverty.
- **Research Questions:**
 - To what extent are IGFR instruments responsive to food insecurity?
 - How can the IGFR instruments be adapted to address the challenges of food insecurity and vulnerability for both urban and rural households?
- **Objectives**
 - To evaluate the effectiveness and responsiveness of IGFR instruments in addressing the challenge of food insecurity?
 - To make recommendations on how the IGFR instruments can be adapted to address the challenges of food insecurity and vulnerability for both urban and rural households

ADDRESSING GENDER INEQUALITIES THROUGH FISCAL POLICY

- The government has committed itself to promoting gender equality. There is a well-established link between gender equality and improved economic efficiency and productivity.
- Improving women's opportunities in education, access to appropriate healthcare, and ability to participate in paid employment are all crucial elements for economic growth and addressing poverty and inequality.
- Although government has committed itself to achieving gender equality, the Covid-19 pandemic has seen a proliferation of gendered tensions in general, and gender-based violence in particular.
- One single and key measure at the disposal of government to address gender equality is the budget. The budget can be used to integrate gender-related goals into fiscal policies to achieve gender equality. This is known as gender budgeting: an approach to budgeting which uses fiscal policies to address gender inequality and advance women's development.

ADDRESSING GENDER INEQUALITIES THROUGH FISCAL POLICY

- **Research Questions**

- To what extent are budgets of SNGs gender sensitive?
- If not, how can the SNG budgets and IGFR instruments be sufficiently repositioned and redirected to address gender inequalities?

- **Objectives**

- In this project FFC seeks to evaluate the possible use of fiscal policies to address gender equality.
- This study did not evaluate actual budgets or IGFR instruments from a gender perspective.
- The current project seeks to examine fiscal policy (tax side, expenditure side, IGFR instruments) for gender responsiveness at subnational level

CONCLUSION

- The Commission recognises that the repercussions of the Covid-19 pandemic will reverberate for years to come
- For its next submission for the 2022/23 DoR, Effectiveness of government expenditure, effectiveness of capacity building initiatives, Effectiveness of oversight institutions, Gender and fiscal policy, and Food security and fiscal policy will be prioritised by the Commission and besides, the Commission will provide a comprehensive assessment of the socio-economic effects of the coronavirus pandemic

FFC WEBSITE: WWW.FFC.CO.ZA



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