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EXPORTATION OF THE SOUTH AFRICAN FISCAL SYSTEM (FOREIGN DELEGATIONS THAT THE FINANCIAL AND FISCAL COMMISSION ENCOUNTERED): THOUGHTS ON THE ATTRACTIVENESS AND ACCEPTANCE OF ASPECTS OF THE SOUTH AFRICAN IGFR SYSTEM

INTRODUCTION AND BACKGROUND

The Financial and Fiscal Commission (Commission) has contributed immensely to the development and evolution of the Intergovernmental Fiscal Relations (IGFR) systems in South Africa. There has been increased interest by Governments other institutions around the world to engage with the Commission in order to increase their knowledge and skills and gain first-hand understanding of the independence and operations of the Commission, its relationship to stakeholders, the intergovernmental fiscal relations (IGFR) system and the challenges that are encountered in South Africa.

The Commission is a permanent statutory body established in terms of section 220 of Constitution, 1996 and the Financial and Fiscal

Commission Act, 1997 (as amended). The Commission was established in1994, tabled its first Submission on the system of IGFR in 1995 and the first Submission on Division of Revenue was submitted in 1997. The Commission is independent and subject only to the Constitution, 1996 and the relevant legislative prescripts. The Commission consists of nine Commissioners who are supported by a Secretariat provided for in the Financial and Fiscal Commission Act, 1997 (as amended).The Secretariat consists of three (3) Divisions namely Research and Recommendations Programme (RRP), Corporate Services and Finance. The Office of the Commission Secretary supports the Commission and the Secretariat. The Research and Recommendations Program provides the Commission with an understanding of what allocations and resource envelopes are in the realm of possibility both in the short- and the long run as well as working out alternatives and trade-offs. To accomplish these tasks, the programme is broadly split into seven interrelated units, namely: (i) Macroeconomics and Public Finance, (ii) Fiscal Policy, (iii) National Budget Analysis, (iv) Provincial Budget Analysis, (v) Local Government, (vi) Intergovernmental Fiscal Relations and Performance and (vii) Data and Information. Given that the Commission is mandated as an advisory institution to the organs of state, the research from RRP is directly linked to the flagship submissions of the Commission – namely, Annual Submission for the Division of Revenue, Submissions on the (a) Medium Term Budget Policy

Statement (MTBPS), (b) Division of Revenue Bill (DORB), as well as (c) Fiscal Frameworks and Revenue Proposals and (d) Appropriations Bill.

The mandate of Commission is to makes recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organs of state determined by national legislation. The Commission makes recommendations on matters relating to intergovernmental fiscal relations (IGFR) which includes legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective; and regulations associated with legislation that may amend or extend such legislation

THE INTERNATIONAL DIMENSION (2007-2016)

The Sudanese Fiscal and Financial Allocation and Monitoring Commission comprising of the Chairman of the FFAMC in Sudan, an official from the Allocation Department and the coordinator from the World Bank conducted a study tour at the Commission. The study tour was to learn more on South African practices and lessons for ensuring effective fiscal allocations and monitoring in an evolving intergovernmental framework system. The experience and fiscal framework of South Africa provided insights into fiscal federalism from which the delegation gained valuable lessons applicable to Sudan.

A delegation from the Government of Nigeria conducted a fact finding mission to the Commission. The presentation provided an overview of the IGFR system, a comparison of the Nigerian and South African experience, the practice of fiscal decentralisation in South Africa, revenue sharing mechanism institutions, legislations that enhance the IGFR system, role of the Commission, challenges in the IGFR and lessons learnt.

The Commission hosted a delegation from Malawi. The purpose was to obtain an overview of the Commission with particular reference on how the Commission influences Policy and enforces its recommendations. The delegates further wanted to facilitate wider economic and political reforms in Malawi.

A delegation from Kenya conducted a fact-finding tour where the objective was peer-to-peer learning from members of the Kenyan Commission on Revenue Allocation (CRA) with the Commission. The Kenyan Constitution had established a devolved system of government through the creation of forty seven (47) counties. As an integral part of devolution was the funding of the counties and the Constitution required the sharing of the revenue raised nationally between the national government and the counties. The CRA must recommend to Parliament how the revenue raised nationally must be divided vertically between the national government and the counties as well as horizontally between counties.

The CRA and its functions closely resembled that of the Commission. Further the provisions in the Kenyan Constitution on the CRA had similarities to the South African Constitution. The delegation from Kenya were eager to learn about the establishment, mandate and activities of the Commission including the necessary methodologies that informs the Commission's recommendations and its interaction with stakeholders.

The Government of Ethiopia conducted a peer learning engagement where the objective was to strengthen the capacity of the House of federation in diffusing its responsibilities with regard to intergovernmental fiscal transfer system by raising the awareness and understanding of members of the Grant Budget and Revenue Sharing Standing Committee of the House of Federation. The study tour was also aimed at enhancing the technical capability of the experts responsible for the preparation of intergovernmental transfer formula in the House of Federation Secretariat. The delegates were extremely eager to obtain practical experiences on how the South African IGFR system functions to enable lessons that be drawn which would enrich the Ethiopian IGFR system.

At the end of the two day session the delegates obtained an excellent understanding on the policy and legal framework of the South African IGFR system, South African institutional arrangement for the development of intergovernmental fiscal transfer mechanism, comprehensive knowledge on intergovernmental fiscal transfer and technical knowhow and skills in the development of formula-based transfer mechanism.

The Government of Pakistan had also conducted a study tour to the Commission. The delegation consisted of officials from the Provincial Finance and Planning Departments. The delegation obtained invaluable knowledge and insight into the Commission cycle, IGFR system, design of revenue sharing formulae for social sectors, sub-national borrowing and taxation issues and design of conditional grants and on the IGFR system in South Africa.

A ministerial delegation from Sri Lanka conducted a study tour to the Commission where the “Provincial Fiscal Management and Distribution in South Africa” was extensively discussed. The lessons learnt provided invaluable insight to the delegation.

A delegation from the Ministry of Finance Nepal conducted a fact-finding mission to the Commission. During 2013 Nepal was in the midst of a major political, administrative and fiscal restructuring moving towards a federal government structure to enhance governance and improve public service delivery. The Local Bodies Fiscal Commission and the Secretariat (LBFCS) were likely to face significant transitional and institutional challenges in the event that it transforms to a Fiscal/Finance Commission that plays a significant role in advising Parliament and the federal Government about expenditure assignments, revenue assignments and inter-governmental fiscal transfers. The LBFC required institutional support both in terms of its current functions and in terms of its future functions as the technical arm of a federal finance commission, and to strengthen its capacity to communicate and advocate policy recommendations in the area of fiscal decentralization. The Commission presented on its formation, mandate, functions, and stakeholders and particularly on how it managed its transition in fiscal matters, conducting of analytical and policy work on inter-governmental fiscal relations and how the Commission informed and influenced fiscal policy in South Africa.

Delegation from the Ministry of Afghanistan conducted two (2) separate study tours at the Commission. A third study tour is currently being finalised. The delegation engaged on the origins and development of the South African system of intergovernmental relations with particular emphasis on the equitable allocation of the revenues that have been nationally raised between the three spheres of government.

The second engagement by the Director General: Budget from the Ministry of Afghanistan related to: The Commission's experiences in improving the equitable distribution of national resources to provincial and local governments; IGFR in South Africa; Division of Revenue, revenue sharing through the provincial equitable share, and local government equitable share, and recent expenditure reviews; and budget analysis techniques. In a follow-up to the study tour the Ministry of Afghanistan conveyed its appreciation to the lessons learnt and best practice relating to the IGFR system.

A study visit of twelve (12) senior official from the Ministry of Finance and the Planning Commission, Government of Bangladesh met with the Commission in order to increase their understanding of all stages of the medium-term budget cycle process, and specifically, how it deals with public investment planning, expenditure and management as well as to observe 'first-hand' how South African plans, finances and manages its public investment spending and to draw lessons for Bangladesh. The study tour strengthened the public expenditure management programme in Bangladesh, in particular increased technical knowledge of all stages of public investment management (PIM) cycle and their mutual interrelations; observed first hand other practices in the PIM sphere assessing the strengths and weaknesses in the Bangladesh context, increase an awareness of how a PIM reform agenda might be realized through the learning of the South African experience. The study tour officials obtained invaluable lessons in generic and cognitive skills such as analyzing and presenting findings, international networking and analysis.

Officials from the Government of Vietnam recently engaged with the Commission, where the aim was to improve good governance in public finances by learning about output-based budgeting, revenue forecasting and expenditure planning systems as well as budget disclosure according to international standards. The Commission's presentation concentrated on fiscal imbalances and in which way it contributed towards budget transparency.

Political and economic improvements have transformed Vietnam from one of the poorest countries in the world to a lower middle income country. The Vietnamese public finance management (PFM) system has gone through reforms for nearly two decades and impressive changes have taken place. However, further support in strengthening the institutional and technical capacities to manage public finances remains important. This fact-finding mission was considered by the delegates as an important part of Vietnam's public financial management reform. It is envisaged that the lessons learnt would assist in laying the foundation of improved public finances and good governance.

Officials from the Ministry of Planning, Monitoring and Administrative Reform from Egypt conducted a study tour at the Commission to equip the officials to modernize and implement the Government of Egypt with planning initiatives and public service and administration reform interventions. The presentation and support of the Commission was well received by the delegation.

THOUGHTS ON THE ATTRACTIVENESS AND ACCEPTANCE OF SA IGFR MODEL

Firstly, the design of the financing system is based on a strong set of constitutionally enshrined principles with the Financial and Fiscal Commission being a central feature. The key ones are that:

(a) National, provincial and local spheres of government are "distinctive, interdependent and inter-related";

(b) Legislative and executive authority of spheres is determined in accordance with Schedules 4 and 5;

(c) Each level of government shall have a constitutional right to an equitable share of revenue collected nationally so as to ensure that provinces and local governments are able to provide basic services and execute the functions allocated to them;

(d) An Act of Parliament (the annual Division of Revenue Act) to be approved by Parliament, which includes the National Council of Provinces. The equitable share is an unconditional allocation to provinces and municipalities. The Constitution makes provision for other allocations to provinces and local government, which may be conditional or unconditional; and

(e) A province's equitable share of revenue raised nationally is a direct charge against the National Revenue Fund and must be transferred to the province promptly and without deduction, except when the transfer has been stopped in terms of Section 216.

- The operation of the Commission is guided by these principles to ensure that its work is sensitive to the national interest of the country, protects the fiscal autonomy of sub-national entities and does not compromise service delivery.

- Secondly, the success of a devolved financing system is dependent on the strengths and abilities of the institutions supporting such a system. To this end, an independent constitutional body, such as the FFC can be pivotal as a mechanism that ensures the revenue-sharing framework adheres to constitutionally prescribed principles. It is important that all direct and indirect players in such a system are capable of fulfilling their roles and responsibilities. This ranges from players like the Finance Ministry to ensure an equitable and effective distribution of funds to the Auditor General providing audit reports in terms of which sub-national entities could be held accountable for the use of public funds. The capabilities of the institutions supporting the system ultimately determine the success or failure of the system.

- Thirdly, the Constitution laid the foundations of a fiscally devolved system that was to be held together by a strong notion of cooperative governance across the country's three spheres of governance. However, the adhesive role that was envisaged for cooperative governance was underestimated in ensuring that the system operates optimally. Whereas one can argue that the intergovernmental system is holistically sound in terms of its design, human and financial capacity constraints are a major issue in the current system. The ability of national and provincial government to play a supportive and interventionist in the system was overestimated thus rendering the emphasis on cooperative governance dubious. The system itself created several devolved units that continue to face capacity constraints in administering a provincial or municipal institution. At local government level, the large social, demographic and economic disparities created municipal institutions that are constrained in their tax revenue ability and are highly dependent on grants. This reality puts such sub-national administrations in a difficult situation and can compromise the link between the municipal institution and local communities.

- Fourthly, the system of revenue sharing is designed around the specific characteristics of the country, sensitive to the unique social, political and economic circumstances. The continued existence of South Africa's system of devolution is the result of its design being sensitive to the political circumstances of the day.
- Fifthly, it is important that strong budgeting processes inform the system. Proper planning and implementation of budgets promotes such technical and allocative efficiencies that result in optimum service delivery outcomes. South Africa has implemented important budgetary reforms that improved the effectiveness and transparency of the financing system. In addition, it is important that there is clarity around expenditure and revenue powers and functions. This continues to be a problem in South Africa where the assignment of certain expenditure powers and functions are unclear resulting in duplication of services. This also creates distortions in funding and accountability, which has led to a disjuncture between policy-making and implementation.
- Sixthly, devolved units are created to ensure efficiency in service delivery with the greater national goals and interests in mind. It is important for national government to monitor and evaluate the performance of sub-national entities to ensure that they fulfil their mandates and uphold the interests of the contemporary

government. The failure to effectively monitor and evaluate sub-national entities will compromise the effectiveness of a decentralised governance structure. Most national (and provincial government) departments simply do not have the capacity to carry out their mandates, including monitoring and supporting sub-national spheres. The failure of the system of support and intervention is due to the inability of spheres tasked with support to carry out this function.

- Finally, there is a need to ensure a dynamic funding system that responds to the ever-evolving system of devolved government. It is important for the continuous review of the funding frameworks of provincial and local government, which is evident in South Africa. Such reviews can be broken down into perennial amendments to the funding framework for policy changes supported by larger more structured reviews that occur. The devolved system will continue to evolve as the system of fiscal decentralisation matures in the country but such reviews and amendments needs to be sensitive to the political legacy that resulted in its origin.

Intergovernmental fiscal relations issues continue to remain in the forefront of Government decision-making and there is no one size to fit all but there are general principles that countries can adopt to ensure that sound systems evolve especially during the period of transition.

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Thank you

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Acting Chairperson/CE

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