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FOREWORD

This Submission for the 2013 Division of Revenue is made in terms of section 214(1) of the Constitution of the Republic of South Africa (1996), section 9 of the Intergovernmental Fiscal Relations (IGFR) Act (1998) and section 4(4c) of the Money Bills Amendment Procedure and Related Matters Act (Act 9 of 2009).

Under the theme of ***Fiscal Levers for National Development***, the Submission identifies fiscal policy and other measures that Government can adopt for a well-functioning system that promotes development. The Commission argues that Government can use its fiscal levers (public resources) strategically to pursue growth-friendly fiscal consolidation in the short term in response to a prolonged grim international economic outlook, while maintaining current levels of social spending to cushion the most vulnerable groups and simultaneously laying the foundations for future long-term growth and development. The long-term growth potential can be enhanced through financing effective skills development, university research and innovation, coupled with investment in the institutional capability of the state.

The economic sustainability question also emphasises that a comprehensive approach to intergovernmental fiscal reforms must be taken, tackling at the same time sub-national expenditure and revenue-related issues. The Commission is of the view that fiscal consolidation must continue to be supported by all South Africans. However there is a need to be always aware of the risks associated with fiscal consolidation, and the most significant that needs direct mitigation is the impact on children and vulnerable groups in our society. There is a danger that, in the pursuit of longer-term fiscal imperatives, the necessary future growth in child support grants spending may be sacrificed. In spite of the fairly widespread negative perception of grants, the evidence suggests that social grants contribute to achieving the objectives of equitable distribution of economic wellbeing, productive efficiency and long-term economic growth. The Commission's research findings are encouraging, showing that social grants lead to increased consumption and production of education and nutritious food products. There is thus a need to strike a delicate balance in the choices that are made around spending on social grants.

Government can use its public resources sparingly and efficiently, not only to create an ideal child-support system but also to lay the foundations for future growth and development by fixing Further Education Training colleges and investing in higher education research. Levers in the form of transfers to provincial and local government can also enable these sub-national government spheres to play a central role in countering the three major challenges facing the country – unemployment, poverty and inequality – while encouraging economic growth and overall national development.

The Commission would like to express its sincere gratitude to all the stakeholders who have provided inputs at key points during the process of compiling the recommendations, the Minister of Finance (and National Treasury) for his continued support, the Chairpersons of the Finance and Appropriations Committees and their members in both national and provincial legislatures for their support, the South African Local Government Association and its technical team for their assistance and the Commission Secretariat for its support.

We, the undersigned, hereby submit the Financial and Fiscal Commission's recommendations for the 2014/15 Division of Revenue in accordance with the obligations placed upon us by the Constitution of the Republic of South Africa.

For and on behalf of the Commission



Mr Bongani Khumalo
Acting Chairperson/Chief Executive,

Ms Lucienne Abrahams

Ms Tania Ajam

Mr Krish Kumar

Ms Nelisiwe Shezi

Date: 24 May 2013

ACRONYMS

AG	Auditor-General
CGE	Computable General Equilibrium
CoGTA	Department of Cooperative Government and Traditional Affairs
CPIX	Consumer Price Index
CRC	Current Replacement Cost
CRDP	Comprehensive Rural Development Programme
CSG	Child Support Grant
DHET	Department of Higher Education and Training
DoE	Department of Education
DPME	Department of Performance Monitoring and Evaluation
DSD	Department of Social Development
DST	Department of Science and Technology
ECD	Early Childhood Development
EPWP	Expanded Public Works Programme
FCG	Foster Child Grant
FET	Further Education and Training
FFC	Financial and Fiscal Commission
FTE	Full Time Equivalent
GDP	Gross Domestic Product
GERD	Gross Expenditure on Research and Development
GIAMA	Government Immovable Asset Management Act
GRAP	Generally Recognised Accounting Practice
GVA	Gross Value Add
ICDG	Integrated City Development Grant
ICT	Information, Communication and Technology
IDP	Integrated Development Plan
IGDP	Integrated Growth and Development Plan
IGFR	Intergovernmental Fiscal Relations
IMFO	Institute of Municipal Finance Officers
ISRDP	Integrated Sustainable Rural Development
KZN	KwaZulu-Natal
LED	Local Economic Development
M&E	Monitoring and Evaluation

ACRONYMS

MFMA	Municipal Finance Management Act
MRC	Medical Research Council
MTBPS	Medium Term Budget Policy Statement
MTEC	Medium Term Expenditure Committee
MTEF	Medium Term Expenditure Framework
NDP	National Development Plan
NERSA	National Energy Regulator of South Africa
NGP	New Growth Path
NPC	National Planning Commission
NRF	National Research Foundation
NRS	National Rationalised Specification
NSFAS	National Student Financial Aid Scheme
OECD	Organisation for Economic Cooperation and Development
PFMA	Public Finance Management Act
PGDS	Provincial Growth and Development Strategy
PRASA	Passenger Rail Agency of South Africa
PSC	Public Service Commission
SAM	Social Accounting Matrix
SALGA	South African Local Government Association
SASSA	South African Social Security Agency
SETA	Sector Education and Training Authority
StatsSA	Statistics South Africa
UNDP	United Nations Development Programme
VAT	Value-added Tax