



FINANCIAL
AND FISCAL
COMMISSION

For an Equitable Sharing
of National Revenue



MEDIA STATEMENT
SUBMISSION FOR THE DIVISION OF REVENUE
2021/2022



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of National Revenue

THE FINANCIAL AND FISCAL COMMISSION

The Commission is a body that makes recommendations and gives advice to Organs of State on financial and fiscal matters. As an institution created in the Constitution, it is an independent, juristic person subject only to the Constitution itself, the Financial and Fiscal Commission Act, 1997 (Act No 99 of 1997) (as amended) and relevant legislative prescripts - and may perform its functions on its own initiative or on request of an Organ of State.

The vision of the Commission is to provide influential advice for equitable, efficient and sustainable intergovernmental fiscal relations between the national, provincial and local spheres of government. This relates to the equitable division of government revenue among the three spheres of government and to the related service delivery of public services to South Africans.

Through focused research, the Commission aims to provide proactive, expert and independent advice on promoting the intergovernmental fiscal relations system, using evidence-based policy analysis to ensure the realisation of constitutional values. The Commission reports directly both to Parliament and the Provincial Legislatures, who hold government institutions to account. Government must respond to the Commission's recommendations and the extent to which they will be implemented at the tabling of the annual national budget in February.

The Commission consists of women and men appointed by the President: the Chairperson and Deputy Chairperson; three representatives of provinces; two representatives of organised local government: and two other persons. The Commission pledges its commitment to the betterment of South Africa and South African's in the execution of its duties.

INTRODUCTION

The Financial and Fiscal Commission tables its recommendations for the 2021/22 Division of Revenue in an environment characterised by growing government debt, negative economic growth and a still unfolding Covid-19 pandemic. The pandemic has caused an unprecedented shock to people's livelihoods and compounded and accelerated existing structural fragilities in the economy and pushed the already weakened fiscal metrics downward faster than anything ever seen since the financial crisis a decade ago. It has further intensified the existing inequalities and condemned many people into poverty and unemployment.

This Submission and the recommendations it proposes, have been tabled with and are for the consideration of Parliament, provincial legislatures, and the attention of national ministers, members of the executive council, organised local government and government more broadly, and specifically for the Minister of Finance. The Commission is an independent, permanent, statutory institution established in terms of Section 220 of Constitution. As per the Constitution¹ and national legislation², the mandate of the Commission is to make recommendations on financial and fiscal matters so as to promote an equitable, efficient and sustainable intergovernmental fiscal relations system in South Africa.

The Submission runs under the theme: "***Sustainable Financing of Social and Economic Infrastructure and Services***". The theme of this Submission reflects the need for South Africa's growing social and economic service delivery obligations to be sustainably financed within the context of deteriorating socio- and macro-economic conditions and, in particular, a weakened fiscal position. As the income available for households to sustain themselves and invest in their future is expected to diminish at an accelerated pace, government needs to cushion the impact with a range of economic and social relief instruments. The Submission starts a conversation on what is required to catapult South Africa onto a more sustainable economic and social development trajectory. It focuses on persistent, existing challenges affecting health care (and South Africa's transition to a National Health Insurance or NHI) and education, particularly early childhood and inclusive, education.

¹ See specifically Sections 214 and 220 of the Constitution.

² The Financial and Fiscal Commission Act, 1997 (Act No 99 of 1997) (as amended).

KEY FINDINGS OF THE 2021/22 SUBMISSION FOR THE DIVISION OF REVENUE

Economic and social development in the context of Covid-19

The Commission's Submission reflects on the implications of the Covid-19 pandemic for socio-economic development of South Africa. The impact of Covid-19 has had a devastating shock on South Africa's already precarious economy and the pandemic has served to highlight the stark inequalities in our Society. During the first quarter of 2020, 38 000 jobs were lost, and 306 000 new entrants were unable to find jobs, resulting in total unemployment increasing by 344 000. In total there are about 7 million unemployed individuals³.

For the Commission, the roots of South Africa's high levels of joblessness and inequality lie in the economic system inherited from the apartheid era and the continued over-dependence on the traditional commodity-based industries. Since 1994, the state has failed to diversify the economy and eradicate the roots of structural joblessness and inequality. This lethargy has been all the more apparent during the unfolding crisis caused by the Covid-19 pandemic. While quick out of the starting blocks initially, South Africa's ongoing response to this challenge can be one of two things – either we go back to “business as usual” or South Africa seizes the opportunity presented by this crisis and we bring about structural change in the economy. It is the position of the Commission that South Africa's response to this Covid-19 pandemic requires a strengthening of continuity, consistency and credibility of the nation's economic and fiscal stance. The Commission recommends for the adoption of a localised product value chain approach to transform the domestic economy and particularly to stimulate inclusive growth.

To ignite growth and development, the Commission advises a focus on the agricultural economy. Just under 80% of South Africa's total land is agricultural. A large portion of this land is arable, thus suitable for growing crops, yet permanent cropland usage comprises only 0.34% of total land mass. Of concern is that only a small fraction of land (1.66%) is under irrigation, which suggests that the South African agricultural sector has not realised its full potential for economic growth and productivity. Strengthening this sector has substantial multiplier effects for growth, jobs and development. Added to this is the potential for providing food security. The Commission recommends that to start unlocking this sector, government needs to provide infrastructural and financial support to farmers, particularly emerging farmers who do not have strong financial muscle.

Sustainable financing of South Africa's public health care system and NHI

The first structural weakness exposed by the Covid-19 pandemic was the disparities within our health care system, which has been at the forefront of containing the spread of the virus. In analysing this sector, the Commission

³ See Statistics South Africa's 2020 Quarterly Labour Force Survey.

highlights the benefits of using a demand based approach to pricing and costing health care services. The Commission finds that this approach can be used as a basis for deciding the extent of coverage and benefits of more effective and efficient health care packages. This is the type of intervention that could be implemented to reap efficiency benefits, more so given current fiscal constraints. However, as in many other government sectors, there is a lack of reliable data to implement this approach. The Commission thus recommends that government prioritises the development of an integrated national information system of patient and doctor registries with real-time data, to inform health care financing and provisioning decisions using the demand-based costing methodology.

Our research is relevant to the NHI reform, on which it also focusses. In the opinion of the Commission, the intended outcome of achieving a just health care system for all, is not debatable. However, the Commission is of the view that to ensure a strong foundation for the establishment of the NHI, there are key aspects within the NHI Bill that require strengthening and greater detailed elaboration. This includes the need for clarity on tax structure reforms required to support the implementation of the NHI and alignment of national and provincial legislative frameworks and intergovernmental arrangements to facilitate the implementation of the NHI.

Quality and inclusive social services

Regarding the Commission's work on the quality and inclusiveness of social services, services delivered to the most vulnerable in society – Our Children – was the central focus. Despite progressive education and social development policies, transformation on the ground has been slow, with large numbers of mainly poor and vulnerable children still unable to access quality early childhood and inclusive education services – particularly learners with special educational needs. Whilst the Covid-19 pandemic may have amplified the hardships faced by the poor and vulnerable, these challenges are longstanding and inequitable. Furthermore, failure to invest in Children, will not bode well for placing South Africa on a sustainable and equitable future economic and development trajectory.

Our findings indicate that basic but essential components for inclusive service delivery are lacking across the ECD and inclusive education sectors. For example, the White Paper on Inclusive Education was tabled in 2001, whilst the Integrated Early Childhood Development (ECD) Policy was approved in 2015. To date, however, the legislation required to allocate a mandate for implementation to government institutions and to ensure responsibility and accountability, is absent. Given that government operates in terms of the law, the absence of a legislative mandate is serious. The Commission recommends finalisation of legislation underpinning the ECD and inclusive education sectors and that such legislation be urgently accompanied by time bound implementation plans.

Regarding ECD, whilst there is a need to strengthen overall funding to the sector, the Commission emphasises the need for better targeting of funding. Currently, government funding is predominantly directed to formal ECD centres, whereas

the poorest and youngest children in need, attend non-centre based ECD programmes such as informal play groups and day mother care centres. These non-centre based programmes face many constraints. For example, in order to access funding they must register, and to register they need to meet certain requirements⁴. These rely on private finances which the poor don't have. The result is that the programmes that require government funding the most, are unable to access it. The Commission recommends that funding not only be increased, but that it be directed to where the need is greatest. Registration requirements should be reviewed.

Regarding inclusive education, one of the most pressing issues is to quantify the extent and nature of this need. Despite current uncertainty, there are estimates that approximately 597 953 children with disabilities are not accounted for in the school system – this is relative to the approximately 119 000 learners that attend special needs schools⁵. Accurate information is needed on the number of learners with special needs and also on the type of special needs intervention required. The Commission recommends that as a matter of priority, government undertakes this audit. This will ensure more evidence-based policy-making and implementation efficiency for these learners. It is also necessary to aid the development of a more appropriate funding framework

The intergovernmental system in the context of social services

The extent to which government is able to respond to the economic crisis and social vulnerabilities brought about by the Covid-19 pandemic and the historic challenges, is partly dependent on the institutional arrangements underlying the delivery of social services. The intergovernmental fiscal relations system thus plays an important role in the delivery of services, especially those that are a shared responsibility between different spheres of government. The Commission's analysis shows that governance and delivery of these concurrent social services is fraught with multiple challenges; key among them is lack of clarity on the division of responsibilities and weak coordination. In response, the Commission's recommends that as a means of clarifying the lines of accountability between national and provincial executive authorities, the existing accountability framework with respect to all concurrent functions role-players be strengthened.

As with other parts of the Commission's Submission, this work also recommends the need to collect key education and health related service delivery information to inform our understanding of delivery performance and how to obtain efficiencies for South African citizens.

CONCLUSION

The Commission recognises that the economic and social repercussions of the Covid-19 pandemic will reverberate for years to come. This Submission provides

⁴ Registration requirements usually include infrastructural aspects related to ECD facilities.

⁵ Based on the Department of Basic Education's Education Management Information System (EMIS) database (2012-2016).

some preliminary evidence and initial advice on what is required as South Africa pivots towards recovery from the pandemic. The Commission commits to remaining alive to the unfolding circumstances and providing relevant advice. For its next submission on the 2022/23 Division of Revenue, the Commission intends to provide a comprehensive assessment of the socio-economic effects of the coronavirus pandemic, under the theme: ***“The effects of Covid-19 and the changing architecture of subnational government financing in South Africa”***.

In concluding, regrettably a special point must be made about the corruption and irregular procurement practices in the health, education and social development sectors during this crisis. **The Commission strongly condemns corruption in all its forms. Such actions serve to divert and squander funds meant to procure goods and services for use in the fight against the pandemic and provide relief to the poor.** Without decisive action on this front (from a criminal justice or administrative or systems point of view), attempts at ensuring that South Africa emerges from these multiple crises with a real chance at sustainable economic and social recovery, are unlikely to succeed. This practice must be condemned, but more importantly it must be expunged!