PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

RESEARCH UNIT
PO Box 15 Cape Town 8000 Republic of South Africa
Tel: 27 (21) 403 8273 Fax: 27 (21) 403 8118
www.parliament.gov.za

13 August 2021

A SUMMARY OF THE FINANCE AND FISCAL COMMISSION'S 2022/23 DIVISION OF REVENUE SUBMISSION

TABLE OF CONTENTS

LIST OF ACRONYMS

Acronym	Full Name
AGSA	Auditor-General of South Africa
BIG	Basic Income Grant
CoGTA	Department of Cooperative Governance and Traditional Affairs
COVID-19	Coronavirus pandemic
CSG	Child Support Grant
DBE	Department of Basic Education

DG	Disability Grant
DPME	Department of Planning, Monitoring and Evaluation
DSD	Department of Social Development
DWS	Department of Water and Sanitation
DWYPD	Department of Women, Youth and Persons with Disabilities
ENE	Estimates of National Expenditure
ERRP	Economic Reconstruction and Recovery Plan
FCG	Foster Care Grant (FCG),
FFC	Finance and Fiscal Commission
FMG	Financial Management Grant
GDP	Gross domestic product
GRB	Gender-responsive budgeting
GRPBMEA	Gender Responsive Planning, Budgeting, Monitoring, Evaluation and Auditing Framework
KPIs	Key performance indicators
MFMA	Municipal Finance Management Act
MSA	Municipal Systems Act
MSIG	Municipal Systems Improvement Grant
MTEF	Medium Term Expenditure Framework
OPG	Older Persons' Grant
PPPs	Public-private partnerships
SALGA	South African Local Government Association
SRD	COVID-19 Social Relief of Distress (SRD) Grant
SONA	State of the Nation Address
Stats SA	Statistics South Africa
UMI	Upper Middle Income - poverty line
WSPs	Water service providers
WVG	War Veterans' Grant

1. INTRODUCTION

The Finance and Fiscal Commission's (FFC) 2022/23 Submission on the Division of Revenue addresses the effects of the Coronavirus (COVID-19) pandemic and the changing architecture of sub-national government financing in South Africa.

COVID-19 poses many challenges, including whether the country's macro-fiscal system will be effective in countering the pandemic-induced challenges that have intensified the existing inequalities and condemned many people into poverty and unemployment. COVID-19 also poses a threat to the countries efforts regarding the progressive realisation of citizens' basic rights because it has highlighted the inadequacies in access (both in terms of quantity and quality) to basic services and food, and has heightened imbalances and conflicts in society, especially along gender dimensions. It has further exposed inadequacies in the oversight, accountability and leadership mechanisms. This Submission for the 2022/23 Division of Revenue, therefore, provides a comprehensive assessment of the socioeconomic effects of COVID-19, which is accompanied by a set of informed recommendations that are aimed at contributing to turning around the economy towards an inclusive and sustainable growth trajectory. The 2022/23 submission is divided into the following four parts:

- Part 1: The macroeconomic impact of the pandemic

  - Chapter 2 and 3, respectively provide a comprehensive overview of the macroeconomic and fiscal impacts of the COVID-19 pandemic and the implications of the COVID-19 pandemic on public spending behaviour. The pandemic has triggered the most significant recession ever recorded in South Africa’s economic history, with dire socioeconomic consequences, especially for the poor. It has exposed many of the structural weaknesses in the domestic economy and increased the risk of a public debt spiral, which is undermining the country’s fiscal credibility. Simply put, the current economic outlook is unlike any situation experienced before and requires policy that is informed by socio-economic analyses and strategic in what it intends to achieve.

- Part 2: The implications of the pandemic on local government finance

  - Chapter 4 examines the implications of COVID-19 on local government economies and finances. Municipalities are the closest sphere of government to the people, and thus experience the devastating effects of the pandemic first-hand. The negative impact of the crisis on municipal economies and local economic development is certain, but the relative size, scale and extent of this impact is unknown. An understanding of the impact of the pandemic on municipalities is crucial for designing and implementing appropriate recovery strategies.

- Part 3: The COVID-19 pandemic and the progressive realisation of basic rights

  - Chapter 5 and 6 takes its cue from the Bill of Rights and examines how COVID-19 has affected the progressive realisation of people’s basic rights. Chapter 5 discusses gender equality through budgeting: one of the key principles of the South Africa Constitution. Considering that the pandemic has amplified individual and household vulnerability, Chapter 6 examines the effectiveness of the current system of means-tested social grants in targeting vulnerable individuals and households. While Chapters 7 and 8 investigate the implication of the pandemic on water and food security – the core pillars of the Bill of Rights.

- Part 4: Oversight and leadership

  - Chapters 9 and 10 unpack the challenges characterising two critical aspects related to the performance of municipalities. Chapter 9 investigates the effectiveness of intergovernmental oversight and support provided by national and provincial governments. While Chapter 10 looks inward, at the municipality itself, and evaluates the impact that municipal leadership, management and governance have had on sustainable service delivery, particularly as it relates to infrastructure development.

The sections that follow provide Committee Members with a summary of the findings and key recommendations of each chapter.

2. KEY FINDINGS AND RECOMMENDATIONS PER CHAPTER

2.1. Chapter 2: Measuring the Macroeconomic and Fiscal Impacts of COVID-19 in South Africa

In Chapter 2, the FFC aimed to identify how COVID-19 affected the South African economy and fiscal sustainability by assessing the macroeconomic determinants (i.e. supply and demand) of growth and intergovernmental determinants of fiscal debt.

The findings have revealed that COVID-19 exacerbated supply-side structural fragilities, namely, the inflexibility of high marginal cost of employment and the inefficiencies in critical basic infrastructure needed for industrial activity, which undermines long-term growth prospects. On the demand side, public consumption by government expenditure alone will not be sufficient to reverse the overall decline in the economy. Inventory stock is depleting faster than it can be replaced by production and imports, which undermines short-term economic growth prospects. Thus, the assertion that South Africa will recover quickly from the shock of COVID-19, based on the bold assumptions that households, firms, investors and government's activities, would immediately return to their pre-crisis levels, with the effective rollout of the vaccination programme is improbable. The demand patterns of households have changed and there are concerns about the affordability of consumer goods. While investments by the private and public sectors are still lower than their pre-COVID-19 levels and as uncertainty mounts and investors' risk appetite remains low.

Given that South Africa's fiscal position is increasingly dependent on revenue derived from household income and consumption activities, as corporate income has declined substantially, COVID-19 poses a real threat to the sustainability of the fiscus through its devastating effects on employment, household incomes and consumption behaviour. With regard to fiscal debt, the findings on the determinants of debts revealed that that the cost of financing public spending is a significant driver of debt as a proportion of gross domestic product (GDP), which confirms the potential of a debt spiral if South Africa cannot maintain its fiscal credibility. Furthermore, economic growth on its own is insufficient to reduce the public debt burden, which suggests that revenue collection and optimal spending decisions are critical components of lowering public debt. At the intergovernmental level, fiscal leakages pose major challenges to fiscal sustainability, as the findings revealed that public funds allocated to national departments and non-financial public enterprises (such as Eskom and South African Airways) are not being used efficiently due to wasteful spending and the misuse of funds. According to the FFC, this not only undermines service delivery, dampens economic growth prospects and reduces investor confidence, but also reduces South Africa's chances of being able to pay off fiscal debt and restore investor confidence.

Key Recommendations for the Government:[1]

[1] FFC (2021), pp. 35 - 36.

- The Commission calls for active engagements between the three spheres of government, led by the Department of Planning, Monitoring and Evaluation (DPME), to ensure the formalisation and alignment of provincial and local government economic reconstruction and development plans with the Economic Reconstruction and Recovery Plan (ERRP), with resource commitments in the 2022/23 Division of Revenue.
- The 2022/23 Division of Revenue should, in promoting economic growth, be more specific in supporting local demand and localised product procurement to support value chains, as endorsed by the President in the State of the Nation Address (SONA) towards economic transformation and development. The Minister of Finance should explore the use of the budget as an instrument to incentivise localised product procurement. The Commission, in its 2021/22 Annual Submission for the Division of Revenue (Chapter 3, Recommendation 2), also recommended the concept of a localised product value chain approach towards growth.[2] This was further agreed to in the 2021 W1 Annexure: Explanatory Memorandum to the Division of Revenue.
- The Commission advises the Minister of Finance to continue strengthening the effort to eliminate fiscal leakages and inefficiencies that are undermining fiscal credibility. The Commission noted that citizens do not receive adequate returns from public spending (Budget Review 2021). These issues must be addressed by the following:
    - A decisive and coherent strategy and approach of fiscal reprioritisation
    - The implementation of fiscal consolidation, targeting cuts in areas of underspending and questionable performance
    - The eradication of duplication of function (i.e. the merging and downsizing of departments and public entities)
    - Investment in the use of technology and related areas to improve the capability of public sector personnel
    - The eradication of contract mismanagement and procurement irregularities

2.2. Chapter 3: Measuring the Effectiveness of Government Expenditure for Performance[3]

Chapter 3 reviews the effectiveness of Government expenditure and performance. The FFC notes that in the past performance measurement was strictly concerned with reducing government cost and making it more efficient, which neglected the issue of effective service delivery. Budget reforms have shifted the public expenditure management focus to a performance budgeting system, that is, one that is output-based and results-orientated. An examination of the government's performance indicators reveals that the departments are using the performance indicators to show progress in performing prescribed tasks and not necessarily progress on delivering on their targets. Reviewing the indicators shows that

[2] The FFC called on the Ministers of Finance, of Economic Development, Trade, and Industry, and of Labour should jointly address the economic barriers, social inequality, and societal polarisation by adopting a localised product value chain approach. The expression of this approach should be found in the incentive grants frameworks of both provincial and local conditional grants, as hard conditions to permit procurement of goods only if they are made or assembled locally within the South African borders, to stimulate the domestic economy and encourage job growth, while considering international trade agreements (FFC, 2020, p. 45.)

[3] FFC (2021), pp. 37 - 44.

there is also a lack of consistency in the reporting of performance indicators. Less than a third of the indicators were reported for more than four years in a row. A review of a more comprehensive data set, sourced from the annual reports of the selected departments, reveals that departments are meeting their projected annual effectiveness targets. The implication of these findings is that government departments should enhance the consistency and coherency of their key performance indicators (KPIs) to the financial commitments of their budgets, as this will promote strategic alignment with Government's mandate for achieving outcomes instead of outputs.

Another important aspect of measuring the effectiveness of government expenditure and performance is to assess the size and shape of the public service wage bill relative to its public value, due to its growth in the last decade. Relative to other countries, the South African wage bill, as a percentage of GDP, has been very high and is increasing when compared to the United Kingdom, United States and China. The assessment of the wage bill also revealed that provincial governments have the highest share of government's compensation of employees' expenditure, which has increased significantly over the period 2006/07 to 2011/12. Provincial compensation of employees is almost double that of the national government.

Lastly, most studies conclude that government is an important player in the economy and that government expenditure can be used to accelerate economic growth as measured by the GDP, and reduce unemployment and poverty through the multiplier process. The FFC ran a regression analysis to investigate the effect of government expenditure on economic growth, poverty reduction and unemployment. The findings show that the overall multiplier effect of government expenditure on GDP growth is positive, reaching a peak of 2.52 in 2013, but declined thereafter to 0.21 in 2018, suggesting that government expenditure was not fulfilling its potential in boosting GDP. The multiplier effect has been largely negative over time with respect to poverty, which suggests that government expenditure reduces poverty in the main. While the multiplier is also generally negative with respect to unemployment, but also weakly positive in certain years, indicating that government expenditure reduces unemployment, although it is somewhat uncertain in its effect.

Key Recommendations for the Government:[4]

- With regard to the alignment and effectiveness of Government's performance indicators, the Minister of Finance should ensure that departments enhance the consistency and coherency of their KPIs to the financial commitments of their budgets, via the Medium Term Expenditure Framework (MTEF) Technical Guidelines. Indicators that incentivise a target that is costed are encouraged as opposed to merely indicating progress on a specific objective.
- With regard to the size and shape of the wage bill that affects the Division of Revenue, the Minister of Finance should review the public sector wage bill across all spheres of government with the view to reduce expenditure on non-core functions, for there is researched justification for the consolidation of the wage bill.

[4] FFC (2021), p. 45.

- With regard to the fiscal multiplier effect, the currently low returns or multiplier effect of expenditure on the GDP is of concern. This needs further investigation by the Minister of Finance, especially as the economic environment going forward due to COVID-19 is still changing.

2.3. Chapter 4: The Impact of the COVID-19 Pandemic on the Local Economy[5]

In Chapter 4, the FFC investigates the scale and extent of the negative impact of COVID-19 on municipal economies. A regression analysis of the impact of Covid-19 on economic growth show that although the pandemic will likely have a negative effect on economic growth, it is not statistically significant – the effect is weak. It is important that municipalities develop and implement strategies to stimulate their economies. These strategies should come with limited costs or with no price tag at all, for example, municipalities should endeavour to evaluate their regulations and eliminate regulations that hinder economic activity.

The pandemic, however, is also likely to undermine municipalities' own revenues. The lockdown regulations did not only disrupt economic activity but also resulted in many payment defaults that affected all revenue streams, albeit to varying degrees. User charges (water, sanitation and refuse removal) were hardest hit by the pandemic, largely because of the COVID-19 regulations, municipalities' relaxation of credit control policies and a rise in defaults due to commercial/personal bankruptcies. The defaults by consumers led to an increase in consumer debt, which created a huge shortfall in municipal accounts, resulting in municipalities failing to service their creditor debt to Eskom and the Water Boards. The pandemic therefore only amplified existing fiscal challenges in the local government sector.

The FFC proposes several measures to spur recovery in the local government sector. Municipalities must consider reducing the compliance burden of their regulations to stimulate economic activity. Another strategy proposed is revenue enhancement by selling redundant assets and creating new revenue-generating infrastructure, such as creating their own digitalisation infrastructure (e.g. 5G) corporations or at least by being partners in the deployment of the underlying infrastructure. The pandemic also heightened the lack of financial resilience of many municipalities, therefore the recovery process must be anchored in building municipal financial resilience by embracing e-government, diversifying the revenue mix and having regular communication with residents to gain their trust. Lastly, municipalities must advance the pandemic's positive legacies that have transformed the way municipalities do business and deliver services, by sustaining remote working experiment and use of new technologies have proven to be efficient and effective in delivering services.

Key Recommendations for the Government:[6]

- Municipalities should undertake a detailed and unbiased analysis of the services they provide to align their responsibilities, services and programmes to their financial capabilities. National and provincial treasuries, the Department of Cooperative Governance and Traditional Affairs (CoGTA) and the South African Local Government

[5] FFC (2021), pp. 47 - 59.

[6] FFC (2021), p. 59.

Association (SALGA) should ensure that municipal organograms, staffing levels and the compensation of employee budgets are set at levels that do not crowd out service delivery expenditures. In addition, these role-players should ensure that municipal budgets are credible and based on realistic revenue collection rates. National and provincial treasuries, CoGTA and SALGA should support and monitor progress in this regard.
- Municipalities should stimulate local economic growth by creating investment-friendly conditions and streamlining regulations that impede investments within their jurisdictions.
- Municipalities should consider additional revenue-enhancing strategies, such as the selling of redundant assets and creating new revenue-generating infrastructure.
- National Treasury, through the Municipal Systems Improvement Grant (MSIG), should support municipalities to embrace e-government (digitalisation) and diversify their revenue mix as part of building the financial resilience of local government.

2.4. Chapter 5: Addressing Gender Inequality through Gender Budgeting in the Public Sector[7]

Chapter 5 aims to assess the effectiveness of key departmental budgets in addressing gender equality. South Africa has committed to gender equality by being a signatory to various international agreements and passing domestic anti-discrimination laws, as well as initiating various programmes to empower women, yet despite these commitments and initiatives, gender inequality remains very high.

A review of both the legal, policy and institutional frameworks indicate that South Africa is not lacking as far as the legal, policy and institutional frameworks to support gender-responsive budgeting (GRB) is concerned. While the budget analysis of five departments and one public entity that play a key role in women empowerment, namely Basic Education; Health; Social Development; Women, Youth and Persons with Disabilities; Justice and Constitutional Development and the Commission on Gender Equality revealed three important issues about government budgets and gender:

- There is limited mainstreaming of gender issues in departmental budget processes because of a general lack of gender-disaggregated data and information to enable the implementation of gender-responsive planning – followed by budgeting, monitoring, evaluation and auditing;
- Gender disaggregated information can be found in other domains or within the knowledge base of departments, but such information is seldom integrated into the strategic documents of departments to allow gender-responsive budgeting processes; and
- Departmental performance indicators are not sufficiently detailed in providing data on the number of women and girls who benefit from their programmes.

These three findings give rise to the need to invest in the collection of such data, as well as putting in place robust mechanisms and systems to integrate gender information in government strategic documents to enable departments to plan, implement, monitor, evaluate and audit budgets through gendered lenses.

[7] FFC (2021), pp. 61 - 87.

A review of the international literature on GRB show that for gender goals to be realised, various reforms are required. The national government, through the Ministry of Finance, the Department of Women, Youth and Persons with Disabilities (DWYPD) and the Department of Performance Monitoring and Evaluation (DPME) should lead in GRB. The Ministry of Finance should be involved in gender budgeting processes through the distribution and allocation of resources. The DWYPD and the DPME should coordinate the entire government machinery in advancing GRB through defining norms and standards for gender-specific performance indicators and targets, as well as performance requirements. Finally, GRB institutionalisation should be prioritised and form part of the finance management reforms to support the equitable institutionalisation of the gender budget in planning processes.

Key Recommendations for the Government:[8]

- The DWYPD and the DPME should finalise the institutionalisation of gender-responsive planning throughout national and provincial government as envisaged by the Gender Responsive Planning, Budgeting, Monitoring, Evaluation and Auditing Framework (GRPBMEA).
- National Treasury, together with the DWYPD and the DPME, should spearhead the implementation of GRB and mainstreaming GRB throughout the entire scope of the budget process as it applies to national and provincial government. In collaboration with CoGTA, GRB implementation and mainstreaming should be extended to the local government sector.
- National Treasury should create an enabling environment to institutionalise the GRPBMEA. This may include the development of an overall budget framework for the model to be implemented across the budget cycle and MTEF processes, including the revision of the format of Estimates of National Expenditure (ENE) to give specific expression to the advancement of gender equality.
- National Treasury and the DWYPD should consider the introduction of a formal gender auditing process to be conducted by a relevant independent institution in respect of the non-financial performance information of departments, entities and municipalities.
- The DWYPD should coordinate and spearhead initiatives focused on the capacity building of political and administrative leadership on gender-responsive planning, budgeting, monitoring, evaluation and auditing at all levels of government. Such initiatives are to include the training of budget officers on GRB and the use of gender-disaggregated data in the budget process.
- The DWYPD should annually prepare a comprehensive report on how the Division of Revenue Bill responds to gender inequality and how fiscal policies translate governments gender equality commitments. The report should be tabled for consideration by the relevant committees of Parliament.
- The DWYPD, together with Statistics South Africa (Stats SA), should provide explicit guidelines for collecting and integrating gender-disaggregated data to ensure the visibility of girls and women in government programme execution and in budgeting processes within government. The Department should also invest in statistical capacity-

[8] FFC (2021), p. 87.

building in government to improve the measurement of gender equality indicators and the collection of gender-disaggregated data.

2.5. Chapter 6: Testing the Means Test: Social Assistance in South Africa and COVID-19[9]

In Chapter 6, the FFC sets out to examine whether South Africa's current system of means-tested social grants effectively targets vulnerable individuals and households. Aside from existing budgetary constraints, the ability of the social grant system to effectively reach poor South Africans depends most critically on targeting. Targeting controls access to grants through the application of a means test that sets a threshold for income and in some instances asset thresholds. Grants, such as the Old Persons Grant (OPG), Disability Grant (DG) and the War Veterans' Grant (WVG) there is an additional asset threshold.

For each Grant, individuals qualify if their income (or assets) is below the relevant threshold. A universal system would eradicate any exclusion or inclusion errors in the targeting of beneficiaries, reduce the burden of vetting applicants and significantly expand coverage. However, having no means-testing is not feasible at present due to the constrained condition of the country's fiscus. At present, all social grants in South Africa, except for the Foster Care Grant (FCG), the Grant-in-aid, and the COVID-19 Social Relief of Distress (SRD) Grant, are means-tested.

The COVID-19 SRD Grant was introduced in response to the COVID-19 crisis and was set at R350 per person, aimed at unemployed people who did not receive any other form of government assistance. Furthermore, the South African Government increased the amounts of all existing grants in response to the COVID-19 crisis. It appears that the introduction of the SRD Grant significantly reduced the prevalence of poverty and the degree of household income inequality. Although, one notable concern regarding the SRD Grant is that it seems to have disproportionately benefited men (63% of recipients as of October 2020), despite women representing a greater share of the unemployed. This gap is likely explained by the Grant's eligibility criterion, where those receiving other grants are not eligible – most of whom are women. It has therefore been argued that the SRD Grant ought to be allowed to be held concurrently with the Child Support Grant (CSG) as a means of targeting support to unemployed men and women.

The existing academic literature shows that spending on social grants in South Africa is relatively well targeted towards the poor, a fact that can largely be attributed to the use of means-testing as a targeting device. The distribution of grant receipt confirms that, indeed, grant coverage in South Africa remains pro-poor with approximately 80% of individuals who live in the poorest households either personally receiving a grant or co-residing with a recipient. In the case of both the pre-existing grants and the COVID-19 SRD Grant, it is found that coverage is very progressive, where the vast majority of recipients are in the lower quintiles of the household income distribution. When using the World Bank's Upper Middle Income (UMI) poverty line, the percentage of grant recipients who are classified as poor rises above 80% for both the OPG and the DG and above 90% for the (CSG). This

[9] FFC (2021), pp. 88 - 101.

shows that levels of inclusion error appear to be relatively low. Given that the existing means-testing system does not appear to include a significant number of non-eligible recipients, it is suggested that there is no obvious reason to adopt a more complex targeting approach that would identify the poor more accurately, and ostensibly limit grant access to a greater extent.

Regarding coverage and exclusion, it is observed that, overall, a large number of individuals classified as poor currently do not receive any grant income, but the majority of these are working-age individuals who are not eligible for any of the existing grants. The number of individuals who qualify for the three largest grants, but who do not currently receive any grant income, varies both according to grant type and across the income distribution. The estimates cannot fully account for eligibility, given data constraints, but one can observe relatively low numbers of eligible non-recipients for the CSG, slightly higher levels for the OPG, and substantial levels for the DG. These results are hopeful in that they highlight the potential of social protection policies to respond to national challenges, and how the architecture of South Africa's grant system makes this possible.

Key Recommendations for the Government:[10]

- On social grants and COVID-19: The Minister of Finance, in the Division of Revenue, should continue monitoring the outcome of the existing social grant system that appears to be effective and pro-poor. The social grant system was used effectively to protect vulnerable households from some of the negative effects of COVID-19 in the short term. Receipt of the Social Relief of Distress Grant has been concentrated among the poor.
- On eligibility: The Minister of Social Development, with the Minister of Finance, should investigate the reasons for the exclusion of those persons who are eligible to receive an income grant, but do not receive it, and develop and implement appropriate remedial action.
- On alternative means-testing regimes: It is advised that the Minister of Finance, together with the Minister of Social Development, should consider alternative means-testing regimes of the social grant system, such as an asset-based system of means-testing.
- On the COVID-19 SRD Grant being a precursor to a Basic Income Grant (BIG): The experience of the COVID-19 lockdown and the implementation of the SRD Grant have provided some impetus for the discussion of a BIG. The current iteration of the debate is still new, but the Minister of Finance should consider the fiscal impact of such a grant.

2.6. Chapter 7: COVID-19 and Food Security[11]

Chapter 7 sets out to evaluate the effect of the COVID-19 lockdown policy on household food security. As the COVID-19 pandemic progresses, there is a need to contain the virus and avoid a food security crisis, as this will hurt the most vulnerable in society: the poor. Although no major food shortages have emerged yet, agricultural and food markets are facing disruptions because of labour shortages created by restrictions on the movement of

[10] FFC (2021), pp. 101-102.

[11] FFC (2021), pp. 105-113.

people and shifts in food demand resulting from the closure of restaurants and schools, as well as from income losses.

The COVID-19 pandemic can affect food security in four key ways and these are availability (whether the supply of food is adequate), access (whether people can obtain the food they need), utilisation (whether people have enough intake of nutrients) and stability (whether people can always access food). COVID-19 is severely and directly affecting access to food, even though impacts are also felt through disruptions in availability, shifts in consumer demand towards cheaper, less nutritious foods, and food price instability. The COVID-19 pandemic is likely to result in even more food shortages in South Africa, mostly affecting low-income households. Considering that South Africa is a highly unequal society and that the poor are the majority, COVID-19 can reverse gains made by Government to increase food security.

The FFC study was twofold: (i) investigate the effects of employment status on households and individual food security outcomes during COVID-19; and (ii) model the effect of COVID-19 induced job loss, furlough, the receipt of various social grants on households, and individual food insecurity measures taken during COVID-19. The research findings show that households with adults who had been employed prior to the lockdown, but who had lost their jobs during the lockdown or whose jobs were furloughed were more vulnerable to food insecurity both at household and child levels. It was also found that, while the Older Persons' Grant (OPG) and COVID-19 Grant proved more effective in protecting households from the food insecurity shock, a combination of the Child Support Grant (CSG) and the OPG affords the highest protection against this shock.

In conclusion, the COVID-19 crisis has resulted in lower incomes and higher prices for some foods, putting food beyond the reach of the poor and most vulnerable. The policy implications stemming from the FFC study are as follows:

- Although South Africa provides a plethora of social assistance to protect the poor from downside welfare shocks, the findings underscore the need to carefully target those who are hit the hardest through job loss. The benefits from improving grant targeting can be enormous.
- The findings show that combining the CSG and OPG provides the highest form of protection against the food insecurity shock relative to their separate effects particularly to mitigate child hunger. This highlights the need to expand the existing social grant assistance.
- While transfer policies such as social protection grants accrue significant opportunity costs in terms of forgoing other public services, such costs become even greater when the inefficiencies are associated with the rollout of such programmes. Overcoming these hurdles and thereby attaining rollout efficiencies provides an important avenue to expand the social grants and target resources to vulnerable groups.

Key Recommendations for the Government:[12]

[12] FFC (2021), p. 113.

- The Minister of Finance, in the Division of Revenue, should incentivise the Department of Social Development (DSD) to engage and involve Local Governments and non-profit organisations to collect more detailed tracking information on vulnerable individuals and households to improve targeted delivery and food assistance during pandemic times such as COVID-19. This will create a more comprehensive, updated government registry, as this can be used for future social assistance programmes.
- The Minister of Finance, in the Division of Revenue, should continue supporting the Department of Basic Education (DBE) in school-feeding programmes during COVID-19.

2.7. Chapter 8: Water and Sanitation Access, Distribution Efficiencies and Tariff Setting in South Africa[13]

Chapter 8 aims to understand the impact that COVID-19 has had on access to water and sanitation. A significant proportion of the South African population does not have access to clean and safe drinking water. Providing water and sanitation services in the context of water scarcity, climate change, high poverty and high inequality, as is the case in South Africa, is a difficult balancing task, which is compounded by the COVID-19 pandemic. The pandemic has highlighted the urgency of ensuring improved access to safe drinking water and improved sanitation as it is essential for effective COVID-19 preventive measures such as hand washing, sanitation and overall public health.

Access to reliable water and sanitation services is problematic for many people, which has been exacerbated by the pandemic. During COVID-19, some provinces experienced a decline in access to tap/piped water, namely, Limpopo by 7 per cent, Mpumalanga by 6 per cent and the Eastern Cape by 4 per cent. These are all rural provinces suggesting that access is disproportionally impacted in rural areas. Given this context of a decline in access to water services, many water service providers (WSPs), that is the municipalities may have been slow in responding to residential piped water infrastructure failures. Loss in employment by households caused by the pandemic reduced the ability of households to resolve piped water infrastructure problems. The result is that the poorest received the COVID-19 shock on top of existing major water and sanitation service deficits, which points to a potentially overwhelming burden to contain the virus. There is thus a need to implement crisis emergency measures to enhance access to water and sanitation. WSPs need tailored support that is focused on transferring capacity to the organisation that will rely on internal capacities. Closing the water sector infrastructure gap will require billions of Rands in investment for each year up to 2030, in addition to the cost of maintaining and upgrading the existing networks.

Some of the funding required to finance the infrastructure could come from tariff revenues, but setting water tariffs or pricing is a complex issue in the sector due to its multiple objectives, including cost-recovery, economic efficiency, environmental conservation, equity and affordability. Moreover, increasing water tariffs may not be politically feasible and other options to increase water revenue include reducing non-revenue water, reducing non-labour costs, increasing efficiency and increasing consumer coverage, which will reduce the unit costs. WSPs will require support from the government's budget, but considering the funding

[13] FFC (2021), pp. 114-128.

gaps and budget constraints from Government, borrowing and public financing with private capital is required. The World Bank's Private Participation in Infrastructure database implies that the rate of development of public-private partnerships (PPPs) in water provision and sewer services has slowed significantly as the number of new projects reaching financial closure has declined drastically since 2007 when the growth of PPPs in the water sector peaked. Industry and sector commentary has pointed to increased investor scepticism following the high-profile cancellations of PPP projects in Latin America and South-East Asia.

Lastly, the National Treasury, through grant support, should mitigate the impact of deferred investments and declining revenues to fund capital expenditure, at least until municipalities (i.e. WSPs) return to their pre-COVID-19 environment. Furthermore, it is hoped that investments in strategic projects such as the Lesotho Highlands Water Project will not be delayed due to COVID-19 as that can result in water insecurity in South Africa.

Key Recommendations for the Government:[14]

- Municipalities, advised by SALGA, should approach tariff adjustment, taking account of the poor during the duration of the COVID-19 crisis.
- The Department of Water and Sanitation (DWS) should establish a benchmarking of water service providers' service level agreements, aligned to the Department's performance indicators in terms of infrastructure, socio-political and financial indicators.
- The Minister of Finance should ensure that water and sanitation projects also form part of the economic stimulus to help mitigate the impact of the COVID-19 crisis.
- The Minister of Finance and the Minister of Water and Sanitation, together with the municipalities, should systematically develop water investment by structuring mechanisms to de-risk private investments. However, long-term sustainability depends on the capacity of water service providers, governance mechanisms to safeguard corruption and the ability of the private sector to manage both higher-level government demands and possible public opposition.

2.8. Chapter 9: The Role of Intergovernmental Oversight and Support in Avoiding a Section 139 Intervention[15]

Chapter 9 assesses the effectiveness of various regulatory, oversight and support initiatives aimed at improving local government's financial performance and building long-term finance capacity. The Constitution assigns an oversight and support role for national governments and particularly provincial governments over local government towards the achievement of the municipalities' constitutional service delivery obligations. Within a cooperative governance framework, national and provincial governments are expected to monitor using regulatory, statutory (i.e. reporting mechanisms mandated in legislation) and non-statutory (i.e. ad hoc reporting requests that are not legislated) mechanisms and to provide support (financial and non-financial support, e.g. technical advice) to local government, with interventions being used as last resort.

[14] FFC (2021), p. 129.

[15] FFC (2021), pp. 131-147.

Given, that there have been 140 Section 139 interventions from 1998 to 2019, with some municipalities requiring repeat interventions (i.e. 26 municipalities required two interventions and three municipalities required five interventions), it brings into question the effectiveness of the national and provincial government monitoring and support framework.

The study looked at capacity-building grants, which forms the financial support component of the cooperative governance framework. Currently, there are three conditional grants that directly assist in the building of local government capacity: the Financial Management Grant (FMG), the Municipal Systems Improvement Grant (MSIG) and the Infrastructure Skills Development Grant. The FMG is aimed at improving financial management capacity within municipalities and complements the non-financial support such as skills development and direct technical support provided by national and provincial government. The study concludes that the FMG does not recognise the need for capacity support in its allocations, but rather attempts to equally allocate funds across the different types of municipalities. The study also looked at the monitoring component of the cooperative governance framework and highlighted that the persistent poor municipal audit outcomes are indicative that financial performance has not improved considerably in local government, despite the comprehensive oversight and support framework.

The study further highlighted the following as key aspects that need to be addressed to improve the effectiveness of the current framework:

- Consultation and coordination can be improved between national, provincial and local government when implementing new regulations and reforms.
- Key legislation has given rise to duplication of efforts and increases the reporting burden of municipalities, for example:
  - The Municipal Systems Act (MSA) overseen by CoGTA and the Municipal Finance Management Act (MFMA) overseen by National Treasury to varying degrees, both pieces of legislation speak to municipal tariffs, revenue and expenditure management, yet reporting lines are different.
  - Similarly, Water Services Act also refers to certain financial issues, such as tariff setting and the development of norms and standards for tariff setting.
- The implementation of the oversight framework differs considerably across provinces. In some provinces, efforts are better coordinated and there is a better working relationship between the provincial government and the municipality, thus improving overall outcomes and performance.
- More regulation or less: the study found that municipalities have to adhere to approximately 44 different statutory and non-statutory reporting requirements, which differ by municipality. The FFC's view is that basic regulations that establish and entrench a system of prudent financial management are a necessity and add value. Over-regulation may lead to a tick-box exercise on the part of both the municipality and the oversight body, just to adhere to the regulatory requirements, without a holistic approach to see regulations and monitoring as a means to support and build capacity at the local government level and to improve performance.
- There is a lack of substantive oversight and accountability by municipal councils, which results in the endorsement of unfunded budgets or not heeding the advice and

recommendations provided by national and provincial stakeholders when they alert them to potential risks and what can be done to mitigate such risks.

- When new regulations are introduced and have elements that municipalities need to adhere to, monitoring activities should not only be extended to strengthen compliance, but the results of such monitoring should feed into the capacity-building initiatives that are established.
- There is also a need to ensure that monitoring, capacity building and section 139 interventions are evaluated with a view to determining what works or what does not.
- It is important that a cost/benefit analysis be undertaken for current and new oversight/monitoring initiatives.

Despite these structural weaknesses in the intergovernmental oversight and support framework, the FFC acknowledges the value being added by national and provincial governments in their monitoring and support of municipalities, which was strongly acknowledged by the majority of municipal stakeholders that were engaged in the study.

Key Recommendations for the Government:[16]

- As part of National Treasury's review of capacity-building grants, financial support to build capacity and institutional systems (such as the Finance Management Grant and the Municipal Systems Improvement Grant):
  - Should be disproportionately directed at lesser-resourced, poorer and more rural municipalities;
  - Should make every effort to ensure that capacity-building efforts are comprehensively consulted with and agreed to with a municipality;
  - Should either link capacity-building efforts to a municipality-specific diagnosis of capacity challenges or deficits or be specifically aimed at addressing challenges picked up through intergovernmental monitoring; and
  - Should consider the consolidation of all capacity-building grants into one financial flow that is specifically linked to overall intergovernmental 'support' of municipalities. This will assist in reducing the administrative and reporting burden placed on both grant-administrating departments and receiving municipalities, and will further assist in streamlining the overall conditional grant framework.
- The Minister of Cooperative Governance and Traditional Affairs, in enacting the provisions of section 105(3) of the Municipal Systems Act, should implement mechanisms to undertake a critical evaluation of the impact of the regulations, monitoring and support provided to local government, with an emphasis on the explicit cost-benefit analyses when new legislation, regulations, monitoring and/or support initiatives are introduced across the supervisory framework. The cost-benefit analysis should do the following:
  - Assess not only the outcomes/performance related to the oversight and support framework (e.g. whether there are more funded budgets) but also whether monitoring and support are provided in the most efficient and effective manner (i.e. minimising the burden placed on municipalities).

[16] FFC (2021), pp. 147-148.

- Consider the DPME, which is based at The Presidency, for this role. Such evaluations should be undertaken periodically with larger reviews every five years.

- Given that the current monitoring and support framework is applied uniformly across local government, Government should reconsider its current approach to explore the principle of a differentiated method to municipalities when it comes to financial and non-financial reporting requirements, overall monitoring and support.
- The Minister of Finance should ensure that provincial treasuries are effectively capacitated to undertake their oversight and support role of local government in terms of financial management. In addition, Government should consider developing a common framework to guide provinces in their oversight and support role towards the delivery of basic services.
- Government should review specific legislation that results in a duplication of the supervisory and regulatory roles of national and provincial government departments.

2.9. Chapter 10: Leadership, Management and Governance for Sustainable Public Service Delivery[17]

In Chapter 10, the FFC investigated the impact of leadership, management, governance and inter-governmental relations in sustainable public service delivery, more specifically infrastructure delivery. A case study of two catalytic housing projects (i.e. Greater Cornubia in KwaZulu-Natal and Duncan Village in the Eastern Cape) and the Giyani Bulk Water Project was undertaken to illustrate how different leadership styles, weak governance and accountability affect the planning and implementation of infrastructure projects.

An autocratic/dictatorship leadership style usually results in inappropriate and irrelevant infrastructure due to the failure to consult the intended beneficiaries and other stakeholders, while consultative leadership styles, which is characterised by participation and group decisions, produce far better outcomes. This theory holds true, as the Duncan Village catalytic housing project was poorly implemented because it adopted an authoritarian leadership style, while the Greater Cornubia catalytic housing project was successfully implemented due to its consultative or democratic style of leadership.

The case study of the Giyani Bulk Water Project revealed leadership and governance challenges, specifically related to poor political leadership and interference. This together with failures to comply with supply chain regulations that resulted in cost escalations and delays in the completion of the project. The Giyani Bulk Water project incurred irregular expenditure for the Department of Housing, Sanitation and Water Services as noted by the Auditor-General of South Africa (AGSA) noted from 2014/15 to 2018/19. The continued increases in the Rand value of irregular expenditure over the period 2014/15 to 2018/19 illustrate that little or no effort is being made to implement the AGSA's recommendations and therefore equates to a lack of consequence management and disregard for accountability within the public sector across all three spheres of government.

[17] FFC (2021), pp. 149--157.

Key Recommendations for the Government:[18]

- The Minister of Finance, in the Division of Revenue, should ensure that commitment to compliance with legislation and policy frameworks is formalised with all participants in an infrastructure project prior to the commencement of the project, with financial consequences for compliance failures clearly set out.
- The Minister of Finance, in the Division of Revenue, should incentivise consequence management. This will ensure that all public office bearers are held legally and personally responsible when they transgress supply chain management policies in the implementation of infrastructure projects. The implementation of infrastructure projects, among other things, shows non-compliance with supply chain management policies, which results in a number of challenges that encompass project cost overruns, court interventions and project delays. Therefore, strict enforcement of various pieces of legislation, which seeks to provide for remedial action in ensuring and recovering losses suffered by the state, is necessary.
- The Minister of Cooperative Governance and Traditional Affairs should review the intergovernmental coordination policy framework, consider strengthening intergovernmental coordination both vertically and horizontally and be explicit on how coordination between these spheres should be managed.

3. CONCLUSION

The FFC Submission has raised several key issues for the consideration of the Select Committee on Appropriations and these include:

1. The assertion that South Africa (i.e. households, firms, investors and government activities) will recover quickly from the shock of COVID-19 and return to their pre-crisis levels immediately with the effective rollout of the vaccination programme is improbable.

    - Demand patterns of households have changed due to the affordability of consumer goods.
    - While, investments by the private and public sectors are still lower than their pre-COVID-19 levels and as uncertainty mounts and investors' risk appetite remains low.

2. Fiscal leakages pose major challenges to fiscal sustainability, as the findings revealed that public funds allocated to national departments and non-financial public enterprises (such as Eskom and South African Airways) are not being used efficiently due to wasteful spending and the misuse of funds.

[18] FFC (2021), pp. 157-158.

- This not only undermines service delivery, dampens economic growth prospects and reduces investor confidence, but also reduces South Africa's chances of being able to pay off fiscal debt and restore investor confidence
- Hence, the Minister of Finance to continue strengthening efforts to eliminate fiscal leakages and inefficiencies that are undermining fiscal credibility.

3. The size of the wage bill continues to be a concern.

   - The Minister of Finance should review the public sector wage bill across all spheres of government with the view to reduce expenditure on non-core functions, for there is researched justification for the consolidation of the wage bill.

4. Municipalities as a matter of urgency need to stimulate economic growth and implement revenue enhancement strategies. For example, sell redundant assets and create new revenue-generating infrastructure, such as creating their own digitalisation infrastructure (e.g. 5G) corporations or at least by being partners in the deployment of the underlying infrastructure.

   - Municipalities must also advance the pandemic's positive legacies that have transformed the way municipalities do business and deliver services, by sustaining remote working experiment and use of new technologies have proven to be efficient and effective in delivering services.

5. There is limited mainstreaming of gender issues in departmental budget processes because of a general lack gender disaggregated data and information to enable the implementation of gender-responsive planning. However, gender disaggregated information can be found in other domains or within the knowledge base of departments, but such information is seldom integrated in the strategic documents of departments to allow gender responsive budgeting processes.

   - The DWYPD should coordinate and spearhead initiatives focused on the capacity building such as training of budget officers on GRB and the use of gender disaggregated data in the budget process.

6. Spending on social grants in South Africa is relatively well targeted towards the poor, a fact that can largely be attributed to the use of means testing as a targeting device.

   - The social grant system was used effectively to protect vulnerable, that is the receipt of the Social Relief of Distress Grant was concentrated among poor households and thus countered some of the negative effects of COVID-19 in the

7. The COVID-19 crisis has resulted in lower incomes and higher prices for some foods, putting food beyond the reach of the poor and most vulnerable.

    - The Older Persons' Grant (OPG) and COVID-19 Grant proved more effective in protecting households from the food insecurity shock, while a combination of the Child Support Grant (CSG) and the OPG affords the highest protection against this shock.
    - This highlights the need to expand the existing social grant assistance.

8. The pandemic has highlighted the urgency of ensuring improved access to safe drinking water and improved sanitation as it is essential for effective COVID-19 preventive measures such as hand washing, sanitation and overall public health.

    - Municipalities need tailored support to be able to meet their water and sanitation obligations in terms of both capacity building and funding that will, as a necessity (i.e. due to national government budget constraints) have to be leveraged form the private sector in the form of borrowings.
    - The Minister of Finance should ensure that water and sanitation projects also form part of the economic stimulus to help mitigate the impact of the COVID-19 crisis.

9. The effectiveness on the national and provincial government monitoring and support framework is being questioned, given that there have been 140 Section 139 interventions since 1998 to 2019, with some municipalities requiring repeat interventions (i.e. 26 municipalities required two interventions and three municipalities required five interventions).

    - The FFC has identified key aspects that need to be addressed in order to improve the effectiveness of the current framework and these are related to (i) improving consultation and coordination between stakeholders; (ii) reviewing legislation that gives rise to duplication and therefore increases the reporting burden of municipalities; (iii) the need for improved oversight and accountability by Municipal Councils; (iv) and the need to evaluate Section 139 interventions to determine what works or what does not.
    - The AG has also highlighted the effectiveness of Section 139 interventions, given that some municipalities continue to receive disclaimer of audit opinions, despite being under administration. For example, eight of the 22 municipalities that received a disclaimer of audit opinion in 2019/20, have been under administration for a period of between one and four years. The eight municipalities are Makana Municipality (EC), Inkosi Langalibalele Municipality (KZN), uMzinyathi District Municipality (KZN), Govan Mbeki Municipality (MPL), Lekwa Teemane (NW), Madibeng Municipality (NW), Maquassi Hills Municipality (NW) and Ratlou Municipality (NW).

10. Different leadership styles, weak governance and accountability affect the planning and implementation of infrastructure projects as was illustrated by the FFC findings that showed that the Duncan Village catalytic housing project was poorly implemented because it adopted an authoritarian leadership style, while the Greater Cornubia catalytic housing project was successfully implemented due to its consultative or democratic style of leadership. While the Giyani Bulk Water Project was hampered by poor political leadership and interference and the failure to comply with supply chain regulations.

    - The Minister of Finance, in the Division of Revenue, should incentivise consequence management. This will ensure that all public office bearers are held legally and personally responsible when they transgress supply chain management policies in the implementation of infrastructure projects.
    - To some extent, consequence management with regard to non-compliance with supply chain management policies that result in irregular expenditure is being enforced by the amended powers of the Auditor-General. The Auditor-General is required to undertake Material Irregularity audits, which reinforces accountability and consequence management role as it relates to unauthorised, irregular and fruitless and wasteful expenditure of the municipality's administrative head.
    - However, the effectiveness of oversight bodies such as Internal Audit Committees and Municipal Councils also need to be evaluated and where there are shortcomings these need to be addressed.

REFERENCES

Auditor-General of South Africa, (2021). *MFMA 2019-20 Consolidated General Report on the Local Government Audit Outcomes.* [Online] Available from: https://www.agsa.co.za/Reporting/MFMAReports/MFMA2019-2020.aspx. [Accessed on: 01 July 2021].

Financial and Fiscal Commission, (2021). *Submission for the Division of Revenue 2022/23*. [Online] Available from: <http://www.ffc.co.za > [Accessed 07 June 2021].