

MPUMALANGA PROVINCIAL GOVERNMENT

No. 7 Government Boulevard
Building No. 4
Riverside Park Extension 2
Nelspruit
1201



Private Bag X 11205
Nelspruit
1200
Tel: (013) 766 4576
Fax: (013) 766 9246
E-mail : obotolo@mpg.gov.za

Department of Finance

Litiko LeteTimali	UmNyango weZeemali	Departement van Finansies	Kgoro ya Matlotlo
Enquiries	: Ms N Nkamba		
Tel	: (013) 766-4564		
Ref	: 12/1/1		

PROVINCIAL TREASURY CIRCULAR 20(A) OF 2012

TO:

THE ACCOUNTING OFFICER: VOTE 1: OFFICE OF THE PREMIER (MR JM RABODILA)
THE ACTING ACCOUNTING OFFICER: VOTE 2: PROVINCIAL LEGISLATURE (MR LB TSHABALALA)
THE ACTING ACCOUNTING OFFICER: VOTE 3: FINANCE (MR JB MBATHA)
THE ACCOUNTING OFFICER: VOTE 4: COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS (MR D MAHLOBO)
THE ACCOUNTING OFFICER: VOTE 5: AGRICULTURE, RURAL DEVELOPMENT AND LAND ADMINISTRATION (MS NL SITHOLE)
THE ACCOUNTING OFFICER: VOTE 6: ECONOMIC DEVELOPMENT, ENVIRONMENT AND TOURISM (DR V DLAMINI)
THE ACCOUNTING OFFICER: VOTE 7: EDUCATION (MS MOC MHLABANE)
THE ACCOUNTING OFFICER: VOTE 8: PUBLIC WORKS, ROADS & TRANSPORT (MR KM MOHLASEDI)
THE ACCOUNTING OFFICER: VOTE 9: SAFETY, SECURITY & LIAISON (MR T SIBUYI)
THE ACCOUNTING OFFICER: VOTE 10: HEALTH (MR RM MNISI)
THE ACCOUNTING OFFICER: VOTE 11: CULTURE SPORTS AND RECREATION (MS SP MJWARA)
THE ACCOUNTING OFFICER: VOTE 12: SOCIAL DEVELOPMENT (MS NL MLANGENI)
THE ACCOUNTING OFFICER: VOTE 13: HUMAN SETTLEMENT (MR D DUBE)

THE CHIEF FINANCIAL OFFICER: VOTE 1: OFFICE OF THE PREMIER (MR T NKOJOANA)
THE CHIEF FINANCIAL OFFICER: VOTE 2: PROVINCIAL LEGISLATURE (MR S SANYANE)
THE CHIEF FINANCIAL OFFICER: VOTE 3: FINANCE (MS P SEMENYA)
THE CHIEF FINANCIAL OFFICER: VOTE 4: COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS (MR MD SHIPALANA)
THE CHIEF FINANCIAL OFFICER: VOTE 5: AGRICULTURE, RURAL DEVELOPMENT AND LAND ADMINISTRATION (MR C DLAMINI)
THE CHIEF FINANCIAL OFFICER: VOTE 6: ECONOMIC DEVELOPMENT, ENVIRONMENT AND TOURISM (MS JP HLATSWAYO)
THE CHIEF FINANCIAL OFFICER: VOTE 7: EDUCATION (MR C. MNISI)
THE ACTING CHIEF FINANCIAL OFFICER: VOTE 8: PUBLIC WORKS, ROADS & TRANSPORT (MR S SHONGWE)
THE CHIEF FINANCIAL OFFICER: VOTE 9: SAFETY, SECURITY & LIAISON (MR BH NGOMA)
THE CHIEF FINANCIAL OFFICER: VOTE 10: HEALTH (MS G MILAZI)
THE CHIEF FINANCIAL OFFICER: VOTE 11: CULTURE SPORTS AND RECREATION (MR M KHOZA)
THE CHIEF FINANCIAL OFFICER: VOTE 12: SOCIAL DEVELOPMENT (MS P MORGAN)
THE ACTING CHIEF FINANCIAL OFFICER: VOTE 13: HUMAN SETTLEMENT (MS B MOJAPELO)

THE GENERAL MANAGER SUSTAINABLE RESOURCE MANAGEMENT (MS NZNKAMBA)
THE ACTING GENERAL MANAGER ASSETS AND LIABILITIES (MR RM MASAMBO)
THE GENERAL MANAGER FINANCIAL GOVERNANCE (MRS MJF BEZUIDENHOUT)



REQUESTS FOR INPUTS ON THE DRAFT DIVISION OF REVENUE BILL – 2013

The above subject bears reference.

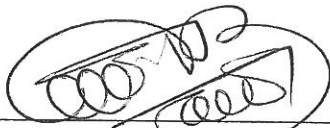
The Division of Revenue Bill (DoRB) is a legislation that is enacted annually and provides for the transparent and equitable division of revenue raised nationally among the three spheres of government as per Section 214 (1) (a) to (c) of the Constitution.

In terms Section 10(1) of the Intergovernmental Fiscal Relations Act (IGFR) (Act 97 of 1997) provides for the Minister of Finance to table the DoRB each year when the annual Budget is tabled in the National Assembly.

Part of the process towards tabling this Budget, is the consultation on the Division of Revenue Bill as well as recommendations made by the Financial and Fiscal Commission (FFC) for the annual division of revenue as required by Section 9(1) of the IGRF Act. As a result of this process, Provincial Treasury requests all departments to provide inputs on the attached draft copy of the 2013 DoRB (Annexure A) and FFC's recommendations on the 2013/14 Division of Revenue (Annexure B) **on or before 6 August 2012.**

For any queries please contact Ms Bede Nkamba tel (013) 766 4564, email nznkamba@mpg.gov.za or Mr Matthews Madike tel (013) 766 4281, email Madike@mpg.gov.za.

Yours sincerely,



MR JB MBATHA
ACTING HEAD OF DEPARTMENT
DATE: 30 / 7 /2012

REPUBLIC OF SOUTH AFRICA

DIVISION OF REVENUE BILL

*(As introduced in the National Assembly (proposed section 76); explanatory summary of
the Bill published in Government Gazette No. of 2013) (The English text is the official
text of the Bill)*

(MINISTER OF FINANCE)

[B - 2013]

ARRANGEMENT OF PROVISIONS OF ACT

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2002);

"financial year" means the financial year commencing on 1 April 2013 and ending on 31 March 2014;

"framework" means the conditions and other information in respect of a conditional allocation published by the National Treasury in terms of section 15;

"level one accreditation" means accreditation to render beneficiary management, subsidy budget planning and allocation, and priority programme management and administration;

"level three accreditation" means an executive assignment to administer all aspects, including financial administration, of national housing programmes;

"level two accreditation" means accreditation to render full programme management and administration of all housing instruments and housing programmes in addition to the responsibilities under a level one accreditation;

"Municipal Finance Management Act" means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);

"municipal financial year" means the financial year of a municipality commencing on 1 July 2013 and ending on 30 June 2014;

"next financial year" means the financial year commencing on 1 April 2014 and ending on 31 March 2015;

"next municipal financial year" means the financial year of a municipality commencing on 1 July 2014 and ending on 30 June 2015;

"organ of state" means an organ of state as defined in section 239 of the Constitution of the Republic of South Africa, 1996;

portion thereof for spending via an appropriation from its Provincial Revenue Fund;
or

(b) in relation to a Schedule 4, 6, 7 or 8 allocation transferred to or provided in kind to a municipality, means the accounting officer of the municipality;

"receiving provincial department" in relation to a Schedule 4, 5 or 8 allocation transferred to a province, means the provincial department which receives that allocation or a portion thereof for spending via an appropriation from its Provincial Revenue Fund;

"this Act" includes any framework or allocation published, or any regulation made under this Act;

"transferring national officer" means the accounting officer of a national department that transfers a Schedule 4, 5, 6 or 8 allocation to a province or municipality or spends a Schedule 7 allocation on behalf of a municipality.

(2) Any determination, instruction or request made in terms of this Act must be in writing.

(3) A reference to a specific conditional allocation refers to the allocation indicated in a Schedule to this Act and a framework by that name.

Objects of Act

2. The objects of this Act are to—

- (a) provide for the equitable division of revenue raised nationally among the three spheres of government;
- (b) promote predictability and certainty in respect of all allocations to provinces and

4. (1) Each province's equitable share of the provincial share of revenue raised nationally in respect of the financial year is set out in Column A of Schedule 2.

(2) An envisaged division for each province of revenue anticipated to be raised nationally in respect of the next financial year and the 2015/16 financial year, and which is subject to the provisions of the annual Division of Revenue Acts for those financial years, is set out in Column B of Schedule 2.

(3) Each province's equitable share allocation contemplated in subsection (1) must be transferred to the corporation for public deposits account of the province, in accordance with a payment schedule determined by the National Treasury in terms of section 22.

Equitable division of local government share among municipalities

5. (1) Each municipality's share of local government's equitable share of revenue raised nationally in respect of the financial year, is set out in Column A of Schedule 3.

(2) An envisaged division between municipalities of revenue anticipated to be raised nationally in respect of the next financial year and the 2015/16 financial year, and which is subject to the provisions of the annual Division of Revenue Acts for those financial years, is set out in Column B of Schedule 3.

(3) Each municipality's equitable share contemplated in subsection (1) must be transferred to the primary bank account of the municipality in three transfers on 6 July 2013, 30 November 2013 and 22 March 2014, in accordance with a payment

CHAPTER 3**CONDITIONAL ALLOCATIONS TO PROVINCES AND MUNICIPALITIES*****Part 1******Conditional allocations*****Conditional allocations to provinces**

7. (1) Conditional allocations to provinces in respect of the financial year from the national government's share of revenue raised nationally are set out in Column A of the following Schedules:

- (a) Schedule 4, specifying allocations to provinces to supplement the funding of programmes or functions funded from provincial budgets;
- (b) Schedule 5, specifying specific-purpose allocations to provinces;
- (c) Schedule 7, specifying allocations-in-kind to provinces for designated special programmes; and
- (d) Schedule 8, specifying funds that are currently not allocated to specific provinces, that may be released to provinces to fund disaster response within a period from three days up to three months following a declared disaster in terms of the conditions of the Disaster Management Act.

(2) An envisaged division of conditional allocations to provinces from the national government's share of revenue anticipated to be raised nationally for the next financial year and the 2015/16 financial year, which is subject to the annual Division of Revenue Acts for those years, is set out in Column B of the Schedules referred to in

or indicative allocation of each municipality in respect of the local government allocations contemplated in subsections (1)(a) to (d) and (2) in the *Gazette*.

(4) Despite subsection (2), in respect of the Public Transport Infrastructure and Systems Grant, funding which is specifically approved by the National Treasury in relation to transport contracts for capital projects must be regarded as being firm allocations for the next financial year and the 2015/16 financial year that will not be altered downwards in the Division of Revenue Acts in respect of those financial years.

(5) (a) Subject to paragraph (b), a municipality may only after obtaining the approval of the National Treasury, pledge, offer as security or commit to a person or institution future conditional allocation transfers due to the municipality for the next financial year and the 2015/16 financial year, for the purpose of securing a loan or any other form of financial or other support from that person or institution.

(b) Prior to granting an approval in terms of paragraph (a), the National Treasury must—

- (i) inform the relevant transferring national officer of a request by a municipality for approval to pledge, offer as security or commit to a person or institution future conditional allocation transfers due to the municipality as referred to in paragraph (a); and
- (ii) provide a period of three working days for the transferring national officer to provide comment to the National Treasury on the municipality's request for approval, unless this period is extended by the National Treasury.

(2) (a) Subsection (1)(b) does not apply to the Urban Settlements Development Grant.

(b) The transferring national officer must publish the information provided for in terms of section 13(1) in the *Gazette*, in a format determined by the National Treasury, not later than 28 days after this Act takes effect.

(3) With respect to Schedule 4 allocations, any monitoring programme or system that is utilised to monitor expenditure and non-financial performance information funded by an allocation must—

- (i) be approved by the National Treasury;
- (ii) not impose any excessive administrative responsibility on receiving officers of provincial departments or municipalities beyond the provision of standard management information;
- (iii) be compatible and integrated with and not unnecessarily duplicate other relevant and related national and provincial systems; and
- (iv) be consistent with section 11(2).

Duties of transferring national officer in respect of Schedule 5 to 7 allocations

10. (1) A transferring national officer must—

(a) not later than 14 days after this Act takes effect, certify to the National Treasury that—

- (i) allocation frameworks, including conditions and monitoring provisions, are reasonable and do not impose excessive administrative responsibility on

(2) The transferring national officer must submit all relevant information and documentation referred to in subsection (1)(a) to the National Treasury within 14 days after this Act takes effect.

(3) A transferring national officer who has not complied with subsection (1) must transfer the allocation in the manner instructed by the National Treasury, including transferring the allocation as an unconditional allocation.

(4) Before making the first transfer of any allocation, the transferring national officer must take note of any notice in terms of section 30(1) from the National Treasury outlining the details of the account for each province or municipality.

(5) The transferring national officer of a Schedule 6 allocation is responsible for monitoring expenditure and non-financial performance information on programmes funded by an allocation.

(6) Despite anything to the contrary contained in any law, a transferring national officer must in respect of any allocation, as part of the report contemplated in section 40(4)(c) of the Public Finance Management Act, not later than 20 days after the end of each month, and in the format determined by the National Treasury, submit to the National Treasury information for the month reported on and for the financial year up to the end of that month on—

- (a) the amount of funds transferred to a province or municipality;
- (b) the amount of funds withheld or stopped from any province or municipality, the reasons for the withholding or stopping and the steps taken by the transferring national officer and the receiving officer to deal with the matters or causes that necessitated the withholding or stopping of the payment;

to in subsection (9) in the *Gazette* within 14 days after submitting the allocations to the National Treasury.

Duties of receiving officer in respect of Schedule 4 allocations

11. (1) A receiving officer of a Schedule 4 allocation is responsible for—

- (a) complying with the framework for a Schedule 4 allocation as published in terms of section 15; and
- (b) the manner in which a Schedule 4 allocation is allocated and spent.

(2) The receiving officer of a municipality must—

- (a) ensure and certify to the National Treasury that the municipality—
 - (i) indicates or, if required, exclusively appropriates each programme funded or partially funded by this allocation in its annual budget; and
 - (ii) makes public, in accordance with the requirements of section 21A of the Municipal Systems Act, the conditions and other information in respect of the allocation, to facilitate performance measurement and the use of required inputs and outputs; and
- (b) report to the transferring national officer, the relevant provincial treasury and the National Treasury, on—
 - (i) spending and financial performance against programmes funded by a Schedule 4 allocation, other than the Urban Settlements Development Grant; and
 - (ii) in the case of the Urban Settlements Development Grant, spending and

(5) The receiving officer must report against programmes funded or partially funded by a Schedule 4 allocation against the relevant framework in its annual financial statements and annual report.

(6) (a) The receiving officer must, within two months after the end of the financial year, and where relevant, the municipal financial year, evaluate the performance of the province or municipality, as the case may be, in respect of programmes funded or partially funded by an allocation and submit such evaluation to the transferring national officer and the relevant provincial treasury.

(b) Municipalities that receive the Urban Settlements Development Grant must report expenditure and non-financial performance information against their capital budgets, in accordance with the requirements of section 71 of the Municipal Finance Management Act.

(c) With respect to the Urban Settlements Development Grant, reporting on performance will be based on the infrastructure budget of the municipality concerned.

Duties of receiving officer in respect of Schedule 5, 6 or 8 allocation

12. (1) The receiving officer of a Schedule 5, 6 or 8 allocation must ensure compliance with the requirements of the relevant framework.

(2) The relevant receiving officer must, in respect of a Schedule 5, 6 or 8 allocation transferred to—

(a) a province, as part of the report required in section 40(4)(c) of the Public Finance

- (g) an explanation of any material problems experienced by the province regarding an allocation which has been received and a summary of the steps taken to deal with such problems;
- (h) any matter or information that may be prescribed in the relevant framework for the particular allocation; and
- (i) such other issues and information as the National Treasury may determine.

(4) A report by a municipality in terms of subsection (2)(b) must set out for that month and for the financial year up to the end of that month—

- (a) the amount received by the municipality;
- (b) the amount of funds stopped or withheld from the municipality;
- (c) the extent of compliance with this Act and with the conditions of an allocation or part of an allocation provided for in a framework;
- (d) an explanation of any material problems experienced by the municipality regarding an allocation which has been received and a summary of the steps taken to deal with such problems;
- (e) any matter or information that may be prescribed in the relevant framework for the particular allocation; and
- (f) such other issues and information as the National Treasury may determine.

(5) A receiving officer must, within two months after the end of the financial year, and where relevant, the municipal financial year, evaluate its performance in respect of programmes or functions funded or partially funded by an allocation and submit such evaluation to the transferring national officer.

(6) The receiving officer of the Human Settlements Development

- (i) are in compliance with any directives by the Minister for the Public Service and Administration relevant to infrastructure delivery in the sector; and
- (ii) include the following—
 - (aa) an indication of the number of posts per profession and the highest educational qualifications of the incumbent and years of experience in the management or operationalisation of infrastructure in the public service; and
 - (bb) an indication of the number of vacancies and existing positions filled;
- (b) ensuring that all infrastructure expenditure partially or fully funded by conditional allocations is reported through Project and Asset Segment in the Standard Chart of Accounts;
- (c) maintaining up to date databases of all contracts that are fully or partially funded by conditional allocations that is compliant with the Register of Projects and i-Tender system; and
- (d) ensuring that infrastructure projects comply with best practise standards and guidelines contained in Practice Note 22 that was issued in terms of section 5 of the Construction Industry Development Board Act, 2000 (Act No.38 of 2000).

(3) Non-compliance with any of the requirements in subsection (1) or (2) that is discovered by the National Treasury or the transferring national officer during the 2013/14 financial year may result in the withholding or stopping of the relevant allocation in terms of sections 17 and 18.

(4) (a) The receiving officer of the Education Infrastructure Grant, the Provincial Roads Maintenance Infrastructure Grant or the Health Infrastructure Grant

corporation for public deposits account of a province; and

- (e) indicate the funds, if any, utilised for the administration of the allocation by the receiving officer.

(2) The 2013/14 annual report of a national department transferring any funds in respect of an allocation set out in Schedule 4, 5, 6 or 8 must, in addition to any requirements in terms of any other applicable law indicate —

- (a) the reasons for the withholding or stopping of any transfers to a province or municipality;
- (b) to what extent provinces or municipalities were monitored for compliance with this Act and the conditions of an allocation provided for in the relevant framework;
- (c) to what extent the allocation achieved its objectives and outputs; and
- (d) any non-compliance with this Act or the relevant framework, and the steps taken to deal with such non-compliance.

(3) The 2013/14 financial statements of a provincial department receiving an allocation in terms of Schedule 4, 5 or 8 must, in addition to any requirements in terms of any other applicable law—

- (a) indicate the total amount of all allocations received;
- (b) indicate the total amount of actual expenditure on all allocations except Schedule 4 allocations; and
- (c) certify that all transfers in terms of this Act to the province were deposited into the primary bank account of the province or, where appropriate, into the corporation for public deposits account of a province.

(4) The 2013/14 annual report of a provincial department receiving an

15. (1) The National Treasury must, within 14 days of this Act taking effect, publish in the *Gazette*—

- (a) the allocations per municipality, in respect of Schedule 4 and 6 allocations;
- (b) the indicative allocations per province and municipality, in respect of Schedule 7 allocations; and
- (c) the framework for each allocation in Schedules 4 to 8.

(2) The National Treasury must publish in the *Gazette*—

- (a) any revisions of or amendments to the allocations and frameworks published in terms of subsection (1)(a) and (c);
- (b) any virement which is made in accordance with the requirements of section 6(3) and the Public Finance Management Act;
- (c) any revisions of or amendments to the allocations and frameworks published in terms of subsection (1) necessary to give effect to the conversion of an allocation in terms of section 20; and
- (d) any revised allocations in respect of Schedule 7 allocations.

(3) The National Treasury may, at any time—

- (a) after consultation with or at the written request of a transferring national officer; and
- (b) after submitting a revised framework to Parliament for parliamentary comment for a period of 14 days when Parliament is in session,

revise or amend a framework published in terms of subsection (1)(c) or (2)(a), to correct any error or omission.

not an attempt to artificially inflate its spending estimates and that there are good reasons for the advance payment or transfer; and

(ii) the National Treasury has approved the advance payment or transfer.

(3) No public entity, other than Eskom Holdings Limited in respect of funds received from the Department of Energy and water boards and in respect of funds received from the Department of Water Affairs and the Department of Human Settlements for the implementation of Schedule 7 allocations, may receive funds for the provision of a municipal service or municipal function on behalf of a municipality from a national or provincial organ of state, except via the municipality responsible for that service or function, unless the National Treasury approves otherwise in respect of municipalities it considers to have low capacity.

(4) (a) In respect of the Human Settlements Development Grant, a receiving officer and a municipality with level one, two or three accreditation as at 1 April 2013, must within any deadline determined by the National Treasury, comply with the requirements of subsection (2), by—

- (i) entering into a payment schedule; and
- (ii) submitting the payment schedule to the National Treasury for approval.

(b) If a municipality receives accreditation after 1 April 2013, paragraph (a) may apply if approved by the National Treasury.

(5) A receiving officer must request the National Treasury to amend the payment schedule referred to in subsection (4), in accordance with the procedure set out in section 23, in instances where a transfer to a municipality with level three accreditation has been withheld or stopped in terms of section 17 or 18.

any conditional allocation to local government, also the provincial department responsible for local government.

(4) A notice contemplated in subsection (3) must include the reasons for withholding the allocation and the intended duration of the withholding.

(5) (a) The National Treasury may, when a transferring national officer is withholding an allocation in terms of subsection (1), instruct or approve a request from that transferring national officer to withhold an allocation for a period longer than 30 days, but not exceeding 120 days, if the withholding will—

- (i) facilitate compliance with this Act or the conditions to which the allocation is subject; or
- (ii) minimise the risk of under-spending.

(b) A transferring national officer must, when requesting the withholding of an allocation in terms of this subsection, submit proof of its compliance with subsection (3) and any representations received from the receiving officer, to the National Treasury.

(c) The transferring national officer must again comply with subsection (3) when the National Treasury instructs or approves a request by the transferring national officer in terms of paragraph (a).

Stopping of allocation

18. (1) Despite section 17, the National Treasury may, in its discretion or at the request of a transferring national officer, or a receiving officer, stop the transfer of a

that an allocation or any portion of such allocation stopped in terms of subsection (1), be utilised to meet that province's or municipality's outstanding statutory and contractual financial commitments.

(b) The utilisation of funds contemplated in this subsection is a direct charge against the National Revenue Fund.

Re-allocation of funds

19. (1) (a) The National Treasury may, when it stops a Schedule 4, 5 or 6 allocation in terms of section 18, after consultation with the transferring national officer and the relevant provincial treasury, determine that a portion of the allocation that will not be spent be reallocated, as the same type of allocation as it was allocated originally, to one or more provinces or municipalities, on condition that the allocation will be spent in the financial year or the next financial year.

(b) The reallocation of a portion of an allocation or the full allocation on condition that the allocation will be spent in the next financial year, in terms of paragraph (a), must be deemed to be a roll-over approved by the National Treasury in terms of section 21(2)(a), and the roll-over process set out in Treasury Regulation 6.4.2, made in terms of section 76 of the Public Finance Management Act, does not need to be followed.

(2) (a) Despite subsection (1), the National Treasury may, when an intervention in terms of the Constitution or section 137, 139 or 150 of the Municipal Finance Management Act is taking place, on such conditions as it may determine,

prevent under-spending on the allocation.

(2) In respect of the School Infrastructure Backlogs Grant, the National Treasury may, at the request of the transferring national officer and a receiving province, convert the allocation to the province to become an allocation to the Education Infrastructure Grant, if the National Treasury and the transferring national officer are satisfied the province has demonstrated the capacity to implement projects and that the conversion will not be likely to result in—

- (a) underspending on the allocation; or
- (b) a lesser level of service delivery compared to if the allocation is provided to the province as a Schedule 7 grant-in-kind.

(3) An allocation that is converted in terms of this section must be paid to or expended on behalf of the same province or municipality to which the allocation was originally made.

(4) A conversion referred to in subsection (1) or (2) takes effect on the date of publication referred to in section 15(2)(c).

(5) The National Treasury must inform the transferring national officer and each affected receiving province or municipality of a conversion.

Unspent conditional allocations

21. (1) Despite the provisions of the Public Finance Management Act or the Municipal Finance Management Act relating to roll-overs, any conditional allocation that is, in the case of a province, not spent at the end of a financial year or, in the case of a municipality, at the end of a municipal financial year, reverts to the National Revenue

must give the relevant transferring national officer, province or municipality—

- (a) written notice of the intention to offset amounts against upcoming advances for allocations; and
- (b) an opportunity, within 14 days of receipt of the notice referred to in paragraph (a), to—
 - (i) submit written representations and other documentary proof that the unspent allocation was either spent in accordance with the relevant framework, or is committed to identifiable projects;
 - (ii) propose alternative means acceptable to the National Treasury by which the unspent allocations can be repaid to the National Revenue Fund; and
 - (iii) propose an alternative payment schedule in terms of which the unspent allocations will be repaid to the National Revenue Fund.

(6) A notice contemplated in subsection (5) must include the intended amount to be offset against allocations, and the reasons for offsetting the amounts.

(7) The retention of funds which should revert to the National Revenue Fund in terms of subsection (1) and (3), and which have not been approved by the National Treasury to be retained in terms of subsection (2), constitutes financial misconduct by the receiving officer in terms of section 34.

Part 4

Matters relating to Schedule 1 to 8 allocations

Payment schedule

Municipal Finance Management Act is taking place, on such conditions as it may determine, approve a request or direct that the equitable share or a portion of the equitable share which has not yet fallen due for transfer in accordance with the payment schedule, be advanced to a municipality.

(c) Any advances in terms of paragraph (b) must be offset against transfers to the municipality which would otherwise become due in terms of the applicable payment schedule.

(3) (a) The National Treasury must approve the payment schedule for the transfer of an allocation listed in Schedules 4 to 8 to a province or municipality.

(b) The transferring national officer of a Schedule 4, 5, 6 or 8 allocation must submit a payment schedule to the National Treasury for approval within 14 days after this Act takes effect.

(c) Prior to the submission of a payment schedule in terms of paragraph (b), the transferring national officer must—

- (i) in relation to a Schedule 4 allocation, consult the relevant receiving officer; and
- (ii) in relation to a Schedule 5 or 6 allocation, consult the relevant province or municipality.

(4) The transferring national officer of a Schedule 4, 5 or 6 allocation must provide the receiving officer and the relevant provincial treasury with a copy of the approved payment schedule prior to making the first transfer in accordance therewith.

(5) Schedule 4 and 6 transfers must accord with the municipal financial year.

prevails over any amendment made in terms of subsection (1).

(5) The transferring national officer must immediately inform the receiving officer of any amendment to a payment schedule in accordance with subsection (1) or (2).

CHAPTER 4

MATTERS RELATING TO ALL ALLOCATIONS

Transfers made in error or fraudulently

24. (1) Despite anything to the contrary contained in any law, the transfer of an allocation that is an overpayment to a province, municipality or public entity in error or fraudulently is regarded as not legally due to that province, municipality or public entity, as the case may be.

(2) A transfer contemplated in subsection (1) must be recovered, without delay, by the responsible transferring national officer.

(3) Despite subsection (2), the National Treasury may instruct that the recovery contemplated in subsection (2) be effected by set-off against future transfers to the province, municipality or public entity, which would otherwise become due in accordance with a payment schedule.

Allocations not listed in Schedules

25. (1) An allocation, other than—

Schedule 8 Grant under the Division of Revenue Act, 2011 (Act No. 6 of 2011) must be used in accordance with the conditions that applied to Schedule 8 conditional allocations in terms of that Act.

Preparations for next financial year and 2015/16 financial year

26. (1) (a) A category C municipality that receives a conditional allocation in terms of this Act must, using the envisaged conditional allocations to that municipality for the next financial year and the 2015/16 financial year as set out in Column B of the Schedules, by 2 October 2013—

- (i) agree on the provisional allocations and the projects to be funded from those allocations in the next financial year and the 2015/16 financial year with each category B municipality within the category C municipality's area of jurisdiction; and
- (ii) submit to the transferring national officer—
 - (aa) the provisional allocations referred to in subparagraph (i); and
 - (bb) the projects referred to in subparagraph (i), listed per municipality to be funded from the allocations for the next financial year and the 2015/16 financial year.

(b) Where a category C municipality and a category B municipality cannot agree on the allocations and projects referred to in paragraph (a), the category C municipality must request the relevant transferring national officer to facilitate agreement.

(c) The transferring national officer must take all necessary steps to facilitate agreement as soon as possible, but no later than 60 days after receiving a

- (ii) any amendments to the envisaged allocations for each province or municipality set out in Column B of the Schedules in respect of existing conditional allocations; and
- (iii) the draft frameworks for the allocations referred to in subparagraphs (i) and (ii) in the format to be determined by the National Treasury.

(b) Any proposed amendment or adjustment for the next financial year of the allocation criteria of an existing conditional allocation must be agreed with the National Treasury prior to the submission of the provisional allocations and draft frameworks referred to in paragraph (a)(ii) and (iii).

(c) The National Treasury may, if the transferring national officer fails to comply with paragraph (a) by 2 October 2013, determine—

- (i) the provisional allocations in paragraph (a)(i);
- (ii) any amendments to the envisaged allocations contemplated in paragraph (a)(ii); and
- (iii) the draft frameworks for the allocations referred to in paragraph (a)(iii), and submit that information to the relevant provinces or municipalities.

(d) (i) The final allocations based on the provisional allocations referred to in paragraph (a)(i) and (ii) must be submitted to the National Treasury by 7 December 2013.

(ii) If the transferring national officer fails to submit the allocations referred to in subparagraph (i) by 7 December 2013, the National Treasury may determine the appropriate allocations, taking into consideration the envisaged allocations for the next financial year.

(3) The National Treasury may, in preparation for the next financial year,

municipal financial year and the two following municipal financial years.

(b) The budget must indicate all allocations from its equitable share and conditional allocations to be transferred to each category B municipality within the category C municipality's area of jurisdiction and disclose the criteria for allocating funds between the category B municipalities.

(2) A category C municipality that is providing a municipal service must, before implementing any capital project for water, electricity, roads or any other municipal service, consult the category B municipalities within whose area of jurisdiction the project will be implemented, and agree in writing which municipality is responsible for the operational costs and the collection of user fees.

(3) A category C municipality must ensure that it does not duplicate a function currently performed by a category B municipality and must transfer funds for the provision of services, including basic services, to the relevant category B municipality that is providing municipal services, irrespective of the fact that—

- (a) the category C municipality retains the power or function in terms of the Municipal Structures Act; and
- (b) a service delivery agreement for the provision of services by the category B municipality on behalf of the category C municipality has not been concluded.

(4) A category B municipality which is not authorised to perform a function in terms of the Municipal Structures Act may not extend the scope or type of services that it currently provides, without—

- (a) entering into a service delivery agreement with the category C municipality which is authorised to perform the function in terms of the Municipal Structures Act; or

financial year.

(7) A municipality must ensure that any allocation made to it in terms of this Act, or by a province or another municipality, that is not reflected in its budget as tabled in accordance with section 16 of the Municipal Finance Management Act, is reflected in its budget to be considered for approval in accordance with section 24 of the Municipal Finance Management Act.

(8) In respect of the Human Settlements Development Grant, the financial and non-financial reporting that is required to be submitted by a municipality with a level three accreditation in terms of the framework must relate to the requirements specified in the framework.

(9) A municipality with a level three accreditation must submit the required monthly financial and quarterly performance reports to the receiving officer, the transferring national officer and the National Treasury.

Duties of provincial treasuries

29. (1) The provincial treasury must reflect Schedule 5 allocations separately in the province's appropriation bill or a schedule to its appropriation bill.

(2) (a) The provincial treasury must, on the same day that its budget is tabled in the provincial legislature, or a later date approved by the National Treasury, but not later than 14 days after this Act takes effect, publish the following in the *Gazette*:

(i) The indicative allocation per municipality for every allocation to be made by the province to municipalities from the province's own funds;

published in terms of subsection (1) or (2).

(b) Any amendments to the allocations published in terms of subsection (2)(a) must be published in the *Gazette* not later than 14 February 2014.

(c) The allocations referred to in paragraph (a) must be deemed to be final if they are published in the *Gazette* in accordance with paragraph (b).

(4) (a) A provincial treasury must, as part of its consolidated monthly report in terms of section 32 of the Public Finance Management Act, in the format determined by the National Treasury, report on—

- (i) actual transfers received by the province from national departments;
- (ii) actual expenditure on such allocations, excluding Schedule 4 allocations, up to the end of that month; and
- (iii) actual transfers made by the province to municipalities, and actual expenditure by municipalities on such allocations, based on the most up to date information available from municipalities at the time of reporting.

(b) The report contemplated in paragraph (a) must include reports for each quarter, and be in the format and include the information as may be determined by the National Treasury.

(5) A provincial treasury must—

- (a) ensure—
 - (i) that a payment schedule is agreed between each provincial department and receiving institution referred to in subsection (2)(a); and
 - (ii) that transfers are made promptly in accordance therewith.
- (b) submit the payment schedules to the National Treasury within 14 days of this Act

30. (1) The National Treasury must, within 14 days of this Act taking effect, submit a notice to all transferring national officers, containing the details of the bank accounts of each province and municipality.

(2) The National Treasury must, together with the monthly report contemplated in section 32(2) of the Public Finance Management Act, publish a report on actual transfers of all allocations listed in the Schedules referred to in sections 7 and 8 or made in terms of section 25.

(3) The National Treasury may, in any report it publishes that aggregates reports published by provincial treasuries contemplated in section 71(7) of the Municipal Finance Management Act, and in any report in respect of municipal finances, include a report on the equitable share and conditional allocations provided for in this Act.

CHAPTER 6

GENERAL

Allocations by public entities to provinces or municipalities

31. The accounting officer of a provincial department or municipality that receives funds from a public entity as a grant, sponsorship or donation must disclose in its financial statements the purpose and amount of such grant, sponsorship or donation received.

Liability for costs incurred in violation of principles of co-operative governance and

- (i) the primary bank account; or
- (ii) in respect of provinces, a corporation for public deposits account;
- (c) a transfer made in error or fraudulently as referred to in section 24(1); or
- (d) any transfer made or spending of an allocation in contravention of this Act or a framework published in terms of this Act.

Financial misconduct

34. (1) Despite anything to the contrary contained in any law, any wilful or negligent non-compliance with a provision of this Act or a framework published in terms of this Act constitutes financial misconduct.

(2) Section 84 of the Public Finance Management Act and section 171 of the Municipal Finance Management Act apply in respect of financial misconduct contemplated subsection (1).

Delegations and assignments

35. (1) The Minister may, in writing, delegate any of the powers entrusted to the National Treasury in terms of this Act and assign any of the duties imposed on the National Treasury in terms of this Act, to an official of the National Treasury.

(2) A delegation or assignment in terms of subsection (1) to an official of the National Treasury—

- (a) is subject to any limitations or conditions that the Minister may impose;

37. The Minister may, by notice in the *Gazette*, make regulations regarding—

- (a) anything which must or may be prescribed in terms of this Act; and
- (b) any ancillary or incidental administrative or procedural matter that it is necessary to prescribe for the proper implementation or administration of this Act.

Repeal of laws

38. (1) Subject to subsection (2), the Division of Revenue Act, 2011 (Act No. 6 of 2011), with the exception of sections 15 and 38(1), is hereby repealed.

(2) The repeal of the Division of Revenue Act, 2011 (Act No. 6 of 2011), does not affect any obligation set out in that Act, the execution of which is still outstanding.

Short title and commencement

39. This Act is called the Division of Revenue Act, 2013, and takes effect on 1 April 2013 or the date of publication thereof by the President in the *Gazette*, whichever is the later date.



For an Equitable Sharing of National Revenue

A large, abstract graphic dominates the right side of the cover. It features a grid of thick black lines that intersect to form a series of white rectangular and triangular shapes. The grid is tilted and appears to recede into the distance, creating a sense of depth and perspective. The background is a solid dark blue-grey color.

2013/14

**SUBMISSION FOR THE
DIVISION OF REVENUE**

FINANCIAL AND FISCAL COMMISSION

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ACRONYMS

AIDS	Acquired Immune Deficiency Syndrome
ASD	Alternative Service Delivery
AsgiSA	Accelerated and Shared Growth Initiative for South Africa
BUS	Business and Management
CBA	Cost Benefit Analysis
CES	Constant Elasticity of Substitution
CGE	Computable General Equilibrium
CHET	Centre for Higher Education Transformation
CSR	Corporate Social Responsibility
DAFF	Department of Agriculture, Forestry and Fisheries
DoBE	Department of Basic Education
DCoG	Department of Cooperative Governance
DEA	Department of Environmental Affairs
DMA	Disaster Management Act
DoC	Department of Communications
DoE	Department of Education
DoHET	Department of Higher Education and Training
DRMC	Disaster Relief Management Centres
DSD	Department of Social Development
DST	Department of Science and Technology
ECD	Early Childhood Development
EPWP	Expanded Public Works Programme
FBS	Free Basic Services
FCA	Full Cost Accounting
FEMIS	Further Education Management Information System
FET	Further Education and Training
FFC	Financial and Fiscal Commission
FRA	Fund-Raising Act
FTE	Full Time Equivalent
GDP	Gross Domestic Product
GEAR	Growth Employment and Redistribution
GIS	Geographic Information Systems
GRB	Gender Responsive Budgeting
GVA	Gross Value Add
HEMIS	Higher Education Management Information System
HIV	Human Immunodeficiency Virus

EXECUTIVE SUMMARY

The recent, globally induced recession and its aftermath have resulted in pressure to get the economy moving, to confront the problems of sluggish exports and to lower high unemployment. The economic crisis has highlighted the growing vulnerabilities that arise from the increasing inter-connectedness of economies. Despite originating in other countries, the crisis has had significant negative ramifications for South Africa and is expected to continue to stall the reduction of poverty and inequality. Despite recent modest economic growth and reduced overall levels of national poverty over several years, South Africa is trapped in a cycle of high inequality and extremely high unemployment. Persistent legacy issues associated with apartheid continue to undermine economic efficiency, job creation and economic growth. Empirical evidence suggests that growth has not always led to more and better jobs – or to increased income opportunities – for the vast majority of the poor, particularly women and youth. Furthermore, regional and ethnic variations and inequities continue to exist (geographically as well as across income groups). Clearly, economic growth alone does not guarantee that the poor and the marginalised will participate in, and benefit from, a growing economy. The existing economic structure coupled with the fact that the country's growth centres are operating from an aging industrial-era infrastructure, which is not labour absorbing but highly capital intensive, suggests scope to focus on policy interventions that create conditions for long-term economic development. Very little systematic thinking has been done around how the Intergovernmental Fiscal Relations (IGFR) system should respond to these pressing social and economic issues, which transcend administrative jurisdictions (i.e. municipal or provincial boundaries).

The past two decades have added a new dimension to the challenge facing South Africa, as the emergence of the global knowledge economy results in the structural transformation of economies around the world. New skills and competencies are required in order to enter and thrive in today's labour markets. Economies are becoming increasingly knowledge intensive and technology based, which is leading to new socio-economic (and indeed regional) gaps, between those who have the right skill sets (or have access to the latest knowledge and information) and those who do not. South Africa is lagging behind in identifying and nurturing these competencies and skills. The lack of awareness and understanding of the policy reforms required to respond to the demands of a knowledge economy is limiting the country's ability to meet inclusive growth as set out in its priorities.

The goal of the 2013/14 *Submission for the Division of Revenue* is to propose new insights and options for promoting policies that facilitate inclusive growth. The key hypothesis underlying the approach is that, despite tensions between growth and inclusion, growth can lead to increased economic opportunities for the poor and reduced inequality. The Submission specifically explores what local, provincial and national governments might do to enhance stronger economic development and more employment. The focus is on the IGFR system's instruments that contribute to economic development (of regions), and the transmission mechanisms, and how they unblock structural obstacles to inclusive growth. When looking specifically at the emerging knowledge economy, a key challenge for the intergovernmental system is that the emerging functional economic regions will typically not match the administrative geographic jurisdictions (such as municipalities and provinces) but transcend them in ways that will change dynamically over time. In all this, the aim is to investigate how the different elements of the IGFR system, as well as the different spheres of government, can be used efficiently to address inclusive growth and stimulate innovation¹.

The Submission is divided into three interrelated parts and contains 10 chapters. Part 1 is on *Supporting inclusive growth: jobs, knowledge and regional development*. Part 2 is on *Climate change and environmental sustainability: opportunities and risks for inclusive growth and innovation*. Part 3 of the Submission brings in capacity and equity issues and is entitled *Institutional development for inclusive growth and innovation*. A unifying theme underpinning the three parts is the role of the innovation and knowledge economy in facilitating inclusive development. This is organised around two thematic focuses: (i) enhancing the framework for subnational development and innovation; and (ii) facilitating growth with jobs.

The Submission explores specifically unemployment in general and that of the youth in particular. One way to move people out of poverty is to ensure that the intergovernmental fiscal system supports job creation and regional development. Since the poor are disproportionately affected by disasters and climate change, a pro-poor intergovernmental relations system

¹ Participation and development in innovation affect South Africa unequally. For example, government and university expenditure on R&D is focused almost exclusively in Gauteng (i.e. innovation happens mainly in metros and not as much in district and local municipalities). Given the correlation between lack of innovation and inequality, this has implications for the FFC's intergovernmental mandate.

With respect to financing e-education and achieving policy goals in public ordinary schools in South Africa, the Commission recommends that:

- The e-education policy should be funded as a part of government's operating budget for the programme, just like teacher salaries, school buildings and other teaching aids.
- A well-structured, inter-governmental financing mechanism should be established with explicit guidelines to provincial departments of education regarding the budget line items that must be prioritised in their annual budget allocations, as well as those budget line items that will be contained in the national budget allocation. Decisions on the particular line items can be informed by a review of policy documents and various studies conducted on e-education over several years and by a broader review of the available knowledge of e-education financing across the globe.
- The national and provincial education sector requires firm and expert guidance on designing e-education, and such expertise should relate to e-education, not merely to information technology. In order to promote advances in e-education, it may be necessary to consider the establishment of an e-Education Commission, constituted of government officials and e-education specialists to act as an advisory body.
- Limited data is available on e-education expenditure and specifically on e-learning expenditure, despite clear policy goals adopted in 2004 and targets established for 2013. This should be remedied through reporting on e-learning budget allocations and expenditure and, more broadly, on e-education in the annual reporting process. Such data can inform national and provincial planning, curriculum design and the development of education human resources. It can also inform the work of an e-Education Commission, enabling such a structure to advise government effectively. Furthermore, explicit reporting on financial data will enable a better analysis of the strengths and weaknesses relevant to achieving the policy goals of the White Paper on e-Education. As a baseline, the data set out in the Table 2.6 in Chapter 2 would be required.
- In addition to the above, the impact of e-education policy and financing should be continuously assessed, taking into account cross-departmental issues and supporting measures from a range of government departments and relevant public sector bodies (Department of Basic Education, Department of Higher Education and Training, Department of Labour, Department of Science and Technology, Department of Communications, metropolitan municipalities, ICASA and others).
 - Such assessment would consider both school-level and economy-wide impacts. From an analytical perspective, the requirements would be twofold:
 - To understand how e-education affects students' decisions about acquiring ongoing skills in the education system (econometric analysis coupled with case studies, repeated over time);
 - To consider interactions between e-education and the rest of the economy. Quantifying these interactions allows the value of various policy and financing options to be compared.
- When the delivery agreement on *Outcome 5: Build a skilled and capable labour force* is next reviewed, greater emphasis should be given to overseeing the implementation of the e-education policy, noting in particular the sub-output "Enhance research, development and innovation in human capital for a growing knowledge economy". Most of the relevant departments are already signatories to the agreement, and the delivery forum can be expanded to include other relevant role players such as those mentioned in (4) (b) above. Thus, using existing coordination structures, progress on e-education can be reported to Cabinet on a quarterly basis, thereby raising the profile of e-education.

With respect to funding higher education and the post-school system as a whole, the Commission recommends that:

- Government should introduce a differentiated funding framework for a differentiated public university system, by shifting from a unitary system to three funding frameworks – one for each cluster.
 - For Cluster 1: this funding framework would reward further advances in equity, development and improved performance in the input and output indicators;

- The Department of Agriculture, Forestry and Fisheries (DAFF) should expand support services for small-scale farmers to encourage them to adopt climate-resilient farming strategies aimed at adapting and mitigating the projected local effects of climate change through:
 - Advice on diversification, mixed-cropping, drought-resistant crops and efficient irrigation systems;
 - Improved access to financial services and instruments (such as micro-credit and weather-based insurance) that can help lower their risk exposures.

With respect to alternative financing mechanisms for disaster management, it is recommended that:

- The Minister for Cooperative Governance and Traditional Affairs should streamline guidelines and gazette uniform standards governing and guiding the classification, declaration, assessment and response to disaster events in terms of the Disaster Management Act (DMA) and National Disaster Management Framework (NDMF). The absence of a standardised and coordinated approach to damage assessment and relief provision to people affected by disasters results in unnecessary duplication of effort and funding across government and delays in response and rehabilitation efforts.
- The DCoG should, through the DMA, require municipalities, starting with the most vulnerable, to incorporate in their Integrated Development Plans (IDPs) disaster-risk reduction evaluations, strategies and measures, including:
 - The development and enforcement of *land-use planning* and management measures so as to reduce infrastructure being built on seismic fault lines, in coastal regions subject to storm drainage and river shorelines subject to frequent floods;
 - The development and enforcement of *buildings standards* (or retrofitting requirements) to ensure adequate robustness against earthquakes or cyclones.
 - Engineering interventions to mitigate the degradation of environmental assets (such as soil erosion) through the creation of *dams* for flood control, *fire breaks*, and *sea walls* to break storm surges; and
 - Financing strategies for these measures.
- Government should develop a policy framework for municipal disaster risk financing that:
 - Differentiates between municipalities based on their vulnerabilities and fiscal capacities;
 - Leverages private resources to fund long-term disaster risk management by combining private risk financing, intergovernmental grant financing (including the Green Fund) and municipal own revenues;
 - Encourages and incentivises, where appropriate, the use of innovative market-based financing of disaster relief and recovery. Instruments that can be considered include sovereign insurance, risk pooling, reinsurance, index-based insurance, weather derivatives, micro-insurance, and catastrophe bonds.
- The National Treasury should require that environmental management and vulnerability objectives are explicitly incorporated into the design of existing key municipal grant programmes. These objectives should promote disaster risk-reduction methods (*ex ante* approach) and enhance municipal resilience to climate change through mitigation and adaptation methods. They should:
 - Include the Integrated Housing and Human Settlement Development Grant, the Urban Settlements Development Grant, the Municipal Infrastructure Grant, the National Electrification Grant, the Public Transport Infrastructure and Systems Grant and the Regional Bulk Infrastructure Grant;
 - Incorporate a statement of environmental and climate resilience objectives in each grant programme, together with measurable indicators;
 - Prioritise the most vulnerable municipalities when determining the horizontal division of available resources in each programme;

- Government should emphasise the expansion of access to solid waste services to poor communities, while strengthening the policy framework for the provision of refuse removal free basic services (FBS). In particular:
 - The DCoG should review the MIG guidelines to ensure that (i) adequate funding for solid waste assets is available to municipalities with weaker fiscal capacity; and (ii) expenditures on specialised vehicles and equipment required for solid waste management services are eligible for financing;
 - The DEA should prioritise support to municipalities seeking to expand services to poor communities using labour-intensive service delivery, including investigating potential fiscal instruments that might be incorporated with the EPWP or Green Fund;
 - The DEA should commission a review of the refuse removal FBS policy, with a specific focus on its impacts on (i) expanding and sustaining services to poor households; (ii) the affordability and quality of service to poor households; (iii) environmental impacts, such as the extent of reduction in illegal dumping.

With respect to alternative aggregate revenue and expenditure assignments for provinces and municipalities, it is recommended that:

- Key principles of national strategies such as the New Growth Path (NGP) document and National Planning Commission's (NPC) Vision for 2030 need to permeate provincial and local strategies. This can be achieved by translating these principles into complete sub-national strategies with full details on sustained implementation, followed by provincial and local governments' commitment to achieve the goals identified in the strategies.
 - Key components for sub-national government to consider are capital and labour inputs, and multifactor productivity. Provincial and municipal governments should continue to invest in physical and human capital, focusing specifically on issues such as lack of adequate skills and physical infrastructure needs (maintenance, better location, etc.). In addition, effective management and accountability mechanisms should be aimed at increasing multifactor productivity.
- The results reported in this chapter imply that economic development powers are well-placed at the provincial level, while economic growth powers could be better placed at the municipal level.
- Municipalities, and particularly non-metropolitan municipalities, should be encouraged to play a more direct role in economic growth. This can be achieved by:
 - National government assigning greater revenue and tax handles to the municipalities than is presently the case;
 - Reassessing all elements to support the growth-enhancing roles of municipalities, when reviewing the fiscal framework. These elements would include the local equitable share (LES), local own-revenue sources (e.g. local business taxes) and conditional grants.
 - Such re-assessment should also ensure a better balance between equity and growth objectives in the local government fiscal framework.
- Municipalities are not necessarily doing a good job of collecting revenue from the public. Hence, municipalities need to improve their revenue-collection efforts, as these can contribute positively towards economic growth.²
 - It is well known that in South Africa some municipalities (for example, metropolitan municipalities) are raising substantial revenues, while other municipalities are still very dependent on transfers from national government.
 - Issues that need to be addressed include weak capacity within local administrations, small tax bases, delivery of free basic services requiring high municipal expenditures (that can only be financed through national transfers), and a lack of 'payment culture' for services.

² In its 2012/13 Annual Submission, the Commission had made some recommendations aimed at improving revenue performance of municipalities in South Africa which are still relevant. These include (among others) regular updating and maintaining of data and information on indigents, outsourcing of functions, establishing municipal service districts and expanding the powers of municipalities to exercise more punitive recovery measures.

- The grants' conditionality must commit municipalities to specific, independently verifiable capacity and performance improvements.
- Grants should be redesigned to consider the quality of capacity-building interventions, instead of having a narrow quantitative focus.
- An external, objective evaluation dimension should also be included in capacity grant requirements
- Capacity-building interventions should holistically coordinate individual, organisational and institutional-level dimensions of capacity building in a particular municipality over the medium term. Instead of focusing disproportionately on training, support programmes should include technical support for new systems, business process redesign and change management, based on an assessment of the relevant municipality:
 - Individual: officials must have the necessary technical skills, knowledge, experience and competencies to fulfil their particular functions. This means appointing the correct person to the correct post (adherence to recruitment, selection and any minimum competency requirements) and ensuring that officials then receive training (both accredited and non-accredited) relevant to their areas of responsibilities, to ensure continued workplace effectiveness.
 - Organisational: municipalities should be supported in compiling realistic IDPs, implementing functional and effective performance management systems and knowledge management policies, to enhance organisational memory and data management, and to ensure accurate and relevant reporting. Critical vacancies must also be filled and workable staff-retention strategies implemented. Skilled individuals must be appointed to vacant positions for which affirmative action candidates cannot be found, and audits should be conducted of municipal positions that fall outside the approved organisational structures.
 - Institutional: greater differentiation and flexibility is required in the design of the local government fiscal framework. A differentiated approach is needed for the assignment of functions to municipalities, based on their capacity to effectively manage them. Once a municipality has proved its ability to provide a specific basket of services, decisions can be made regarding expanding the range of services provided by such a municipality. Where service delivery failures persist, such services should be removed from municipalities. Furthermore, the establishment of a coordinated capacity-building function across all local government departments is recommended. These actions must be complemented by simplified, streamlined and coordinated reporting requirements for local government and clearly defined roles and responsibilities for national and provincial departments. To assist rural municipalities, the value and practicality of an assistance programme should be explored, aimed at attracting and retaining scarce skills in these areas (similar to the scarce skills payments made to doctors in rural areas).
- To improve municipal capacity, the medium and senior management of municipalities need urgently to be stabilised, through greater insulation from political interference in the retention of skills and in the recruitment process. The link between actual performance of managers and the renewal (or not) of performance contracts should be strengthened. The human-resource function within municipalities needs to be proactive in identifying possible incentives for retaining scarce skills and ensuring that roles and responsibilities are clearly defined within municipal job descriptions. This challenge will also only be solved through increasing the pool of available people to fill vacant positions.
- Minimum competencies as entrenched in the MFMA should be enforced so as to ensure that appropriate technical skills are in place. Based on field work conducted by the Commission, the following functions require particular attention: revenue management, supply chain management, sewerage and water treatment plant operators, road maintenance supervisors, health inspectors and planning and project managers.

Part 1

SUPPORTING INCLUSIVE GROWTH: JOBS, KNOWLEDGE AND REGIONAL DEVELOPMENT

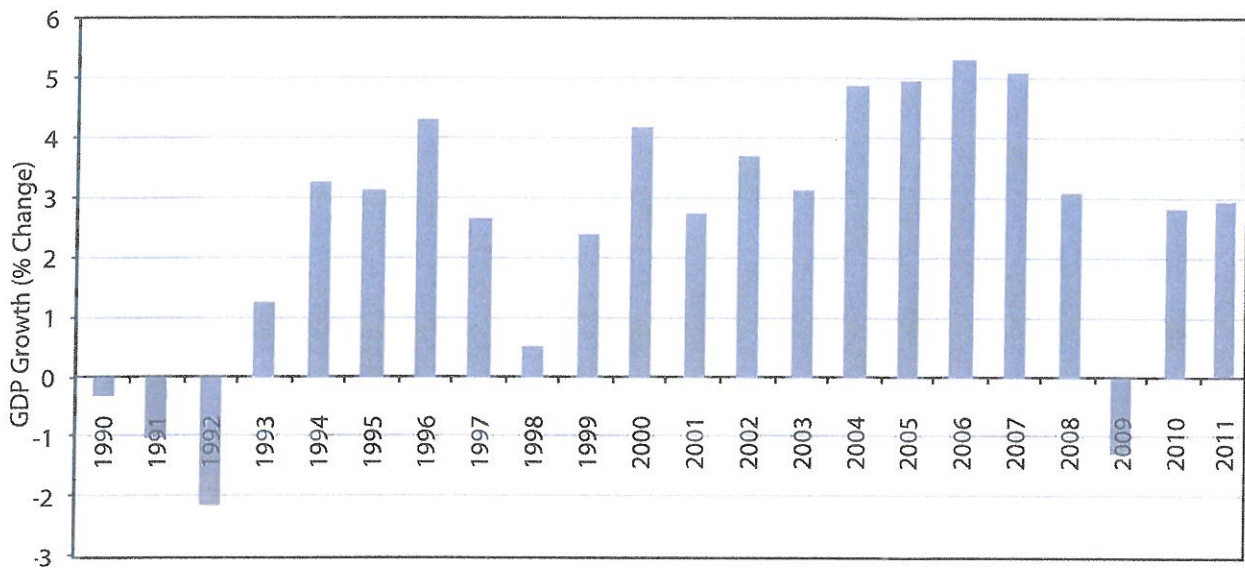
Technological change and transportation improvements have led to the organic formation of large, urban-centred regions. Yet, political discourse and media reports typically ignore this fundamental transformation of how economic activity is organised, continuing to evoke a rural–urban divide that is often based on landscapes rather than what people are actually doing. Fiscal consolidation, Millennium Development Goals (MDGs), infrastructure, densification, education, housing, healthcare, jobs, transportation and the environment are issues that affect both rural and urban areas. This lack of awareness means that institutional and governance changes rarely reflect the rise of mega-regions across South Africa. Instead of working together, local or rural communities compete with their neighbours for economic development and provision of public services. Very little systematic thinking has been done around how the Intergovernmental Fiscal Relations (IGFR) system should respond to these functional economic regions that transcend administrative jurisdictions (i.e. municipal or provincial boundaries).

Regions can be defined in many ways to reflect particular perspectives. The Commission's view of regions is 'people-centric', which is more appropriate when addressing public service delivery, infrastructure development, planning and economic development. There is a need to understand exactly how regions and regional economies have evolved and the new opportunities and challenges that have emerged. Two aspects of regional evolution are central to the knowledge and productivity necessary for competitiveness. First, as more 'rural' space becomes functionally tied to main urban centres, regional boundaries are in the process of expanding. Second, the effects of the information, communication and technology revolution (ICT) and globalisation have resulted in regions becoming more open, with goods and services being exchanged across more porous borders.

Local production must be globally competitive, and producers and consumers can also create effective worldwide input–output linkages. Consumers have instant access to information about goods, services and prices anywhere in the world. The labour force has ready access to information about global employment opportunities. The result is a regional impact 'multiplier'³: as an increasing proportion of regional income is spent outside the region (and often in other countries), the local multiplier will decrease. Policy-makers need to be aware of the possible complementarities or trade-offs when pursuing growth and redistribution strategies simultaneously (see Chapter 1). The Commission argues that education policies matter here. Policies that increase graduation rates from upper secondary and tertiary education and that promote equal access to e-education help to increase competitiveness and eventually reduce inequality (see Chapter 2 and Chapter 3).

3 Multiplier effects on the economy refer to changes in prices, incomes and employment other than the direct effect of the change in the policy.

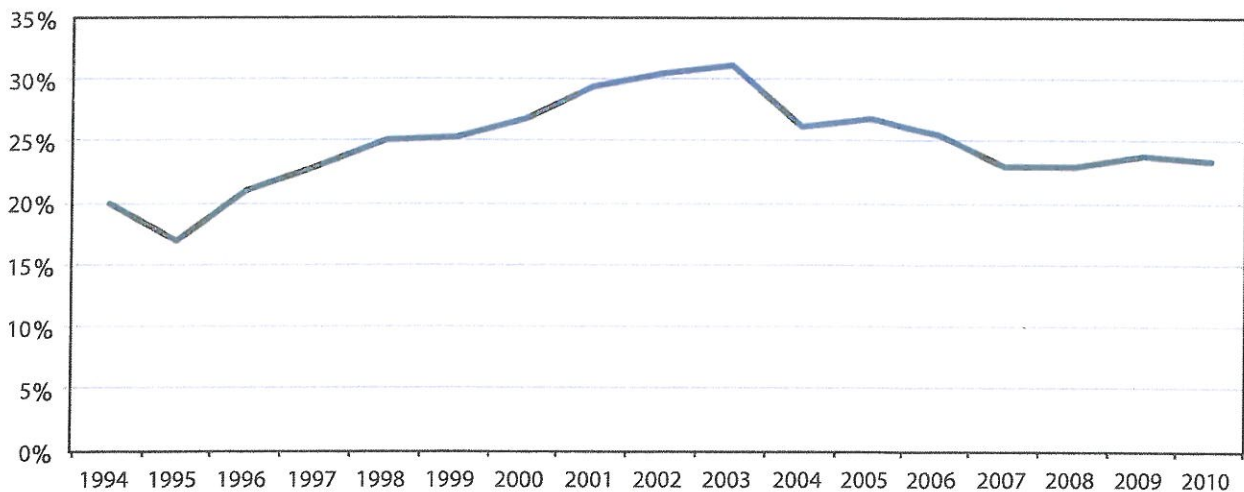
Figure 1.1. South Africa's annual GDP growth: 1990–2011



Source: NYU, 2009; SARB, 2012

As Figure 1.2 shows, unemployment increased from 1994, and from 1996 rates remained stubbornly above the 20% threshold. Although international comparisons of unemployment are fraught with problems, the evidence suggests that South Africa has exceptionally high rates of unemployment.

Figure 1.2. South Africa's unemployment rate: 1994–2010



Source: World Bank, 2012; CIA World Fact Book, 2012

Figure 1.3 illustrates that South Africa's unemployment looks abnormally high when compared with other middle-income countries (as classified by the World Bank).

Table 1.1. The skills composition of employment (1995–2008)

Year	Percentages		
	Unskilled	Semi-skilled	Skilled
1995	25.1	53.1	21.8
2004	23.4	52.7	23.9
2008	22.8	51.0	26.1
Job growth (1995–2008)	17.7	46.4	35.9

Source: National Treasury, 2010, p 41

The relationship between labour-market institutions and outcomes is a controversial aspect of the unemployment debate in South Africa. Since 1995, government has promulgated a series of laws that have substantially changed the labour-market institutions.⁶ Some economists (e.g. Arora and Ricci, 2005, pp 25–30) have argued that this institutional framework – including the laws governing collective bargaining processes and working conditions – has in part contributed to high unemployment in South Africa by making the labour market inflexible. However, having invested much political capital in establishing this framework, the South African Government has long resisted calls for reform.

Analysis of the South African labour market has highlighted two additional constraints to overcoming the unemployment problem. First, the legacy of apartheid-era spatial planning (which separated black job seekers from job opportunities) and residual vestiges of racial discrimination may undermine the effectiveness of employment searches in the labour market (Banerjee *et al.*, 2009, p 734). Second, young people seem to experience exceptional difficulty finding their first jobs and are affected particularly harshly by the scarcity of jobs.⁷ When making hiring decisions, firms apparently put a high premium on work experience, possibly as a screening mechanism in an environment where virtually all younger workers now have at least ten years of formal education (Banerjee *et al.*, 2009, pp 736–737).

Another notable feature of the South African labour market is the small size of the informal sector (Kingdon and Knight, 2004, pp 391–392). In contrast to most developing countries, the informal sector appears not to have expanded rapidly to compensate for the scarcity of formal-sector jobs.⁸ For example, in the fourth quarter of 2009, about 2.1 million workers were active in the non-agricultural informal sector, whereas 5.8 million were either openly unemployed or classified as discouraged work-seekers (StatsSA, 2009, vi).

1.3 Models and Data for Analysing Job Creation Policy

The facts and analysis presented above are about the past and to some extent the present. What about the future? In preparing recommendations for an employment strategy, future trends in the economy and the labour force need to be taken into account. Therefore, the analysis looked at

- (a) the role of current policy on future employment,
- (b) the role of new technology, and
- (c) changing demographic conditions.

The Commission developed a methodology to estimate the potential effects of policy changes on employment. The modelling framework, which is described in greater detail in the accompanying Technical Report, is summarised in Figure 1.4.

6 The most important pieces of legislation were the Labour Relations Act (1995), the Basic Conditions of Employment Act (1997), the Employment Equity Act (1998) and the Skills Development Act (1998).

7 According to the National Treasury (2010, pp 51, 42), more than 3 million young people do not work, and 73% of the unemployed are aged 15–35 years.

8 According to Heintz and Posel (2003), a comparison of Statistics South Africa and International Labour Organisation data for 2006 confirms that the ratios between non-agricultural employment in the informal sector and total employment were markedly higher in Latin and Northern American middle-income countries such as Argentina (36.1%), Brazil (40.6%), Mexico (38.0%) and Paraguay (50.1%) than in South Africa (18.5%). Data on the size of informal sectors in sub-Saharan African and Asian developing countries also suggest that the informal sector in South Africa is unusually small (cf. Kingdon and Knight, 2004, pp 391–392).

For the purpose of this chapter, the labour force is disaggregated into occupations. Integrated economic accounts from Statistics South Africa, which splits the labour force according to occupation and population groups, are used after ensuring concordance with the Social Accounting Matrix (SAM) economic activities codes. Then, the different occupations are identified as skilled, semi-skilled and unskilled, as shown in Table 1.2.

Table 1.2. Correspondence between occupations and skills level

Legislators	Skilled
Professionals	
Technicians	
Clerks	Semi-Skilled
Service workers	
Skilled agricultural workers	
Craft workers	
Plant and machine operators	
Elementary occupations	Unskilled
Domestic workers	
Occupation unspecified	

To evaluate the long-term impacts of government policies, the dynamic Poverty and Economic Policy (PEP 1-t) standard model by Decaluwé *et al.* (2010) is used¹⁰. However, several assumptions of this standard model are changed in order to take into account the South African economy. The model has two production factors: capital and labour. Labour is disaggregated into three broad types: unskilled, semi-skilled and skilled workers. Each type is then disaggregated into occupations. Each activity uses both production factors.

Figure 1.5 gives the detailed value-added structure used for analysing employment impacts. As shown, a Constant Elasticity of Substitution (CES) function is used to represent the substitution between composite labour and capital¹¹. Composite labour demand is also a CES function between skilled, semi-skilled and unskilled labour:

- The skilled demand is a CES with a low elasticity between legislators, professionals and technicians, to capture the fact that firms would have difficulty substituting, for instance, a lawyer for a doctor.
- The semi-skilled demand is a CES with an intermediate value of elasticity between its five components.
- The unskilled demand is a CES with a high substitution value, assuming that the producer will find it relatively easy to substitute low skilled workers.

10 The main form of analysis based on CGE models is that of comparative statics. In *comparative statics*, the start is a base solution or scenario (also known as a counterfactual); then one of the exogenous variables or parameters is altered, and the model calculates the new values for the endogenous variables. Comparison of the two sets of values of the endogenous variables suggests the estimated economic impact of the change in policy (intervention). The path taken by variables of interest to move from one equilibrium point to another is not of importance here, only the comparison of the two equilibria. *Dynamic analysis*, on the other hand, is concerned with looking at the path from one equilibrium to another.

11 Elasticity of substitution is simply a measure of the responsiveness of the ratio of two inputs to a production function with respect to the ratio of their marginal products. Invented by Sir John Hicks, it is used to measure the substitutability between inputs, i.e. how easy it is to substitute one input for the other.

Kirsten and Davies (2008, p 4) point out that, even if increased spending increases the rate of growth, the impact of increased infrastructure spending on poverty and employment is not clear. Such micro impacts can only be uncovered by more in-depth, sectoral analysis of the expenditure patterns, which is one of the purposes of this chapter.

A study of the impact of transport infrastructure in South Africa, using a SAM model, found that middle-income households benefited the most from an increase in transport infrastructure (Mabugu and Chitiga, 2009). A possible problem is that public infrastructure investment could potentially crowd out other investment (Mabugu and Chitiga, 2009, p 36). However, an increase in infrastructure has positive effects on the economy, increasing consumption and investment and thereby creating spill-over effects (Mabugu, Rakabe and Chitiga, 2009). As this study used a static CGE model, it opens the way for a dynamic CGE study, as typically the effects of infrastructure are dynamic.

Another key South African characteristic that was modelled is the problem of high unemployment, notably for semi-skilled and unskilled labour. In South Africa, unions are very strong. The trade union movement is the most disciplined and the largest in Africa – and influential in labour-market and other related industrial policies. Unions negotiate salaries and wages, conditions of service, workforce restructuring and retrenchments on behalf of their members. As a result, wages and salaries are rigid, which the model takes into account by assuming a binding minimum wage. Thus, if production decreases, producers will not be able to decrease their employees' salary below the minimum wage. This rigidity will also have an impact on unemployment: if producers cannot decrease the wage bill, they will have to retrench some workers.

Finally, the model also accounted for the skills gap. While technology continues to evolve, the labour force is ageing through labour supply accumulation (in the midst of rising youth unemployment) and technical factor productivity in the respective sectoral production functions. In the real world, bridging this skills gap will be a huge challenge for basic education, industry and society as well as for the universities (see Chapter 2 and Chapter 3).

1.4 Policy Simulations, Results and Analysis

Using this carefully designed tool, several forward-looking policy simulations were run to examine (*ex ante*) several job creation policy interventions. The simulations are summarised below:

Three sets of scenarios were run using the models, each one implying four financing scenarios. Thus, there are 12 scenarios in total.

1. Government's spending increases by 3% per year during 2013–2016 and then increases at the population rate thereafter.

Four different ways of financing this policy are proposed. First, government totally finances the increase (i.e. government's savings are endogenous and, given the policy set up, might decrease). Then, in the next three scenarios, government's deficit is kept constant, and the increased spending is financed through increasing direct taxes on households (scenario A), increasing firms' direct taxes (scenario B), and increasing indirect taxes (scenario C).

2. Government's investment programme increases. This investment programme is split into three components:

- Investment in government sectors (e.g. education, justice). These investments will increase the stock of capital of public sectors.
- Investment in infrastructure (e.g. roads, harbours, airports). These investments do not increase the stock of capital of any sectors. Indeed, a new road belongs to all the sectors and agents and can be considered a public good.
- Investment in productive sectors (e.g. investment in the energy sector) that increases the capital stock of a given sector. For instance, when government invests in a nuclear plant, the capital stock of the electricity/energy sector increases.

For this second scenario, an increase in public investment is stimulated for the three components, following the investment plan for the period up to 2016, and thereafter at the population rate. The same four different ways of financing government's deficit as in scenario 1 are applied.

The analysis shows clearly that fiscal policy (infrastructure and current expenditures) alone is not going to solve job-creation problems unless complemented by other interventions. New investments are required that allow shifts towards jobs and knowledge-intensive production and provision of government services. In all cases, fiscal policy needs to be consistent with long-term fiscal objectives and take into account the limits of direct public sector employment. A 'prisoner's dilemma' scenario¹², which is currently preventing a coordinated social compact among the role players who can influence employment, requires urgent redress.

1.6 Recommendations

With respect to unemployment and the intergovernmental transfer system, the Commission recommends that government should:

- Re-direct government spending towards those activities that directly or indirectly create jobs through enhancing productivity performance. Activities such as healthcare, durable goods manufacturing, agriculture, community services, and hospitality and food service should complement government's expanded infrastructure expenditure plan which traditionally has focused chiefly on construction activities (e.g. building highways, power plants, bridges, dams and flood control structures).
- Promote lower-paying positions, which have the highest potential for the most job gains, including those found in the informal service sector (which can help undo the losses felt by groups hardest hit by the recession of 2008–2009).
- Reduce unemployment by addressing factors other than the weak demand for goods and services. This should be done by:
 - Re-designing the state procurement framework to incorporate and grow the informal economy and formal micro-enterprises, e.g. requiring recipients of large government contracts to include an informal sector partner in their tender submissions. In addition, the Department of Performance Monitoring and Evaluation should stringently monitor the outcomes of these contracts.
 - Earmarking government procurement contracts for low-technology or service-oriented contracts (e.g. catering) for informal sector companies or micro-enterprises.
 - Better targeting of supply-side interventions for re-skilling, mobility. These policies could be implemented using mechanisms such as block grants (e.g. transport subsidy for unemployed vulnerable groups (women, youth and the disabled) so that they are better connected to employment opportunities and improving labour market information availability).
- Encourage, particularly through the relevant Departments of Labour and Performance Monitoring and Evaluation, those companies that are yielding the highest employment levels both directly and indirectly. This would entail:
 - setting up an employment performance-reward scheme for enterprises that excel in job creation
 - publicising the scheme widely and giving it a high profile.

12 'Prisoner's dilemma' refers casually to situations where role players (unions, government and business) could gain important benefits from cooperating but suffer from the failure to do so, finding it merely difficult or expensive, (but not necessarily impossible) to coordinate their activities to achieve cooperation.

Chapter 2

FINANCING E-EDUCATION AND ACHIEVING POLICY GOALS IN PUBLIC ORDINARY SCHOOLS IN SOUTH AFRICA

2.1 Introduction

This chapter is intended to highlight key issues for consideration with respect to the financing of e-education in South Africa, in light of the forthcoming ten-year anniversary of the White Paper on e-Education: Transforming Learning and Teaching through Information and Communication Technologies (South Africa, 2004). The chapter presents an overview of key issues in financing e-education and lays the foundation for further research to be conducted for the next Annual Submission (2014–2015).

The world is shifting to a knowledge-based economy. South Africa's ability to promote inclusive growth depends on producing successive generations of well-educated young people contributing to socio-economic development. A South African society with a large, well-educated population will overcome more easily the many obstacles to social and economic equality experienced by the majority of households. One of many approaches to building the necessary long-term capacity is e-education, which uses Information and Communications Technologies (ICTs) to enhance the quality of the learning and teaching experience. The result is potentially greater completion rates and better educational outcomes, as learners can have access to a more complex knowledge base and engage in more self-learning, with the guidance of teachers.

This chapter reviews only the financing of e-education in public ordinary schools, which fall under the Department of Basic Education (DoBE). Financing of e-education has occurred mainly through the national budget and through two provincial budgets, Gauteng and Western Cape. Furthermore, a number of e-school initiatives and projects (Isaacs, 2007) are being run, including those promoted by the DoBE, the Department of Communications (DoC) and the Department of Science and Technology (DST). While cross-governmental collaboration on e-education is necessary and to be encouraged, the main focus of this chapter is financing of e-education from the DoBE budget.

2.2 View of the Problem: Schooling, e-Education and Financing

During their schooling years, the majority of the 12.1 million learners in 24 681 public schools in the nine provinces (DoBE, 2011) acquire only limited knowledge, and a very large proportion fail to complete 12 years of schooling (FFC, 2011):

In South African schools, gross enrolment rates are quite high at primary levels of education, which shows that the country has expanded access (not necessarily quality) to basic education and is on track to meet the MDG2 of achieving universal primary education (Jansen, 2008). The challenge facing basic education in South Africa is that completion rates are low at secondary level, where fewer than 20% of youths drop out before Grade 9 (Gustaffson and Morduchowicz, 2008). Analysts support this point, noting that over 1.3 million learners began Grade 1 in 1999, but less than half of them reached Grade 12 and became the "2010 matriculants" (Bowie, 2011). This is due to various reasons including but not limited to high drop-out rates and high grade repetition levels. There is thus a critical and urgent need for attention by the developmental state.

This low level of education negatively affects South Africa's capacity to develop. It limits the ability to create economic value and to ensure that an increasing proportion of the population participates in economic production at reasonable rates of reward, often referred to by government as 'decent jobs'. Many interventions are needed in the basic education

2.4 Some Perspectives on Financing e-Education

The value of e-education is not contested, as shown by the adoption of the White Paper on e-Education with its focus on e-school development. This chapter looks at the financing of the e-learning component of e-education (the other component being e-administration). Financing of e-learning has been left to the discretion of provinces, which are in charge of the education function. Government has not yet introduced a specific inter-governmental financing mechanism for funding e-learning content and e-education infrastructure (DoBE, 2012). Schools differ widely across provinces, from those that have relatively good infrastructure to those that use mud huts as classrooms. Given the great diversity of learning environments, an inter-governmental financing mechanism must address specific components of e-learning across all provinces. A gradual, progressive approach would encourage the evolution and equitable development of e-learning across provinces.

The e-learning components that require funding need to be clearly defined, so that funding allocations can be prioritised to ensure well-resourced e-learning. Virtual learning centres, such as computer laboratories, have advantages and disadvantages (Morse, 2010). Ideally e-learning should take place in the classroom, so that every subject benefits from access to knowledge through online materials or electronic media. Some forms of e-learning require minimal expenditure of public funds, for example sending key learning points via sms or podcasts to mobile phones. E-learning can be introduced within the constraints of a particular budget allocation, emphasising low-cost initiatives where appropriate and more costly and beneficial approaches in the medium to long term. For the more advanced forms of e-learning, the design of future funding models will need to take into account: (a) the requirement for broadband access to download or upload large documents, video or music files; and (b) the need for local content production and dissemination, to promote greater availability of, and access to, South African languages, culture and knowledge alongside global culture and knowledge.

As the majority of Internet connections are too slow for downloading useful content, the private sector's historical investment in providing Internet access to public schools may soon become obsolete. Traditionally investment has been through universal access and service obligations that the telecoms sector regulator, the Independent Communications Authority of South Africa (ICASA), set for approximately 17 500 schools. The 'last mile' is the need for broadband connectivity to the classroom, to facilitate access to web-based learner materials, e-books, e-education applications and/or IPTV (Internet Protocol TV).

Therefore, national, provincial and local governments will need to facilitate broadband connectivity across the country, through a combination of public and private initiatives, including funding. Linking schools to the government's virtual private network (VPN) is one approach being considered in the DoBE feasibility study (DoBE, no date). Another approach is to make use of the broadband networks built by the metropolitan municipalities of Cape Town, Ekurhuleni, Johannesburg and Pretoria, and the provincial government of Gauteng. The billions of rands invested in these broadband initiatives have been justified by referring specifically to schools as important users of the network infrastructures. These investments need to be made to work for South African schools. A third, possibly parallel, approach would be to make available, and give access to, mobile broadband networks (small WiFi or WiMax networks), especially in rural areas.

The funding of e-education must also target certain aspects that hinder delivery of e-education to schools and the integration of technology into everyday learning. Research conducted by Wilson-Strydom and Thomson (2005) reveals the reasons for poor adoption of e-learning in the early years following the publication of the White Paper:

Pricing and costing is a challenge because most institutions have not clearly defined what e-learning entails and what aspects of e-learning will need to be funded. The DoBE's feasibility study to better understand the costing and funding of e-learning found (DoBE, no date):

1. Insufficient experience of e-learning to make a judgment on relative cost.
2. Considerable experience, but no firm evidence on relative cost.
3. Experience to date suggests e-learning is fundamentally more expensive than face-to-face delivery, but this is offset by other benefits.
4. Experience to date suggests that initial development and delivery costs were often more expensive than in the case of face-to-face delivery, but other factors have shown or suggest that e-learning will prove less expensive across the product cycle.

Funding e-learning sustainably is a challenge in many countries. To reap the benefits of e-learning, South Africa needs to find long-term, sustainable ways of financing e-learning in public ordinary schools. One way is to look at how each sphere of government can contribute to financing the required infrastructure (including broadband connectivity) and electronic content production to supplement the already available learner materials. For the purpose of this report, only the DoBE programme-level budgets have been examined, as data on provincial budget allocations for e-education and e-learning is limited and still needs to be compiled into a comprehensive report to facilitate analysis.

Various methods can be considered for the financing of e-learning (Intel Corporation, 2007), but these are merely supporting measures to government financing:

- Combining education funding sources: Funding educators' electronic equipment via the use of both salary budgets and treasury funds. This helps in offsetting technology costs, with teachers sacrificing a small portion of their salary. While this may contribute to the cost of electronic curriculum and learning content for teachers, it does not address the main budget item, which is learners' access to e-education.
- Public-private partnerships (PPPs): Incorporating private financing and risk management into the e-learning funding mix. However, this is mainly applicable to the infrastructure components and is not a traditional PPP where the private sector gets a financial return. Hence, PPPs for e-education can bring in only limited financing.
- Forming consortia: This approach considers the advantages of schools pooling their purchasing power so as to get favourable prices from the suppliers and is a government-led initiative.
- Philanthropy and grants from development agencies: This approach deals with the contribution of grants to funding e-learning, but these are generally a very small proportion of the total funding requirement.

In South Africa, government historically chose to fund the introduction of e-learning via a combination of public funds and other income sources. However, the funding mix has not achieved the desired results of wide-scale access to online learner materials and knowledge resources. Contributions to infrastructure financing and availability from the private sector, based on regulated universal access and service obligations placed on the fixed and mobile telecoms operators, has led to limited Internet connectivity (BMI-Techknowledge, 2010), and has seen little or no positive impact on ICT usage in e-education in South African schools.

The national budget is directed towards policy design and review, and schooling is a provincial function, hence the main budgets that would be used to build e-education lie in the provinces. Ideally, since e-education is a major long-term policy initiative, e-education should be a specific programme, and therefore a specific item, in the national and provincial budget allocations.

Table 2.2. Computer services expenditure

Programme	Audited outcome			Adjusted	Medium-term expenditure estimate		
				appropriation			
ZAR thousand	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Administration	7,852	7,593	13,859	16,274	15,537	16,461	17,337
Curriculum Policy, Support and Monitoring	2,803	2,686	1,341	2,024	1,798	1,863	1,954
Teachers, Education Human Resources and Institutional Development	1	430	3,486	17	9	11	12
Planning, Information and Assessment	13,162	15,616	20,512	40,732	35,463	36,458	38,550
Educational Enrichment Services	5	5	2	–	4	4	4
TOTAL	23,823	26,330	39,200	59,047	52,811	54,797	57,857

Source: National Treasury, 2011

The expenditure on computer services is significantly greater in the planning programme than in any other programme. Expenditure on computer services in the curriculum policy, support and monitoring programme shows a decline from 2007/08 to 2011/12. The education human resources and institutional development programmes show very small budgets. If e-learning was a funding priority, a greater proportion of the computer services budget would be expected to be allocated to these programmes.

Table 2.3. Communications expenditure

Programme	Audited outcome			Adjusted	Medium-term expenditure estimate		
				appropriation			
ZAR thousand	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Administration	1,607	1,738	2,199	1,680	2,289	2,437	2,582
Curriculum Policy, Support and Monitoring	510	775	749	539	687	723	796
Teachers, Education Human Resources and Institutional Development	382	354	424	415	482	512	543
Planning, Information and Assessment	611	616	663	839	846	875	924
Educational Enrichment Services	258	215	267	304	311	311	326
TOTAL	3,368	3,698	4,302	3,777	4,615	4,858	5,171

Source: National Treasury, 2011

2.7 Recommendations

With respect to financing e-education and achieving policy goals in public ordinary schools in South Africa, the Commission recommends that:

- The e-education policy should be funded as a part of government's operating budget for the programme, just like teacher salaries, school buildings and other teaching aids.
- A well-structured, inter-governmental financing mechanism should be established with explicit guidelines to provincial departments of education regarding the budget line items that must be prioritised in their annual budget allocations, as well as those budget line items that will be contained in the national budget allocation. Decisions on the particular line items can be informed by a review of policy documents and various studies conducted on e-education over several years (Abrahams, Akinsanmi & Zimri, 2012; DoBE, no date; DoC, 2006; Isaacs, 2007; OECD, 2005; South Africa, 2004; Wilson-Strydom and Thomson, 2005), and by a broader review of the available knowledge of e-education financing across the globe. An initial set of line items can be extracted from Table 2.5.

Table 2.5. Guidelines for inter-governmental financing

Financial data (expenditure) on e-education spending by province	Value obtained
<ul style="list-style-type: none"> • School Internet connectivity (dial-up) by province • School broadband connectivity by province • School mobile broadband connectivity by province (eg WiFi) • Learning devices (not necessarily desktops or laptops) • E-learning materials developed nationally and by province, including hosting online content • Accessing online content – nationally and by province • Development of teachers' e-skills • Adaptation of classrooms to incorporate electronic media • Introduction of lower-cost devices to the classroom/learner • Establishment of computer labs/computer libraries (should be very limited) • Research, monitoring and evaluation of policy goals of the 2004 White Paper on e-Education 	Progress in expenditure on e-learning and e-education in terms of the goals of the White Paper on e-Education

- The national and provincial education sector requires firm and expert guidance on designing e-education, and such expertise should relate to e-education, not merely to information technology. In order to promote advances in e-education, it may be necessary to consider the establishment of an e-Education Commission, constituted of government officials and e-education specialists to act as an advisory body.
- Limited data is available on e-education expenditure and specifically on e-learning expenditure, despite clear policy goals adopted in 2004 and targets established for 2013. This should be remedied through reporting on e-learning budget allocations and expenditure and, more broadly, on e-education in the annual reporting process. Such data can inform national and provincial planning, curriculum design and the development of education human resources. It can also inform the work of an e-Education Commission, enabling such a structure to advise government effectively. Furthermore, explicit reporting on financial data will enable a better analysis of the strengths and weaknesses relevant to achieving the policy goals of the White Paper on e-Education. As a baseline, the data set out in Table 2.6 would be required.

Chapter 3

BUDGET REVIEW OF PUBLIC UNIVERSITIES IN SOUTH AFRICA

3.1 Introduction

The funding of the post-school and higher education systems is an important matter, *inter alia*, because of the South African economy's structural weaknesses. Over the past several decades, the agriculture and resources sectors have shrunk significantly and contribute only a small percentage to gross domestic product (GDP), while the manufacturing sector appears to be in slow, long-term decline and has shed jobs. The services sector is a large and powerful contributor to GDP and employment but is largely a low value-added sector. Given these constraints, the South African economy will struggle to reach and sustain growth levels above 4% per annum, which will make increasing revenue and expanding employment difficult.

To break out of this constraint-driven trajectory and increase value-addition in all sectors, a few key levers are needed for production and trade and to enhance the quality of services in the private and public sectors. One lever is to create a well-established, good quality, post-school education system, so that both the further and higher education sectors improve significantly in the next two decades. Quality improvements in academic throughput, and research and innovation output, can not only introduce greater added value and higher employment into all sectors of the economy, but also potentially contribute to long-term poverty reduction and development. South Africa must transition from a low added-value economy to a more knowledge-intensive economy that combines low-, medium- and high-knowledge intensive productive activity in order to increase the proportion of medium to high income jobs. Such a transition requires a strong, adequately funded, post-school education system comprising colleges, vocational institutions and universities.

3.1.1 Objective of review

This chapter focuses on the generic budget and funding framework for higher education. Regrettably, very limited data is available on the financing of the further education and training (FET) sector, which makes analysis of FET funding relatively challenging; a full analysis of post-school funding is a task for future research work by the Commission. Furthermore, this review analyses broad funding allocations and does not delve into specific allocations, such as funding for research, innovation and scholarly publishing, which will be the subject of a future review.

The South African post-school education system has three subsystems, as summarised in Table 3.1.

Table 3.1. Estimates of enrolments in South Africa's further and higher education system

Further and higher education subsystems	Student enrolments (to nearest thousand)		Source
Public universities	893 000	(final 2010)	Higher Education & Training (1)
Public further education at post-secondary level			
Further education and training colleges	164 000	(estimate 2009)	Sheppard & Sheppard
Police colleges	8 000	(provisional 2010)	Badsha & Cloete
Nursing colleges	33 000	(provisional 2010)	Badsha & Cloete
Agricultural colleges	1 000	(provisional 2010)	Badsha & Cloete
Private post-secondary colleges	82 000	(provisional 2010)	Badsha & Cloete
TOTAL	1 181 000		

Source: DoHET, 2010; CHET, 2011b; Badsha & Cloete, 2011

Section 3.4 reviews the total income of universities from government and other sources. The total incomes of universities are linked to their places in a performance-differentiated system and shows that some of the principles adopted in the 2003 government funding framework have become strained.

Section 3.5 discusses the issues of (a) determining appropriate levels of government funding for public universities, (b) resolving funding inequalities between universities, and (c) funding and institutional differences. Section 3.6 recommends a review of the 2003 funding framework and raises the important issue of reviewing higher education research funding as a foundation to move the system to a higher plane.

3.2 South African University Funding Models

3.2.1 Two funding frameworks

Over the past 30 years, two sharply contrasting government funding frameworks (of 1983 and 2003) have been used in the South African public university system. A ministerial committee is at present reviewing the 2003 framework and will submit its report to the minister of Higher Education and Training on 31 August 2012. None of its findings or recommendations have been released yet.

1983 Funding Framework

This framework has three key features:

- i. Students are considered to be agents who are able to respond rationally to the demands of the labour market in their choice of institutions, qualifications and major fields of study. Under this approach, the public university system becomes no more than a set of choices made by individual students. As a consequence, the role of government in the national system is to fund student demand and to correct any market failures that may occur.
- ii. Government higher education funding is assumed to be based on (a) determinations of the actual costs of reasonably efficient institutions, and (b) decisions about which costs should be covered by government subsidies.
- iii. Government and students and their families must share the costs of higher education, as it generates public and private benefits.

The 1983 framework divided academic programmes into two broad categories: (a) natural sciences (including the health sciences, engineering, the life and physical sciences, agriculture, mathematical and computer sciences), and (b) the humanities (a catch-all category for all other disciplines). In each of these categories a 'subsidy student' was taken to be a combination of 50% enrolled and 50% successful students, where success was defined as passing individual courses rather than full degrees or diplomas.

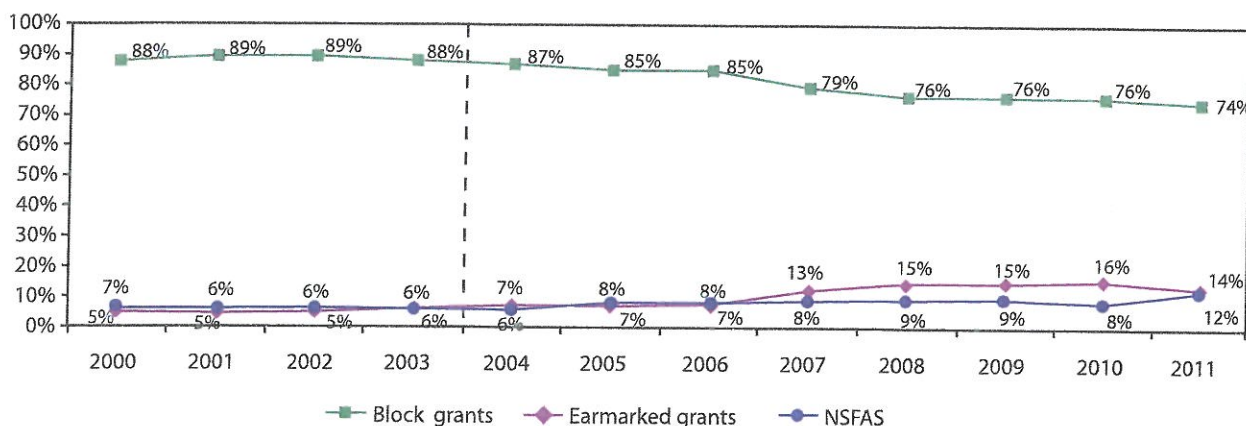
Then, based on actual institutional costs and assumptions about cost efficiencies, various cost units per humanities subsidy student and per natural sciences subsidy student were calculated. These cost units covered staffing costs, operations, equipment, libraries, and building and equipment renewals. Each year, the rand values assigned to the various cost units changed, to take into account inflation and changing cost patterns. Once the rand values of the cost units had been determined for a given year, the units were applied to the subsidy student data, generating a rand figure of an institution's 'ideal' government subsidy income. In effect, as similar calculations were made for each university, the 1983 framework operated from the bottom up to determine what government's funding commitment would be in any given year.

Soon after the 1983 framework was introduced, the previous government found it could not meet the 'ideal' generated by the framework. Therefore, limits to the ideal government share totals were introduced early on, by applying 'a-factors'. These a-factors were in effect the reductions needed to bring the total 'ideal income' in line with the government's actual budgetary provision for public universities. The final amounts paid by government to institutions became the government share multiplied by the a-factor.

- **Funds that are not transferred directly to individual universities.** Most of these funds are transferred to the statutory body that controls the national student financial aid scheme (NSFAS). For convenience, in the table these funds are labelled 'NSFAS', although by 2008 small amounts had been allocated directly to other bodies, such as the African Institute for Mathematical Studies and the national institutes in the Northern Cape and Mpumalanga.

In 2003, the initial split among the different funding categories was assumed to be: block grants 89%, direct earmarked transfers 5% and NSFAS 6%. Figure 3.1 shows how the actual shares changed during the three funding phases.

Figure 3.1. Shares by broad categories of government funding allocations to public universities



Source: DoHET, 2011b

While the 1983 funding framework was in operation, the shares of the three categories were close to the assumptions made during the design period of the framework. In particular, in 2000–2003, block (or university council discretionary) grants remained above 88% but dropped to 85% by the end of the migration period in 2006. During the full implementation of the 2003 funding framework, a significant feature is the steady decline in the share of block grants: 74% in 2011 compared to 87% at the start of the migration period.

The changes in the proportions reflected in Figure 3.1 are the result of different average annual increases in the allocations made to each category. During each of the three phases, total block grants grew at slower rates than earmarked funds.

Public universities have expressed disquiet at the fall in block grant funding because they believe that their best interests are served by having large proportions of discretionary funds. However, universities also need to improve the governance of discretionary and earmarked funding, the latter being valuable for achieving particular focused objectives, such as infrastructure renewal, rather than addressing systemic weaknesses.

3.3 Review of the Performance of Public Universities

3.3.1 Performance goals and targets

The 1997 Education White Paper 3 and the 2001 National Plan for Higher Education laid out a series of goals against which the performance of the higher education system was to be measured. Funding was to be the primary lever for ensuring that these higher education goals were met.

The Centre for Higher Education Transformation (CHET) has published a number of reports on higher education performance indicators for the South African public university system. A 2004 report, *Developing Performance Indicators for Higher Education: A South African Case Study* (CHET, 2004), included a number of tables listing performance goals that had been included in either the 1997 White Paper or the 2001 National Plan. These goals were linked to quantitative indicators and to targets that could be extracted from the National Plan and other government documents published between 2001 and 2004.

Here is an example of the calculation of a gross participation rate for South Africa:

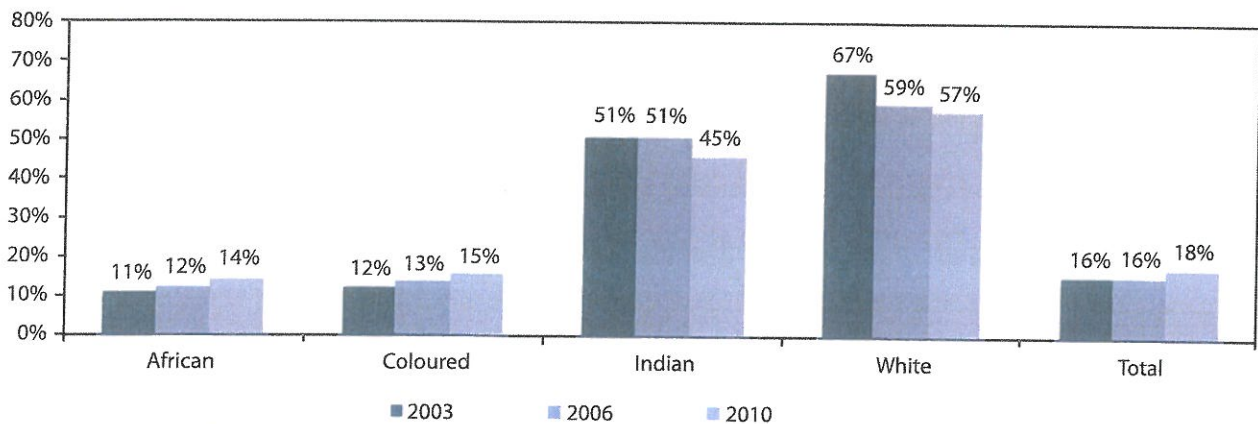
$$\text{Gross participation rate in 2010} = \frac{893\,000}{5\,019\,000} = 17.8\%$$

The Statistics South Africa mid-2010 estimate of the population in the age group 20–24 years was 5 190 000, and the total head count enrolment in the public university system was 893 000.

As Table 3.2 shows, Goal 1 set a gross participation rate target of 20% for the public university system by 2010. Calculations show that the total gross participation rates increased from 14% in 2000, to 16% in 2005 and to 18% in 2010. If the higher education student enrolments in FET colleges are added to the total enrolments in the public university system, in 2009 the public higher education system achieved a 20% gross participation rate.

Despite the improvement in the overall participation rate, Table 3.2 shows that Goal 2 (of equalised participation rates) has not been met.

Figure 3.2. Gross participation rates by race group in the public university system



Source: calculations based on Statistics South Africa mid-year population estimates for 2003, 2006 and 2010, and student enrolment data for the same years from the national Higher Education and Management Information System (HEMIS)

With regard to Goal 3, gross participation rates achieved gender equity. The participation rate of female students increased from 16% in 2002 to 21% in 2010. The male participation rate was 16% in 2003 and 15% in 2010.

3.3.4 Goals 4 and 5: student enrolments in the public university system

Goal 4 is concerned with student enrolments in what are considered to be key fields of study for economic development: (a) science and technology, covering agriculture and food technology, architecture and the built environment, computer and information sciences, engineering, health sciences, life and physical sciences, and mathematical sciences, and (b) business and management, covering accounting, auditing, banking, public finance, investments and securities, taxation, insurance, marketing, human resource management, and other management services.

Table 3.4 below summarises the public university system's enrolments in these fields and in the humanities and social sciences. This last is a broad field that includes the visual and performing arts, education, languages and literature, psychology, philosophy and theology, social services, sociology, political studies, history and anthropology.

3.3.6 Goal 8: High-level knowledge outputs

High-level knowledge outputs are critical if South Africa is to participate fully in the global knowledge economy. Like the Human Sciences Research Council and the OECD, this goal is analysed using research publications and doctoral graduates as the key outputs. Research publications consist mainly of articles that appear in accredited journals, which have editorial boards of experts in a field and employ 'blind' peer review procedures.

During 2000–2010, the productivity of the public university system improved. The total of research publications (research articles, published research conference proceedings and research books) increased from 5 602 in 2000 to 9 748 in 2010, an average annual increase of 5.2%. The doctoral graduate total grew at a lower average annual rate of 3.6%, rising from a total of 961 in 2000 to 1 421 in 2010.

The efficiency targets for Goal 8 in Table 3.2 are one research publication per permanent academic per year, and 0.15 doctoral graduates per year. The doctoral graduate target assumes that each permanent academic should produce at least one doctoral graduate every seven years. The public higher education system failed to meet these efficiency targets. However, the publication ratio did improve, from 0.38 to 0.58 per permanent academic in 2010. The average doctoral output ratio was below half of the target ratio of 0.15.

3.3.7 System and individual institutional performance

The performance of universities in South Africa differs widely, and the funding implications of this differentiated public university system will be discussed later in the chapter.

The CHET has argued that the knowledge-production performance of any university should be judged within its 'academic core', which consists of two elements: (a) the inputs that the university has available for teaching and research, and (b) the knowledge outputs produced on the basis of these inputs (CHET, 2011a).

At the input level, the important student-related components are the proportion of student enrolments in SET and BUS, and Master's and doctoral programmes. The important academic staff-related components are their formal qualifications and the numbers of doctoral students they are supervising.

At the output level, the knowledge-production aspects are postgraduate and undergraduate student graduation rates, and ratios of doctoral graduates and research publications to permanent academics.

Table 3.5 includes values for these academic core indicators from data that universities are required to submit annually to the national HEMIS. The data values are three-year averages for 2008–2010. The targets set out in the final row of the table are based on those employed for the public university system in Table 3.2, together with further adaptations by the CHET. The public universities are grouped into three clusters, based on comparing each university's average for each input and output indicator. The methodology used was simple, but possibly controversial. A four-point rating scale was used:

- 4 = meets or exceeds target
- 3 = average is in range 75% to 99% of target
- 2 = average is in range 50% to 74% of target
- 1 = average is less than 50% of target

Then for each university, separate average ratings were calculated for the five input and five output indicators. These average scores were sorted first by average for the five output indicators and then by the combined average for input plus output indicators.

Finally, the universities were placed in the clusters using these criteria:

- Cluster 1: either an output average above 3, or an input plus output average above 3
- Cluster 2: output or input averages above 2, and an overall average of 2
- Cluster 3: either an output or input average below 2

These three clusters are used in the financial analyses that follow.

In terms of the differentiated performance of universities, the following combination of indicators stands out:

- Input indicator: percentage of permanent academics with doctorates.
- Output indicator: ratio of graduates to enrolments (undergraduate and postgraduate levels).
- Output indicator: ratio of research publications to permanent academics.

Universities can use these indicators to inform future strategies for moving up into the next cluster. For example, a university in Cluster 2 that has a relatively high percentage of permanent academics with doctorates could move up into Cluster 1 by slightly improving its graduation success rate and significantly improving its research publications output (moving its output, or input plus output average, to above 3). Similarly, a university in Cluster 3 could move up into Cluster 2 by significantly increasing the percentage of permanent academics with doctorates, thus increasing its throughput and research publications. Ideally, all universities should move into Clusters 1 and 2 through good long-term strategic planning and using discretionary funding effectively.

3.3.8 Issues arising from analyses of the performance of public universities

During 2000–2010, the public university system as a whole under performed. Although many universities excel, some strive for improvement and others require revitalisation and major improvements in productivity and quality. Some of the main issues that arise are:

- (i) Gross participation rates in the public university system are low and have not met the target of a 20% rate set by the 2001 National Plan for 2010.
- (ii) Gross participation rates have also been unequal. The participation rate for White students has been close to 60%, whereas the participation rate for African students (which increased over the period) was less than 15% at the end of the period.
- (iii) Student enrolments in the major fields of study and the number of research students did not meet the targets set. For the period 2000–2010, humanities and social science majors were over-represented, with an average enrolment share of 42% compared to the target of 40%. Enrolment in science and technology majors was 28% compared to the target of 30%. The proportions of Master's and doctoral students were less than half the targets set throughout the period.
- (iv) The academic staff of the system are under-qualified. During 2000–2010, the highest formal qualification of over a third of permanent academics was below Master's level, compared to the target of 10%.
- (v) The output performance of the system was poor throughout 2000–2010. Student drop-out rates were high, resulting in less than 50% of any cohorts of students who entered the system completing their programmes and graduating. High-level outputs in the form of research publications and doctoral graduates were also well below the targets set.

It is clear that a revised funding framework must include incentivising public universities to improve their individual performances, which would improve the overall performance of the system.

3.3.9 Performance at individual university level

Table 3.4 shows that the public university system can be differentiated using a number of input and output variables related to the academic core of individual institutions. However, the three clusters represented are not the result of deliberate government decisions; government did not intend three distinct clusters to result from implementing higher education goals and the 2003 funding framework.

A basic thread running through the block grant components of the 2003 funding framework was not to have separate funding streams for different universities. Institutions were treated equally, other than based on enrolment size and enrolment of disadvantaged students. Universities with large enrolments did not receive part of the institutional component of the block grants because they had the advantage of economies of scale. Universities that recruited large numbers of disadvantaged students received additional funding under the institutional component of the block grant.

Table 3.6. Income in 2000 compared to 2010 income (rands millions)

	2000	2010		Average annual growth: 2000 – 2010	
		Nominal	Real	Nominal	Real
Government grants	6,628	16,655	9,210	9.7%	3.3%
Student fees	3,381	12,132	6,709	13.6%	7.1%
Private income	3,591	12,090	6,686	12.9%	6.4%
TOTAL	13,600	40,877	22,605	11.6%	5.2%

Source: nominal rands: DoHET summaries of financial statements included in annual reports of each university; real rands: calculations based on nominal rand totals and consumer price index data from Statistics South Africa

Table 3.7 takes the income totals from Table 3.6 and divides them by the university system's full-time equivalent (FTE) enrolled student totals, which were 386 000 in 2000 and 600 000 in 2010. These totals do not take account of the weightings in the funding grid for teaching input units.

Table 3.7. Income per FTE enrolled student (rands thousands)

	2000	2010		Average annual growth: 2000 – 2010	
		Nominal	Real	Nominal	Real
Government grants	17.2	27.8	15.4	4.9%	-1.1%
Student fees	8.8	20.2	11.2	8.7%	2.5%
Private income	9.3	20.2	11.1	8.0%	1.8%
TOTAL	35.2	68.1	37.7	6.8%	0.7%

Sources: nominal and real rand data from Table 3.6; FTE student data from the national Higher Education and Management Information System (HEMIS)

Table 3.7 shows that government grants per FTE enrolled student rose from R17,200 in 2000 to R27,800 in 2010, in nominal rands. Student fees per FTE enrolled student, also in nominal rands, rose from R8,800 in 2000 to R20,200 in 2010. The average growth rates show that, in real terms, government funding per FTE enrolled student fell by 1.1% annually between 2000 and 2010, while student tuition fees per FTE enrolled increased by 2.5% per year.

3.4.2 Amendment to institutional clusters

The financial analysis uses the three clusters of universities identified in Table 3.5, with one amendment. The University of South Africa (Unisa) is not included in Cluster 3 but treated as a separate entity. This is because of the size of its enrolments (293 000 heads in 2010, or 33% of all enrolments in the public university system) and because it is South Africa's dedicated distance-education institution. The amended Cluster 3 will be labelled Cluster 3A, and the University of South Africa will appear as Unisa.

Table 3.8 adjusts the clusters from Table 3.5 by adding information about their government planning categories and historical classifications. The planning categories are university, university of technology, and comprehensive university. A university is defined as an institution that offers general formative and professional academic programmes. Universities of technology are defined as institutions that offer primarily career-focused programmes. Before 2005, universities of technology were classified as technikons, and so the programmes they offer are described as technikon-type programmes. A comprehensive university is then defined as an institution which offers both university- and technikon-type programmes.

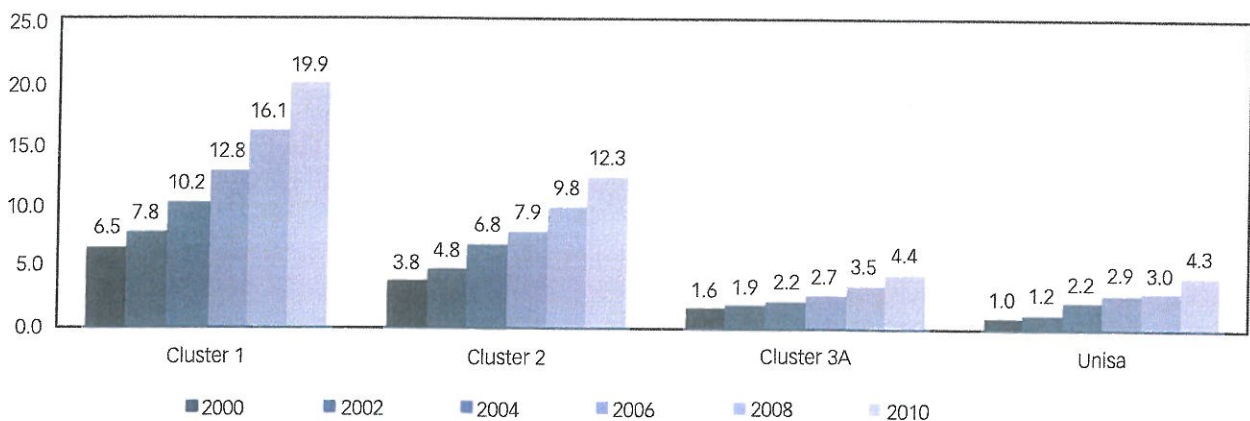
In the history column, the descriptions are based on pre-1994 governance structures, in particular the tri-cameral parliament system and the 'independent republics' (Transkei, Bophutatswana, Venda, Ciskei). Historically white higher education institutions are those that fell under the control of the chamber for Whites (House of Assembly). Historically black institutions were those controlled by the four 'republics' and by the departments and chambers responsible for the education of Africans, Coloureds and Indians. The mergers occurred during 2004–2005 and, for the purposes of the figures that follow, institutional data for pre-merger years has been consolidated under the name of the new institution.

3.4.3 Total income of public universities by amended institutional clusters

Figure 3.4 shows the total income of public universities for 2000–2010, including all government grants, student fees and private income.

The income distribution in the public university system is seriously unequal. For example, in 2010, the seven universities in Cluster 1 had 48% of the total income of the public university system but only 30% of the total FTE student enrolment. In the same year, the nine institutions in Cluster 2 (three universities, two comprehensive universities and four universities of technology) had 32% of the system's FTE student enrolment but only 30% of total income.

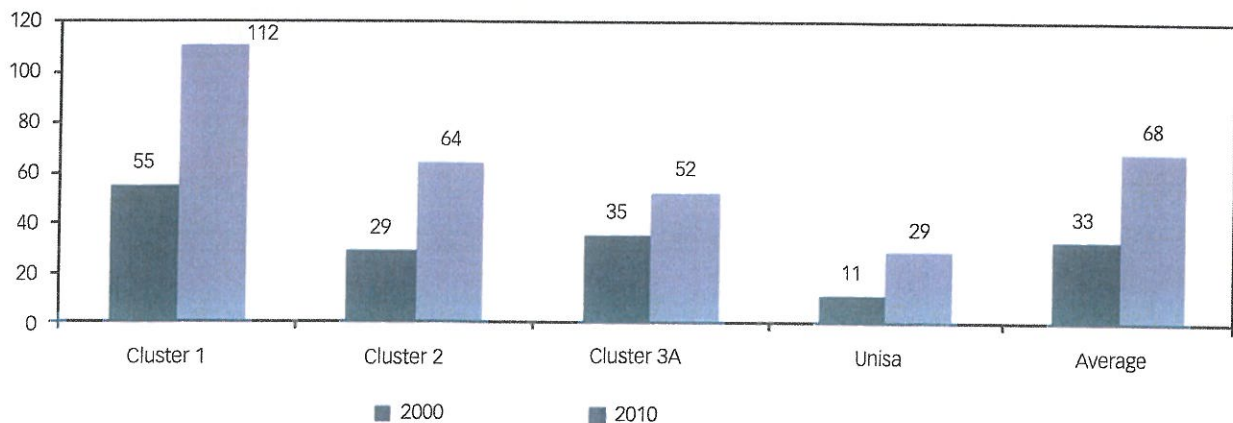
Figure 3.4. Income from all sources by cluster (rands billions)



Source: Income totals in Figure 3.3; DoHET summaries of financial statements included in annual reports of each university.

These income inequalities can be represented in a different way. Figure 3.5 shows each cluster's average income from all sources per FTE enrolled student. In 2010, private income per FTE student for Cluster 2 was 0.57 of the Cluster 1 average. Cluster 3A's private income per FTE students was 0.46 of that of Cluster 1.

Figure 3.5. Total income from all sources per FTE enrolled student by cluster (rands thousands)



Source: institutional clusters in Table 3.5; FTE student data from the national Higher Education and Management Information System (HEMIS)

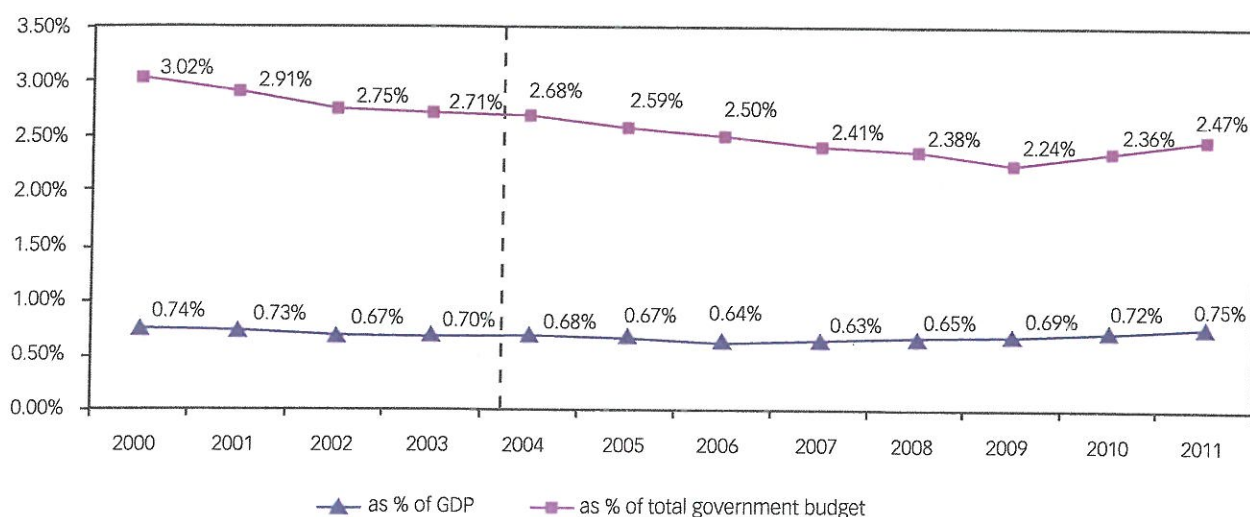
3.5 Discussion of the Funding Issues

3.5.1 Determining government funding levels

One argument is that government funding of a public university system should be linked to predetermined proportions of either GDP or total government expenditure. However, what these proportions should be, or whether lessons can be learned from the practices adopted by other countries, is not clear.

GDP and total government expenditure indicators in South Africa can be tracked over specific periods of time. Graph 3.6, which is based on the DoHET's reports on the *State Budget for Higher Education* (DoHET, 2011b), gives the changes for 2000–2011, which is divided into the implementation phases discussed in Figure 3.1.

Figure 3.6. Total government allocations to public universities as % of GDP and total government expenditure



Source: DoHET, 2011b

Figure 3.6 shows that funding for public universities as a proportion of total government funding fell during the 1983 framework period and the migration phases (2000–2006). It dropped further during the period of full implementation of the 2003 framework, reaching the lowest point in 2009. In 2007, government funding of public universities as a proportion of GDP reached its lowest point but then increased over the next four years. The proportion of 0.75% in 2011 was the highest during the 12-year period.

Any analysis of the appropriate amount of government funding for public universities must be based on an important feature of the 2003 framework: that the framework should be used in conjunction with approved plans for student inputs and outputs. This implies that, because the framework was not based on actual institutional costs, a mechanism to link planned growth targets to government budget allocations for public universities needs to be developed.

The first system-wide student input and output planning targets were published in October 2007 in a *Ministerial Statement on Student Enrolment Planning* (DoHET, 2007) that covered the academic and financial years 2005–2010. In April 2011, an updated set of targets was published in a second *Ministerial Statement on Student Enrolment Planning* (DoHET, 2011c) that dealt with the academic and financial years up to 2015.

By giving them suitable weightings (e.g. 0.60 for enrolments, 0.30 for graduates, and 0.10 for research publications), these totals could be converted into a composite volume-of-activity total. Government could then set weighted, average annual increases in volumes of activity as targets for the public higher education system and, at the same time, commit to making funds available to support the approved increases in volumes. The annual increase in total government funds for public universities would be: previous year's allocation + inflation-based increase + approved increase in volumes of activity. The total of government funds made available through applying this mechanism could then be distributed to individual universities under a revised funding framework.

Further detailed analyses are needed before firm proposals for a mechanism of this kind can be developed further.

3.5.2 Reconsidering basic funding principles

Subsection 3.4.5 raised the questions (a) of whether the major income distribution inequalities within the public university system were intended consequences of the 2003 funding framework, and (b) if they were not, what changes would need to be made to the framework. To discuss these issues, a more detailed picture of government allocations is required. Table 3.11 sums up details of direct government grants to universities under the 2003 funding framework.

Table 3.11. Details of government transfers to universities (rands millions)

	Migration to 2003			Full implementation of 2003 framework					Average annual increases
	2004	2005	2006	2007	2008	2009	2010	2011	
Block grants: Council controlled funds	7,988	8,541	9,171	10,100	10,853	12,700	14,534	16,387	10.8%
Funding for inputs	6,069	6,465	6,912	7,478	8,110	9,382	10,643	11,857	10.0%
Funding for inputs	1,919	2,076	2,259	2,622	2,743	3,318	3,891	4,530	13.1%
Earmarked transfers	1,313	1,375	1,558	1,841	2,573	2,558	2,940	2,853	11.7%
Interest & redemption on loans	146	130	100	85	70	41	31	20	-24.7%
Infrastructure & efficiency projects	0	0	0	445	1,245	1,462	1,585	1,615	
Teaching development grants	300	306	329	307	337	345	393	420	4.9%
Research development grants	280	279	256	148	257	197	166	7	-41.0%
Foundation programmes	85	91	105	114	131	146	185	177	11.0%
Clinical training of health professionals	0	0	0	8	200	300	330	350	
Veterinary Sciences	0	19	50	54	58	67	102	116	
Multi-campus	0	0	0	0		0	148	148	
Developing former Vista campuses	0	0	150	80	40	0	0	0	
Institutional restructuring	502	550	568	600	235	0	0	0	-100%
Block grants + Direct earmarked transfers	9,301	9,916	10,729	11,941	13,426	15,258	17,474	19,240	10.9%

Source: DoHET, 2011b

The totals in Table 3.11 do not match those in Table 3.2 (subsection 3.2.4) because Table 3.2 reflects the total government budget for public universities, including earmarked funds such as NSFAS, which are not transferred directly to universities.

The main features of the amounts and proportions for 2011 reflected in Table 3.11 are:

- Block funds represented R16,387 million (or 85%) of total direct transfers to universities. These funds were allocated as undesignated funds, which may be spent on any teaching, research or administrative activities at the discretion of the Council of the university.
- Direct earmarked transfers amounted to R2,853 million, which was spread over a range of projects, the major ones being grants for improving the physical infrastructure of universities.

national asset and must continue to develop their capacities. However, their needs should not divert attention from the requirement that all universities, and particularly the poorer ones, have sufficient resources such as adequate electronic libraries, laboratories and lecture rooms, and sufficient staff to fulfil their allotted functions as effective institutions in a differentiated system.

Some of the principles which should be applied when a formally differentiated public university system is created are these:

- (i) The current categories of universities, universities of technology and comprehensive universities must continue to be used. A variety of institutions are required in order to ensure that the public university system serves national interests. The public university system should comprise a continuum of institutions, ranging from specialised, research-intensive universities to largely undergraduate institutions, with various levels of research focus and postgraduate niches at Master's and/or doctoral level.
- (ii) All institutions in the public university system must offer high-quality undergraduate education.
- (iii) The university system must become an integral part of the post-school system, interfacing with FET and other vocational colleges, SETAs, employers, labour and other stakeholders. Such cooperation should be taken into account when developing an institution's programme mix and planning.

Table 3.5 placed the 23 public universities in South Africa into three clusters based on their performance in meeting targets linked to national policy goals. The three clusters were amended in Table 3.7 by removing Unisa from Cluster 3. The 'history' column in Table 3.9 shows clearly that the clusters are to a large extent functions of the institutions' origins. The first cluster consists of five historically white universities and new institutions formed by the merger of a historically black university with a larger historically white university.

The clusters in Table 3.5 could form the basis for developing a differentiated system along the lines of the Green Paper principles summarised above, but further, more detailed analysis would be needed first.

What is clear is that the policies on institutional differentiation are an essential first step towards establishing a new funding framework for public universities in South Africa. If the principle of a unitary funding system is dropped, then a revised funding framework must be one that (a) overcomes funding inequalities, (b) improves the goal-directed performance of individual universities, (c) ensures that all universities offer high-quality undergraduate programmes, and (d) protects and strengthens those universities that produce the high-quality knowledge outputs that South Africa needs to compete in the global knowledge economy.

South Africa needs a sufficient number of public universities to be sites of cutting-edge research (a driver of innovation) and high-quality teaching. For this, funding needs to be oriented towards a strong performance focus. The funding of public universities should aim to stimulate innovation and quality teaching, thereby allowing universities to expand their portfolios. A performance focus need not (and should not) exclude critical reforms to admission and student support.

3.6 Conclusion

A new framework, based on different funding principles and on a policy of institutional differentiation, will have to be introduced in South Africa. The Commission's concern is the size, direction and impact of funding higher education and the post-school system as a whole. In particular, in order to increase new knowledge that will address economic and societal problems, the three major areas that require funding are: higher education qualifications, further education qualifications, and research. These three areas all need to grow significantly in the next three decades. However, the fiscal room is limited for increasing funding of the post-school educational system.

Given the funding constraints, the review of the funding framework needs to be supported by research into a future funding model that optimally divides revenue into funding higher education, further education and research.

Part 2

CLIMATE CHANGE AND ENVIRONMENTAL SUSTAINABILITY: OPPORTUNITIES AND RISKS FOR INCLUSIVE GROWTH AND INNOVATION.

Climate change poses significant challenges for South Africa, but responding to these challenges may also provide opportunities for innovation that can support inclusive growth.

South African communities and households are highly vulnerable to the immediate and long-term effects of climate change. This part of the Submission investigates three ways to reduce the risks faced by the most vulnerable communities: building a rural sector that is resilient to climate change and natural disasters; strengthening the framework for disaster management; and re-invigorating municipal solid waste management practices. It recommends actions that combine responding to climate change and addressing the national priorities of reducing poverty and inequality and creating jobs. The intergovernmental fiscal system can help seize the opportunities of the green economy. These three chapters provide the basis for recommendations of measures to be put in place that will minimise the risks and realise the opportunities for:

- (a) Sound environment planning and management mechanisms, and responsive infrastructure and service delivery to mitigate the effects of climate change and reduce the impact of disasters;
- (b) Appropriate funding mechanisms;
- (c) Appropriate techniques to assess the vulnerability of communities to climate change and natural disasters.

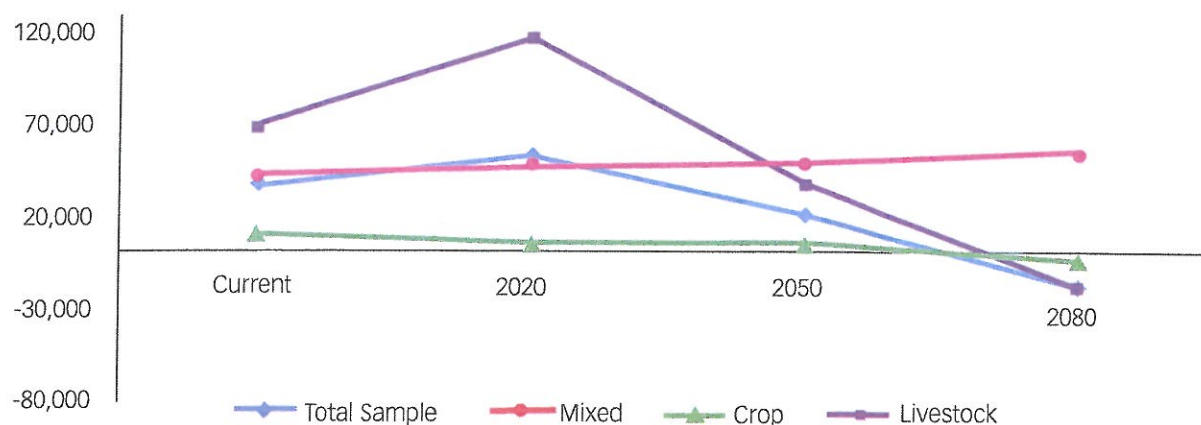
4.2 Impact of Climate Change on Agriculture

The first part of this study assesses the impact of climate change on agricultural productivity in South Africa. The study considers two types of farmers: subsistence farming households that supplement their income and food requirements through agriculture, and commercial farmers that generate revenue through farming (i.e. the farm is a business entity). The analysis is based on a nationwide sample of 1 128 subsistence farmers and 20 797 commercial farms distributed throughout the nine provinces of South Africa.

Climate change impacts are analysed using a Ricardian framework, which is a cross-sectional analysis of actual farm performance based on varying climatic regions or agro-climatic zones. The study investigates the effect on net revenue of changes in two climatic factors, rainfall and temperature, while controlling for soil type and farming characteristics. Since the results vary by type of farmer, each group of farmers (subsistence and commercial) was further subdivided into four categories: crop farmers, horticultural farmers, livestock farmers and mixed farmers.

In general, the results show that a simultaneous decrease in rainfall and increase in temperature adversely affects both subsistence farmers (151% loss in net revenue by 2080) and commercial farmers (111% loss in net revenue by 2080). The results show that by 2080 commercial farmers are likely to lose a total of R694 billion rand as a result of climate change. The effects will be more severe among crop farmers, while mixed farmers are least vulnerable to climate change. By 2080, climate change will result in subsistence crop and commercial crop farmers losing approximately 144% of their net revenue, and commercial livestock and subsistence livestock farmers losing 127%. For horticultural farmers, losses of 86% in net revenues are expected for both subsistence and commercial farmers, while commercial farmers practising mixed farming methods face losses of 71%. Subsistence mixed farmers are the only type of farmer who stands to benefit somewhat from the predicted climate changes in the longer run, with increases in net revenue of 30% predicted for 2080.

Figure 4.1. Predicted change in net revenue for subsistence farmers as a result of decreased rainfall and increased temperatures (rands)



Source: Commission's calculations

As stated earlier, subsistence farmers' households participate in agriculture primarily to supplement their household income and food requirements. Subsistence farmers use a large proportion (57.8%) of the output from crop agriculture to feed their households and sell only 30.1% to generate revenue that supplements the household's income. Among livestock farmers, a relatively larger proportion (48.9%) of livestock output is sold to generate revenue rather than kept to feed the household (26.7%).

By 2080, the effects of climate change on revenue will vary from province to province. The most severely affected provinces will be North West (with R88,455,490 in lost net revenue) and Limpopo (with R106,544,600 in lost net revenue). In percentage terms, the Northern Cape (439% decline in net revenue) is most affected, followed by North West (231.1% decline in net revenue) and Limpopo (158.6% decline in net revenue). These three provinces already contain arid areas, and so further increases in temperature and decreases in rainfall are likely to make them even drier and hence less productive. Predictions for commercial agriculture are less severe for KZN and Eastern Cape compared to other provinces. For subsistence farmers in KZN, the predicted losses in 2080 imply a 124% decline, whereas an increase of 75% in net revenue is predicted for the Eastern Cape.

Linking these provincial findings for climate-change impacts on commercial farming to municipal areas, two provinces – Limpopo and North West – contain 11 of the most vulnerable municipalities identified. However, the municipal study also indicated that several of the most vulnerable municipalities are located in KZN and the Eastern Cape. It would therefore seem that vulnerability of agriculture to climate change does not perfectly overlap with rural municipal vulnerability.

4.2.2 Impact of Climate Change on Food Security

To understand better the effect of climate change on food security, the impact on food adequacy in subsistence farmers' households was analysed. Climate variables were found to affect significantly household food adequacy, more for crop farming than livestock and mixed farming.

The results imply that the demise of commercial agriculture due to climate change poses a very real threat to food security. By 2050, commercial agricultural net revenue is predicted to lose 18.3%, which may seem moderate, but as the predictions for 2080 show, the impacts become more drastic. Across all farmer types, predicted losses in net revenue will be 110% on average, making agriculture unprofitable.

South Africa is a net exporter of food, and so climate change could also affect food security in the Southern African region. For example, 50% of the maize (the main staple) in the Southern African Development Community (SADC) region is produced in South Africa (Kurukulasuriya and Rosenthal, 2003). Adverse effects of climate variability and extreme weather conditions in South Africa could therefore destabilise the whole region. Governments, policy-makers and development practitioners in the region need to collaborate to design efficient mitigation measures and innovative fiscal instruments that effectively deal with the impacts of climate change on the agricultural sector.

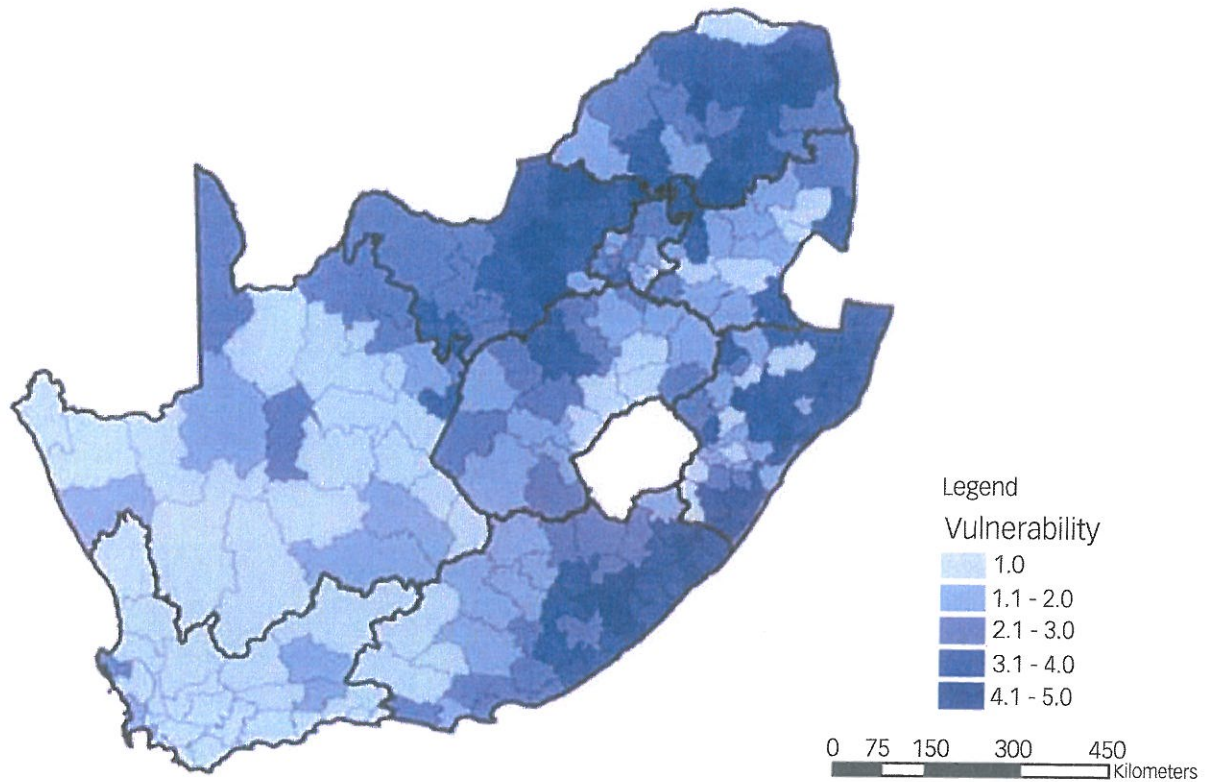
4.2.3 The Role of Adaptation in Agriculture

A potential adaptation strategy to climate change is crop diversification and changing planting and harvesting dates. One of the study's most robust findings is the extent to which different types of farming will be affected, with crop farming being the most, and mixed farming the least, vulnerable. After livestock farming (66%), mixed farming (13.7%) is the most prevalent form of farming in the sample and on average more lucrative than livestock farming, horticulture or crop farming. Mixed farming strategies are likely to become more widespread as farmers begin to respond to climate changes over time.

The study also found that climate change will have less impact on larger or more efficient commercial farms (i.e. with net revenues greater than R500,000 per year) than smaller farms. When farmers with net revenues of less than R500,000 are omitted from the analysis, the predictions for 2080 are 10–20% lower. In the longer term, smaller and less efficient farms, faced with the harsh consequences of climate change, are likely to leave the agricultural market. Larger and increasingly efficient farms, with the financial infrastructure to adapt to changing circumstances, may come to dominate the agricultural landscape.

Although climate conditions have a significant effect on net farm revenue, the results indicate that various farming characteristics and mitigation strategies can play a critical role in adapting to climate change. The resilience of farmers is strengthened through strategies such as accessing veterinary services and dips among livestock farmers. The results for crop farmers are less clear, while subsistence farmers do not use significant fertilisers and pesticides. For commercial farmers, purchasing water also has a positive and significant impact on agriculture. In so far as purchasing additional water will be available (perhaps through prospective inter-basin transfers), farmers may be able to adapt to decreasing rainfall by switching to irrigated agriculture and transporting water to feed animals on farms. Given South Africa's constrained water resources, such opportunities would clearly be limited.

Figure 4.4. Index value of vulnerability to climate change for South African municipalities.



Source: Calculated using WorldClim¹⁴ (past-present data) and the CCFAS¹⁵ (future, spatially downscaled predictions) global climate databases.

Twenty municipalities were classed as highly vulnerable (Table 4.1). As a group, rural municipalities (type B4) were significantly more vulnerable than other non-metro municipalities. The average vulnerability scores of other types of municipalities were not significantly different.

Table 4.1. The twenty most vulnerable municipalities

Municipality Name	Municipality Code	Municipality Type	Municipality Name	Municipality Code	Municipality Type
Mnquma	EC122	B4	Thulamela	LIM343	B4
Intsika Yethu	EC135	B4	Aganang	LIM352	B4
Engcobo	EC137	B4	Ephraim Mogale	LIM471	B4
Port St Johns	EC154	B4	Elias Motsoaledi	LIM472	B4
Ntabankulu	EC444	B4	Fetakgomo	LIM474	B4
Indaka	KZN233	B4	Thembisile	MP315	B4
Mandeni	KZN291	B4	Moretele	NW371	B4
Maphumulo	KZN294	B4	Moses Kotane	NW375	B4
Greater Giyani	LIM331	B4	Ditsobotla	NW384	B3
Greater Letaba	LIM332	B4	City of Matlosana	NW403	B1

Source: Commission's calculations

¹⁴ <http://www.worldclim.org>

¹⁵ <http://www.ccafs-climate.org/>

4.5 Recommendations

With respect to addressing impacts of climate change in rural areas, the Commission recommends that:

- The Department of Environmental Affairs (DEA) and the National Disaster Management Centre (NDMC) should develop a municipal vulnerability index and disaster-risk modelling tools to assist municipalities assess their vulnerability to climate change and non-climate change disasters and determine associated contingent liabilities.
- The DEA and NDMC should:
 - Develop a standardised Vulnerability Index that government can adopt as the basis for:
 - iv. identifying and monitoring municipal jurisdictions and municipalities that are most vulnerable to disasters;
 - v. coordinating and providing targeted national and provincial support to vulnerable municipalities;
 - vi. enabling improved planning and risk management by all municipalities.
 - The vulnerability index, at a minimum, should take into account the *exposure*, *sensitivity* and *adaptive capacity* of an area to disasters. Suggested indicators for these criteria are provided in the Technical Report that accompanies this Submission.
 - Standardise and use disaster-risk modelling techniques to project the potential damage of disasters on human life, livelihoods, infrastructure and property. For example, the estimated number of people who will become homeless, the number of buildings that will have to be rebuilt and the cost of reconstruction operations;
 - Develop and implement a government-wide national climate change programme, which includes monitoring climatic and oceanic parameters, ecosystem health (rivers, wetlands, estuaries, marine and terrestrial systems) and socio-economic variables.
- The Department of Cooperative Governance (DCoG) should adjust the objectives, terms and conditions, and procedures of the MIG (municipal infrastructure grant) to:
 - Permit municipalities to use grant funds for climate adaptation and mitigation investments that involve creating, rehabilitating or modifying municipal infrastructure and,
 - Ensure that these investments prioritise and directly address the vulnerabilities faced by poor households.
- The DCoG should restructure the Special Municipal Infrastructure Grant component of the MIG in order to:
 - Allow municipalities to acquire or rehabilitate ecological infrastructure (such as coastal dunes or mangroves that provide natural protection from excessive storm surge and other weather events), provided that the return on investment is greater than a comparable engineering solution;
 - Provide a funding window for rural municipalities to receive resources from the Green Fund and similar global resources (e.g. the World Bank Clean Technology Fund and the newly established Green Climate Fund) in accordance with their terms and conditions.
- The Department of Agriculture, Forestry and Fisheries (DAFF) should expand support services for small-scale farmers to encourage them to adopt climate-resilient farming strategies aimed at adapting and mitigating the projected local effects of climate change through:
 - Advice on diversification, mixed-cropping, drought-resistant crops and efficient irrigation systems;
 - Improved access to financial services and instruments (such as micro-credit and weather-based insurance) that can help lower their risk exposures.

5.2 Summary of the Literature on Disaster Management and Funding

According to the disaster management literature, the severity (and frequency) of disasters is growing. As such, developing countries (including South Africa) are increasingly exposed, fiscally and economically. Reasons for this increase include climate change, the change in weather patterns, inefficient land use, growing populations and assets located in high-risk areas. The international trend is to emphasise funding disaster-risk reduction before an event occurs (*ex ante*) rather than the traditional approach of funding losses associated with a disaster after it has happened (*ex post*).

For disaster management to work efficiently and effectively, a combination of legislation, clear roles and responsibilities, the allocation of funding and other funding mechanisms in the form of insurance measures is critical. An optimal risk financing strategy is the key for both pre- and post-disaster management. International case studies indicate that some roles, functions and funding are best centralised, while others need to be decentralised.

The Commission has explored a number of financial tools that could be part of a medium to long-term financial strategy for disaster management. These include the use of integrated budgeting, sovereign insurance, risk pooling, reinsurance, index-based insurance, weather derivatives, micro insurance, catastrophe bonds, safety nets, government policies and regulations, Private Public Partnerships, and other alternatives (e.g. funding through the Lottery). No evidence was found of a developed or developing state that integrates all of the available tools into a coherent financial model. Therefore, *on the basis of the available evidence, the Commission urges caution in preferring any particular financial tool in a policy.*

5.3 Key Findings of the Study

The study found that, in South Africa, the focus has disproportionately been on post disaster – disasters occur and so funding is needed – rather than on integrating funding into development initiatives that reduce the risk of disasters happening. The research identified the following gaps and bottlenecks that hamper sustainable financing of disaster management:

- The focus on disaster relief and recovery funding after a disaster has happened.
- The delay in the release of funds (between when a disaster occurs and when funds are released).
- The unclear roles and responsibilities in classifying and declaring disasters.
- The general lack of capacity in critical areas such as engineering and other professions.
- Bottlenecks in the management of projects in the Municipal Infrastructure Grant (MIG) structure.
- The lack of incentive and punitive measures (e.g. incentive-based grants).
- Problems with monitoring and evaluating facilities.
- The lack of (and in some instances no) disaster risk-reduction measures.
- A lack of involvement of the private sector.
- Limited community-based funding.
- The lack of political will.

5.4 Financing of Disasters through Conditional Grants

Schedule 9 of The Division of Revenue Act (Act No. 6 of 2011) provides for funds to be released immediately to provinces and municipalities in response to disasters (*provincial and municipal disaster grants*). This process does not have an adjustment period before funds can be dispersed to provinces and municipalities. The Commission welcomes and is in support of this approach, which will help reduce the lead time between natural disasters occurring and the release of funds. The Commission also notes the conditions attached to the grant, in particular the need *for municipalities to fund the portion of the costs of the disaster based on the revenue-raising capacity of the respective municipalities*. Strict

The **Disaster Relief Fund** renders assistance to any person who has suffered damages or loss caused by disaster. Importantly, a Board appointed by the Minister is responsible for managing the fund and for ensuring that assistance is rendered where deemed necessary (Myburgh, 2005, p 181). The Department of Social Development (DSD) manages the Disaster Relief Fund and is responsible for distributing disaster-relief funds. Although a Board is in place to manage the fund, its current functioning is problematic. According to the DSD, the Disaster Relief Board members are often not all instantly available when a disaster occurs. As a consequence, officials have to wait for an undefined period of time for the Board to meet and approve the funding of relief efforts.

Although the FRA is a crucial funding source for disaster relief efforts, agencies that need to respond timeously to the impacts of disasters often find it difficult to access the funds (Van Zyl, 2011a, p 40). One of the major problems inhibiting the release of funds relates to the declaration of a state of disaster. According to the FRA, the process to release disaster-relief funds can only be initiated once the president has declared a disaster (Van Zyl, 2011a, p. 40). This situation is not ideal because long reporting lines to the Office of the Presidency and bureaucratic red tape at local level (where a disaster happens) severely hamper the flow of information and consequently the release of funds for relief and recovery efforts. The above is also in conflict with the DMA.

According to the DSD, more synergy is needed between the DMA and FRA when a state of disaster is declared. As the discussion below shows, the research suggests significant changes are needed to the legislation governing disaster-relief funds.

5.4.3 Private Sector Involvement

In most instances, the private sector is not involved in disaster management activities within its municipal areas. However, some exceptions were noted. For instance, in one district municipality, private sector companies are already involved in risk-assessment processes (although the specific disaster management centre is not given access to the data collected by these private sector companies). Stakeholders agreed that the private sector has a role to play in managing disaster risk. In particular, since companies often create a risk situation within a specific area, they should contribute to the mitigation of the risk by putting risk-reduction measures in place. Furthermore, private sector companies should be encouraged to participate in disaster-risk reduction projects, as part of their overall Corporate Social Responsibility (CSR). These CSR projects can be joint ventures between the private and public sector (represented by the disaster management centre of the district).

Most stakeholders agreed that the insurance industry is not yet sufficiently involved. The insurance industry has a role to play in disaster risk management activities, and more information is required on the services that can be provided.

5.4.4 Community Funding for Disaster Risk Reduction

While community-based funding mechanisms constitute some available funding for disaster, they are still very limited, and a great dependency exists on government recovery interventions. For the most part, communities depend on their extended family to help them recover from disaster impacts. It is important to note that the funds provided by family members are not used to assist with disaster risk-reduction activities. Furthermore, communities also use *stokvels* and private loans, but these coping mechanisms only provide relief to those in the community who can afford them. These interventions are generally expensive because of the exorbitant interest rates charged by either the *stokvel* members or micro lenders. Communities, especially the most marginalised and poor, also have difficulty accessing funding from institutions such as banks to assist them with the recovery process.

to think about disaster risk reduction in daily operations. Such a line item must be governed by specific guidelines to ensure that it is used for disaster risk reduction.

5.5.3 Current Financial Management Systems

Most of the stakeholders consulted are content with the current public financial management system in place for normal day-to-day operational funding. Funds are allocated to projects and aligned with the annual performance management system of the respective government sphere. In general, most DRMCs have access to operational budgets, although some constraints remain in terms of mobilising funds for capital projects. These types of disaster risk-reduction projects normally run into millions of rands and are the least likely to be funded adequately.

The general perception is that funding allocation is inadequate. In all instances, the MTEF enables all disaster risk management functionaries to budget for disaster risk reduction. However, one of the greatest problems identified is provincial and municipal financial managers' lack of understanding and comprehension of disaster risk reduction. Creating greater understanding would mean a much more favourable budget allocation for disaster risk reduction. Although the MTEF allows for a fair accounting system, the need for better reporting practices, especially in disaster recovery, were highlighted (as discussed above).

5.6 Declaration of States of Disasters

The DMA (sections 23, 26, 27, 41 and 55) and the NDMF (Key Performance Area 4 – section 4.2) provide for the classification and declaration of states of disaster at municipal, provincial and national level. Both the DMA and NDMF call for uniform standards to be developed for the assessment of a proposed disaster. Yet, although all of the “key performance indicators” linked to section 4.2 of the NDMF refer to “guidelines and uniform methods”, these standards still have to be developed (with the exception of the priority guidelines mentioned earlier). In light of this, the classification and declaration of a state of disaster at all levels will continue to be ambiguous, with an obvious impact on the allocation of funding.

The first time a state of disaster was declared in South Africa under the DMA was in June 2008, when xenophobic attacks occurred in the Western Cape and Gauteng Provinces (South Africa, 2008a; South Africa, 2008b). Since then, a number of states of disasters have been declared, the most significant being the 2010/2011 floods in most parts of South Africa. The declaration of these events tested the functionality and measures of the government's response. The process and procedures for declaring states of disasters were found to be unclear and cumbersome. In almost all instances, the difference between classification and declaration was unclear (despite the explanations provided in the NDMF). Similarly, the roles of district municipalities, provinces and the NDMC were muddled. This is not surprising given the lack of clear guidance on this issue and varying opinions even at national level. The NDMC's role in classifying and declaring a state of disaster is also questionable, as one of the founding aims of the DMA was the decentralisation of disaster risk management. Yet, the classification and declaration of a state of disaster remains the role of the NDMC. An event remains a local disaster until classified otherwise by the NDMC, which basically disempowers municipalities from declaring a state of disaster. This situation leads to a lack of taking responsibility and the perception that the NDMC will in any event intervene.

Furthermore, how a disaster is scaled up to a ‘new’ classification by the NDMC is not clear. For example, if after their assessment the NDMC classifies a local disaster as a provincial disaster, the provincial premier still has to declare a provincial state of disaster. Neither the DMA nor the NDMF provides for this reclassification process. Another, related issue is the NDMC's internal capacities. As one respondent remarked, the NDMC can hardly do its most basic functions (with its current human resource capacities), yet it is also expected (with already limited human resources) to become involved in operational issues.

The last criticism is the duplication of disaster declarations that occurs once other legislation is invoked. The FRA is the only other Act to make provision for the declaration of a disaster. As mentioned earlier, this legislation requires the president of South Africa to declare a disaster (as opposed to the DMA declaring a state of disaster). The FRA's aim is to address the relief of social distress resulting from a disaster. In assessing the two Acts, contradictions and duplications clearly exist. On the one hand, the DMA aims to decentralise the declaration of a state of disaster and makes provision for such declarations before a hazardous event has turned into a disaster (hence the ‘state’ of disaster). On the other, the FRA can only be used to declare a disaster (an event that already exceeds the ability and resources of the affected community), and only the president can make such a declaration (whereas provincial premiers and municipal councils can declare local and provincial states of disaster).

5.9 Monitoring and Evaluation

The quality of rehabilitation work and the general maintenance of facilities are problematic. In some cases, the expected life of facilities and their capacity to withstand further disasters are seriously reduced. Moreover, many rehabilitation projects do not include monitoring and evaluation as part of the plan, which may result in the misappropriation of funds.

Mechanisms need to be developed for reducing delays in the processing and administration of requests – the length of time between a disaster occurring and funds being requested and approved is too long and frustrating. Such delays lead to problems in damage assessment, in providing information on the scale of damage and related requirements, and in timely issuing of emergency relief acts. Project review and monitoring arrangements are needed to ensure rapid and smooth implementation of rehabilitation. For example, to ensure improved maintenance, various measures could be introduced including more funds, increased monitoring and greater public participation. Mechanisms or strategy for each type of disaster differ, although the basic principles or approach to disaster management are the same. Each disaster needs a different assessment, response and recovery approach.

5.10 Disaster Risk Reduction

Disaster risk-reduction funding is mostly perceived as funding linked to the everyday disaster-risk management of the various government spheres. However, the majority of the respondents indicated that funding for disaster risk reduction remains one of the most problematic areas, especially within sector departments. The various DRMCs seem to have more success budgeting for disaster risk reduction and being allocated funds though the equitable share. This can mainly be ascribed to the fact that the disaster risk management function is known through the implementation of the DMA. However, many officials and politicians still see disaster risk management as part of a DRMC's activities, with very little link to the multi-sectoral approach. Similarly, the general perception is that very few sector departments fully understand their responsibilities in disaster risk reduction, which obviously leads to a lack of budgeting. Sector departments also do not integrate disaster risk reduction into their normal day-to-day operations. Although disaster risk reduction should be integrated into normal sectoral activities, additional funding will still be needed. The problem appears to be two-fold: on the one hand officials do not budget for disaster risk reduction, and on the other hand the accounting officers do not demand it.

5.11 Lack of Political Understanding

A major constraint to the current funding of disaster risk reduction is that local and provincial political leaders do not understand the crucial role of disaster risk management within their municipalities (in DRMCs and sector/line departments). Municipal and provincial officials tend not to want to fund something that 'might not happen', which makes getting funds for pro-active disaster risk-reduction projects difficult. In general, disaster risk management officials have difficulty obtaining funding because of protracted deliberation processes with municipal and provincial decision makers. This eventually leads to decision makers removing disaster relief, preparedness and mitigation funding from their list of priorities. Political leaders (and other departments) often view disaster risk management as something to be taken seriously only when an emergency or disaster occurs.

Politics also limits the release of disaster risk management funds. Politicians often do not want to provide funding because of the innate lack of good publicity associated with disaster risk reduction. In the past, local government politics has also delayed access to disaster risk management funds – one political party may want to portray another party in a bad light over its management of a disaster situation. Furthermore, as funds are only released once a state of disaster is declared, politicians may not want to declare a state of disaster for fear of economic disinvestment and losing the support of voters. Local government officials proposed that declaring a state of disaster should be totally removed from politicians and be handled by DRMCs.

The study found that one of the bigger systemic problems facing disaster risk management funding is that the disaster risk management function "is not owned by any one department", and so no department budgets for the disaster risk management.

Chapter 6

FINANCING OF WASTE MANAGEMENT IN SOUTH AFRICA

6.1 Introduction

Through research and stakeholder engagements, the Commission identified the financing mechanisms of solid waste management as a key service that needs to be addressed in this Submission. Most waste management studies in South Africa have focused on operational management, environmental aspects and the legislative framework, rather than looked at the funding mechanisms and policies affecting solid waste services across municipalities. This chapter highlights some critical policy issues related to the sustainable financing of solid waste management in South Africa that must be resolved.

Today, the majority of municipalities and cities in South Africa face serious economic, social and environmental challenges related to solid waste management. New and innovative mechanisms for financing solid waste management are needed in order to address these challenges in an integrated and coordinated manner. The South African Constitution (South Africa, 1996) and other legislation ensure that local government provides communities with equitable, affordable and sustained basic services (including waste management). The current patterns and rates of waste generation and disposal are unsustainable and negatively affect the environment. They fail to account for the needs of future generations as per the basic tenets of our Constitution and the National Environmental Management Act (South Africa, 1998) and other environmental laws. Municipalities can no longer afford the 'collect and dump' approach to solid waste management because collection and transportation costs are soaring. This problem is compounded by the depletion of available landfill airspace,¹⁷ particularly in the large cities and metros. Currently, most of the major metros and cities in South Africa have exhausted their landfill airspace, and no suitable land is available for new landfills.

Municipalities, especially in small towns and rural areas, struggle to find funds to develop and rehabilitate their waste management infrastructure. This is mainly because of the lack of awareness and low prioritisation of waste management. Moreover, when funds are available to develop the infrastructure, often the money is insufficient to operate and maintain the facilities. The one funding option – the Municipal Infrastructure Grant (MIG) – does not often cater for operational expenditure. Therefore, municipalities have to find innovative ways to fund and generate revenue in order to build, operate and maintain these facilities. Traditionally, municipalities generate revenue through user charges (tariffs), levies, rates and taxes. However, in most cases these revenue sources are inadequate and, because they are mainly taxes, they are becoming unaffordable for communities, especially the poor. For municipalities with large indigent populations, revenue from refuse tariffs, rates and levies is not sustainable and inadequate.

All spheres of government need to take a radically different approach to waste management, which is adequately laid out in the National Waste Management Strategy (NWMS) as promulgated in terms of the National Environmental Management Waste Act, Act 58 of 2008 (South Africa, 2008). The NWMS calls for an integrated approach to waste management that adopts *waste hierarchical* principles which avoid, reduce, recycle, re-use and only dispose waste as a last resort, as illustrated in Figure 6.1.

¹⁷ The term airspace refers to the volume of space on a landfill site permitted for the disposal of municipal solid waste.

States, recycling generates more than twice the revenue of landfill and incineration industry. Recycling also produces ten times more jobs because it recovers greater economic value, which is bound up in discarded products and equipment.

A strengthened approach to waste management alternatives and their funding is needed. Alternatives include waste minimisation, recycling and regionalisation of waste management activities in the form of disposal sites, transportation and waste incinerations. Currently, despite alternatives in place, waste management services favour landfill sites because of the lack of incentives or punitive measures to act otherwise. The regionalisation of waste management activities can be done in a phased approach to cater for the different municipal capacities. For example, eThekweni and the City of Johannesburg have started converting waste to energy, but other non-metros could start with regional landfills and gradually move to the waste incineration and energy conversion methods.

Many South African municipalities contain a large number of indigents who cannot afford to pay for basic services. Government's policy on free basic services (FBS) provides these indigents with basic services that include refuse removal. Ironically, refuse removal is a FBS that most municipalities do not have the resources to offer, while many indigent communities reside in settlements outside the 'urban edge' (partially as a result of apartheid spatial planning) and so are excluded from municipal services. Within some municipalities, the problem is further compounded by incomplete or no indigent persons' registers, which means that FBS are not provided to everyone.

6.2 Recommendations

With respect to financing of waste management, the Commission recommends that:

By the end of the 2015/2016 financial year, government should phase in full cost accounting (FCA) for solid waste management within municipalities. To achieve this goal:

- Government should develop specific FCA guidelines for integrated municipal solid waste management that addresses the specific and inter-related environmental and service delivery needs of the sector, within the framework of activity-based costing that the National Treasury is introducing.
- Government should develop a capacity-support programme to implement the guidelines that allows a phased introduction of FCA starting with high-capacity municipalities that face major solid waste management challenges.
- Government should take greater advantage of the opportunities for job creation in the solid waste sector, by incentivising municipalities to create 'green' jobs through labour-intensive service delivery. In particular:
 - The Department of Public Works should review the Expanded Public Works Programme (EPWP), which may negatively impact on the ability of municipalities to support job creation in the sector due to the comparatively higher capital costs associated with solid waste collection and recycling activities;
 - The Department of Cooperative Governance (DCoG) should review the funding conditions of the Municipal Infrastructure Grant (MIG) to ensure that local-level municipal waste management assets are eligible for financing.
 - A portion of resources from the recently established Green Fund should provide transitional financial support to municipalities that introduce innovative, labour-intensive waste collection, reduction and recycling mechanisms to areas where services are currently inadequate. These might include developing small waste collection and recycling contractors, or community cooperatives to manage waste buy-back centres and materials recovery facilities;
 - The DEA should develop municipal guidelines and regulations that support community involvement in waste management activities through community-based trusts and partnerships.

Part 3

INSTITUTIONAL DEVELOPMENT FOR INCLUSIVE GROWTH AND INNOVATION

The performance of the majority of sub-national governments in South Africa has been less than optimal. The two tiers of government face challenges of all sorts; challenges that have impacted negatively on service delivery and the country's overall development. Part 3 of the Submission, which is underpinned by the theme "Institutional development for inclusive growth and innovation", interrogates institutional and developmental issues that have the potential of unlocking value of sub-nationals, and more importantly, building government institutions that advance the principle of inclusive growth and development. The four Chapters in Part 3 interrogate institutional and developmental issues that are at the heart of the performance and effectiveness of sub-national governments namely, decentralisation, capacity, service delivery mechanisms and gender. The first Chapter argues for the adoption of more proactive regional governance models, particularly to take advantage of the differential growth impacts of alternative assignment of revenue and expenditure instruments. The Chapter examines the role that sub-national governments are currently playing in the growth process and carefully examine the ways and means that their contribution can be made more effective. The second Chapter evaluates government's institutional and human capacity building efforts and how such constraints can be eased to enable optimal performance of sub-national governments. The third Chapter evaluates the efficacy of government and quasi government institutions, especially government agencies in service delivery and inclusive development. The question that runs through this Chapter is, "are there alternative service delivery challenges"? The last chapter in this part adds a gender dimension to inclusive growth. The Chapter argues that institutionalising gender budgeting not only promotes an efficient and effective distribution of public resources, but it also advances inclusive development.

7.2 Expenditure Assignment, Revenue Assignment and Fiscal Decentralisation: Definitions, Interrelations and Linkages to Economic Growth

Fiscal decentralisation involves the transfer of spending and taxing power to sub-national levels of government. Revenue and expenditure assignments are the primary linkages between IGFR and fiscal decentralisation for fostering economic growth. IGFR concerns five aspects (Bird and Vaillancourt, 2006):

- (a) The assignment of expenditure responsibilities to different government levels (i.e. the expenditure assignment);
- (b) The assignment of tax and revenue sources to different government levels (i.e. the revenue assignment);
- (c) Intergovernmental fiscal transfers or grants to address vertical and horizontal imbalances;
- (d) Sub-national borrowing; and
- (e) The institutional framework within which the national and sub-national government powers are exercised.

Each of these aspects must be addressed within the context of South African policy objectives, which may include not only efficiency (allocation), equity (distribution) and stabilisation, but also economic growth and achieving and preserving a regional balance (i.e. facilitation of more resources to relatively undeveloped/backward areas in order to achieve a more balanced growth). The chapter considers mainly aspects (a) and (b), about which some more detail is provided below.

Expenditure assignment requires the functions and expenditure responsibilities for each sphere of government to be clearly specified (as they deal with which level of government will do what and which level of government will pay for what) and follow certain principles:

- Sub-national government should focus on the allocation function (delivering goods and services, and how funds should be raised), whereas national government should focus on stabilisation and income-distribution policies;
- For economic efficiency, services should be delivered at the level of government closest to the citizen.
- Expenditure and revenue assignments should be balanced;
- Finance follows function.

In general, the assignment of expenditure functions should precede revenue sources because the prior informs the latter (Yemek, 2005). Revenue assignment requires a clear description of the tasks to be performed by each sphere of government, i.e. it essentially deals with the question of which level of government should levy what taxes.

The aspects (a), (b) and (c) constitute important 'pillars' of fiscal decentralisation; hence, fiscal decentralisation is intricately linked to IGFR, though the two terms are not synonymous²⁰ (UNDP, 2005). Fiscal decentralisation can be defined as the devolution of fiscal power (revenue and expenditure assignment, and borrowing) from national to sub-national governments (Davoodi and Zou, 1998)^{21,22}. The four arguments in favour of fiscal decentralisation are (Thießen, 2003; Elhiraika, 2007):

20 For example, papers like De Mello (2000) investigate the relationship between fiscal decentralisation and IGFR and conclude that decentralisation entails greater complexity in IGFR, so that coordination failures in IGFR are likely to have a bearing on fiscal positions, both nationally and sub-nationally.

21 Yemek (2005, p 3) defines fiscal decentralisation as the percentage of total government expenditure executed by sub-national governments, considering the size and characters of transfers, or the level of tax autonomy of sub-national governments or both. He further adds that the borrowing capacity of sub-national government also needs to be taken into account.

22 There are three dimensions of decentralisation (i.e. transfer of power from the central government to provincial and local government): administrative, and political and fiscal (Wolman in Bennet, 1990). Administrative decentralisation focuses on how responsibilities and authority for policies and decisions are shared between the different levels of government, and how these are turned into allocative outcomes. Political decentralisation focuses on how the voice of citizens is integrated into policy decisions and how civil society can hold authorities and officials at different levels of government accountable.

An endogenous growth model, developed by Zhang and Zou (1996) and Davoodi and Zou (1998), provides the microeconomic foundations for the relationship between fiscal decentralisation (i.e. revenue and expenditure assignments) and economic growth. The purpose is to treat the different levels of government (i.e. national, provincial and municipal) as factors of production. Fiscal decentralisation can take the form of either revenue decentralisation or expenditure decentralisation, both of which contribute positively to growth: revenue decentralisation through increased revenue collection; and expenditure decentralisation through effective allocation of public spending (Bodman, Heaton and Hodge, 2009; Nguyen and Anwar, 2011)²⁵. This chapter uses proxies for both revenue and expenditure decentralisation (or revenue and expenditure assignments) when estimating the Zhang and Zou (1996) endogenous growth model.

Lastly, even given the above, no formalised theory exists for a relationship between fiscal decentralisation (expenditure and/or revenue assignments) and economic growth (Oates, 1999). In fact, the empirical literature regarding this relationship indicates an ambiguous and uncertain link between fiscal decentralisation and economic growth; for example, see Elhiraika (2007).

7.3 What Does the Data Say About the Contribution of Provinces and Municipalities to Economic Growth

The empirical analysis used data on all nine provinces and data for district and metropolitan municipalities, as shown in Table 7.1. The selected time period in each case was governed by data availability. Strictly speaking, only six of the eight municipalities should be included in the analysis, as Buffalo City and Mangaung only became metropolitan municipalities after the 2011 local government elections (and the analysis reported in this chapter considers data prior to 2011). Category B (local) municipalities have been excluded from the analysis because of a lack of data for a number of these municipalities.

Table 7.1. Sample and cross-section specification used in estimation

	Provinces	District Municipalities (Category C)	Metropolitan Municipalities (Category A)
Number	9	46	8
Period	1999–2009	2006–2009	2006–2009

Source: For provinces, fiscal data was sourced from various editions of Provincial Budgets which can be found on the National Treasury's website (www.treasury.gov.za). For municipalities, fiscal data was sourced from the local government database which can also be found on the National Treasury's website (www.treasury.gov.za).

Proper approximation of the fiscal decentralisation variable (i.e. using expenditure and/or revenue sides of the budget) warrants some consideration. For example, Smoke (2001) warns that the fiscal decentralisation variable proxy should not detract from the political and institutional context. Hence, not only should alternative proxies be used, but the results also need to be carefully interpreted. Similarly, when looking at fiscal decentralisation, several indicators need to be used, specifically revenue, expenditure, tax effort and compensation of employees (Dziobek, Mangas and Kufa, 2011). Using the International Monetary Fund's (IMF) Government Finance Statistics, the South African government can be considered decentralised when based on the compensation of employees indicator but more centralised when based on the tax effort measure (Dziobek et al., 2011). This chapter's analysis includes expenditure and revenue indicators as measures of fiscal decentralisation.

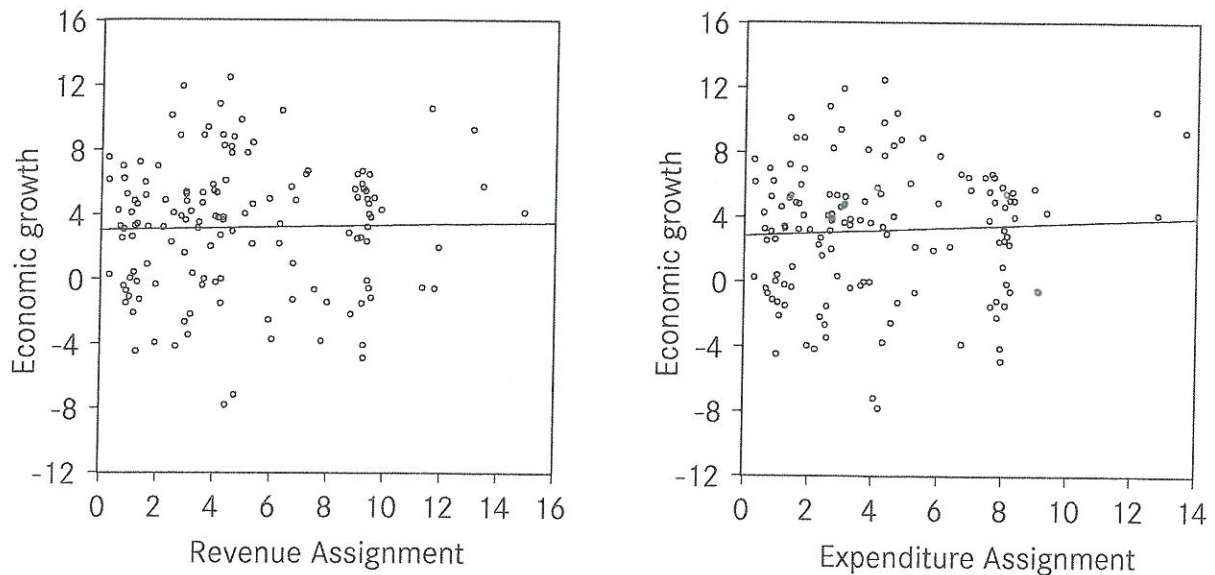
Figure 7.1 is a scatter plot of combined cross-sections (i.e. nine provinces) with a fitted regression line (upward-sloping denoting a positive relationship, whereas a downward-sloping line would represent a negative relationship between economic growth and revenue assignment). The figure shows a seemingly weak positive relationship between expenditure/revenue assignment and economic growth in provinces. This could be as a result of the constitutional intent for provinces, which is developmental and redistributive rather than growth focused. The implication is that higher revenue/expenditure assignment would lead to a slightly higher economic growth for South African provinces, on average and holding other variables constant. This assertion is tested statistically,²⁶ and the results are used to inform the recommendations in Section 7.4.

²⁵ The issue of causality between fiscal decentralisation and economic growth also needs to be considered – Osoro (2003) quotes a number of studies that show strong support for the view that fiscal decentralisation is a function of economic growth. The author also notes that empirical evidence for reverse causality is generally contradictory and beleaguered by measurement, analytical and specification problems.

²⁶ As mentioned earlier, these are fully contained in the Commission's 2013/14 Technical Report.

The Commission has noted that, while some delivery failures are because of corruption and mismanagement of resources, local government problems are often symptoms of failure within other spheres of government. National and provincial departments send vague and inconsistent policy signals that place competing demands on municipalities, ignore or are unwilling to consult with municipalities over spending plans, and have weak managerial capacity. These are all areas of improvement that can contribute towards better growth outcomes through the local government expenditure assignment.

Figure 7.2. Scatter diagrams of economic growth and revenue/expenditure assignments: metropolitan and district municipalities



Source: Commission's calculations

7.4 Recommendations

With respect to alternative aggregate revenue and expenditure assignments for provinces and municipalities, it is recommended that:

- Key principles of national strategies such as the New Growth Path (NGP) document and National Planning Commission's (NPC) Vision for 2030 need to permeate provincial and local strategies. This can be achieved by translating these principles into complete sub-national strategies with full details on sustained implementation, followed by provincial and local governments' commitment to achieve the goals identified in the strategies.
- Key components for sub-national government to consider are capital and labour inputs, and multifactor productivity. Provincial and municipal governments should continue to invest in physical and human capital, focusing specifically on issues such as lack of adequate skills and physical infrastructure needs (maintenance, better location, etc.). In addition, effective management and accountability mechanisms should be aimed at increasing multifactor productivity.
- The results reported in this chapter imply that economic development powers are well-placed at the provincial level, while economic growth powers could be better placed at the municipal level.

Chapter 8

ALTERNATIVE SERVICE DELIVERY ARRANGEMENTS: THE CASE OF MUNICIPAL AGENCIES

8.1 Introduction

South African municipalities use alternative service delivery (ASD) arrangements, such as agencies, for a range of activities, from development and planning to solid waste removal. In theory, if correctly used, this organisational form presents numerous advantages, most notably as a result of its specialised focus and significant operational autonomy. In South Africa, the use of agencies at the local level has dropped for two reasons. First, attempts have been made to bring some uniformity to the establishment and form of agencies (whether a private company, service utility, trust and so forth). According to amendments to the Municipal Systems Act that came into effect on 1 August 2004, municipal agencies can take three forms: service utilities, multi-jurisdictional service utilities and private companies. This has led to disestablishing or reorganising of a number of existing agencies. According to the National Treasury's assessment (National Treasury, 2010) and the Auditor-General's audit report of 2009/10, a number of existing agencies do not yet meet the criteria. Second, the requirements associated with using ASD are onerous, especially for smaller, less-resourced municipalities, which prevent them from tapping into the potential benefits of an agency. Having said that, ASD arrangements do not always automatically result in benefits, and so the business case for using an ASD arrangement needs to be weighed against the potential risks. For example, the municipality must have the capacity to oversee the activities of ASD arrangements and ensure that such operations support the public sector's social developmental goals.

South African public policy does not have a diagnostic tool or set of principles against which policy and decision-makers can evaluate proposals for ASD arrangements. Drawing from international best practice, this chapter recommends a set of principles that government ought to consider when shifting away from traditional, bureaucratic-driven service delivery.

8.2 A Summary of the Literature

The literature highlights various issues that should be considered when establishing an agency. For example, sound public policy must justify the establishment of an agency, whose goal or mandate needs to be free of vagueness and multiplicity. Prior to establishing an agency, clear and formal lines of accountability are necessary. Agencies must also be able to manage themselves, so the oversight authorities can focus on ensuring the agency mandate is fulfilled and other performance-related issues. This literature also emphasises that entrenching a culture of performance is difficult in a poor/non-performing parent department. Yet it is critical. A useful framework for analysing the most appropriate organisational form for service and public goods delivery is the transaction cost theory. According to this theory, two key considerations are the characteristics of the service (asset specificity²⁹ and measurability³⁰) and the organisational form of the potential service provider. The organisational form is important because different organisations produce different incentives and authority relationships and, as such, affect how service delivery should be arranged.

29 Asset specificity refers to the extent to which specialised investment is required to perform a function or deliver a service.

30 Measurability refers to the ease with which service delivery can be monitored, or anticipated outcomes measured.

8.4 Recommendations

With respect to alternative service delivery arrangements (with a focus on municipal agencies), the Commission recommends that:

- Government's approach to regulating agency formulation should balance maximising the potential benefits of utilising an alternative service delivery (ASD) arrangement with minimising the attendant risks. In the quest to improve performance and efficiency, ASD arrangements may (in appropriate circumstances) provide a creative way for municipalities to deliver services, particularly against the backdrop of limited financial and human capital resources. Therefore, the regulatory framework for municipal entities should ensure that:
 - The use of an ASD arrangement is contingent on a demonstrably sound business case for its establishment and sustainable operation;
 - Unnecessary, costly and time-consuming regulations are avoided. To this end, government should review existing legislation, specifically Section 77 and Section 78 of the Municipal Systems Act and Section 33 of the MFMA, which places onerous demands on municipalities wanting to use an ASD arrangement.
- Establishment of municipal agencies, or any ASD arrangement, should be linked to the parent municipality having an adequate level of performance and effective oversight ability. Determining whether performance is adequate or not should be linked to the audit outcomes of the parent municipality. Government should discourage the creation of agencies where the parent municipality is manifestly weak; for example, if the municipality is found to have a severely qualified, adverse or disclaimed audit result.
- Legislation that requires municipal entities to make public details of their performance and plans (as required in terms of Section 127(5) (a) (i) of the MFMA) should be strictly enforced, and non-compliance reported to the Auditor-General. This is necessary not only for compliance but also for greater transparency of agency performance, thereby enabling better monitoring and oversight by parent municipalities and treasuries.
- Government should establish a central portal of financial and performance-related information on municipal agencies. Such a facility could also serve as a peer-learning mechanism through which success stories are shared. Municipalities and agencies could also use the information to benchmark their performance, while greater public availability of this information will improve oversight and transparency. National government should take a more proactive approach, perhaps through the National Treasury's PPP Unit, to advising municipalities, especially lesser resourced ones, on the applicability of using an ASD arrangements in different instances.
- Government (particularly the National Treasury's PPP Unit) should put together a list of criteria to assist municipalities in deciding whether a sound business case for the creation of entities exists. The criteria should:
 - Establish whether benefits exceed potential costs;
 - Ensure potential risks are mitigated;
 - Focus on aspects such as measurability and asset specificity of the service in question.

9.2 Key Findings

A number of key issues emerged from the research. One of the main challenges is designing, planning, implementing, monitoring and evaluating the progress made in capacity building, when no clear definition or common understanding of capacity exists among stakeholders in local government. Truly successful capacity building requires all three components (individual, organisational and institutional) to be addressed in a coordinated and sequenced manner. Simply attempting to deal with the visible symptoms does not sort out the underlying capacity challenges. Instead, long-term, sustainable solutions need to be designed that respond to the particular needs of municipalities within the macro-environment.

Capacity constraints are often used to mask the real causes of municipal non-performance. The uneven local government performance is not only because of capacity constraints, but also (perhaps more importantly) due to the tensions in intergovernmental roles and responsibilities, the political-administrative interface, high vacancy rates and instabilities in administrative leadership, skills deficits, poor organisational design, inappropriate staffing and low staff morale.

Municipalities outside urban areas struggle to attract experienced technical and professional skills. The situation is worsened by the weak linkages with tertiary educational facilities and poorly organised professional bodies, which decrease opportunities for further skills development (DCoG, 2009). In many municipalities, outsourcing activities is seen as an increasingly cost-effective method of delivering services. This is because of the financial pressures facing municipalities that constrain their ability to increase employment. The skills shortages and employment equity requirements make it even more difficult for towns and rural municipalities to recruit suitably qualified staff (National Treasury, 2011).

All municipalities raised the problem of skills retention, highlighting the lack of a coordinated effort to retain skills. In some cases, officials seek alternative employment because they fear that their performance contracts will not be renewed or because of political interference in the administration. Smaller municipalities in particular are unable to compete with larger municipalities in retaining officials. Moreover, municipalities' rigid interpretation of the Employment Equity Act has meant that the balance between the need to fill vacancies with competent employees and the objectives of the Act has not been maintained. This leads to positions often not being filled when a suitable affirmative action candidate cannot be found, particularly in areas where there are distinct skills shortages. This has an impact on service delivery.

Evidence of a high incidence of irregular or inappropriate appointments is of concern (DCoG, 2009). While vacancy rates are often used as an indicator of organisational capacity, appointments are commonly made to positions that do not exist in the approved organisational structures (National Treasury, 2011). Organised labour has complained that "nepotism and favouritism result in erratic appointments and promotions. Cases have been cited where posts are filled without being advertised; people are appointed for posts in technical positions where job evaluations and descriptions are not in place" (DCoG, 2009).

To date, capacity-building initiatives have been based on "one size fits all". However, the consensus is growing for a differentiated approach when supporting municipalities (The Presidency, 2010). The Outcome 9 Delivery Agreement proposes an audit on the quality and quantity of existing capacity at municipalities in order to establish patterns and identify where the greatest needs are.

Municipalities find that, despite the urgent need, gaining access to funds for capacity building can be a difficult process. This delay, coupled with the time it takes to gain approval for particular capacity-building projects, affects municipalities' ability to fulfil this function. Some municipalities also indicated a disconnection between the available funds and the market-related costs of particular training. Furthermore, supply chain management processes contribute to delays in securing capacity-building service providers.

The lack of internal communication between the Human Resource Development (HRD) officials and finance officials leads to situations where HRD officials are not aware of the available capacity grants and their related conditions. Due to limited resources and budgetary constraints, training programmes are selected based on costs, rather than applicability, practicality and quality. The pursuit of cost savings compromises quality.

Monitoring and evaluating the actual performance, successes and failures of capacity-building initiatives have proven problematic, and accountability is murky (FFC, 2010). No reliable, comprehensive data is available for the amounts municipalities spend on staff training or the number of staff that benefit from such programmes. Indeed, information is lacking about whether such capacity-building programmes have achieved their outcomes and impact.

- Institutional: greater differentiation and flexibility is required in the design of the local government fiscal framework. A differentiated approach is needed for the assignment of functions to municipalities, based on their capacity to effectively manage them. Once a municipality has proved its ability to provide a specific basket of services, decisions can be made regarding expanding the range of services provided by such a municipality. Where service delivery failures persist, such services should be removed from municipalities. Furthermore, the establishment of a coordinated capacity-building function across all local government departments is recommended. These actions must be complemented by simplified, streamlined and coordinated reporting requirements for local government and clearly defined roles and responsibilities for national and provincial departments. To assist rural municipalities, the value and practicality of an assistance programme should be explored, aimed at attracting and retaining scarce skills in these areas (similar to the scarce skills payments made to doctors in rural areas).
- To improve municipal capacity, the medium and senior management of municipalities need urgently to be stabilised, through greater insulation from political interference in the retention of skills and in the recruitment process. The link between actual performance of managers and the renewal (or not) of performance contracts should be strengthened. The human-resource function within municipalities needs to be proactive in identifying possible incentives for retaining scarce skills and ensuring that roles and responsibilities are clearly defined within municipal job descriptions. This challenge will also only be solved through increasing the pool of available people to fill vacant positions.
- Minimum competencies as entrenched in the MFMA should be enforced so as to ensure that appropriate technical skills are in place. Based on field work conducted by the Commission, the following functions require particular attention: revenue management, supply chain management, sewerage and water treatment plant operators, road maintenance supervisors, health inspectors and planning and project managers.

Gender budgeting is an innovative strategy for achieving gender equality. It makes the fiscal space more democratic and the budgeting process rational, thereby promoting accountability and changing the budget focus to gendered outputs and outcomes (Cagatay *et al.*, 2000). However, although budgeting is based on rational analysis, at heart it is a contested political process that also relies on value judgments. It is important that these value judgements reflect the Constitution's values and aspirations – of gender equality, of the progressive realisation of socioeconomic rights and of democratic participation, transparency and accountability.

This chapter's objective is to assess the gender responsiveness of local government budgeting processes in South Africa and to evaluate them systematically through gender lenses. In addition, the chapter recommends possible interventions by municipalities and other stakeholders to advance gender equality through the intergovernmental fiscal system. Unfortunately, to date, very little research work has been done in this important area. It is the Commission's fervent hope that, in the near future, a body of knowledge, experience and evidence will emerge to guide the institutionalisation of gender budgeting that is sensitive to the substantial differences between municipal contexts (e.g. rural versus urban) and capabilities.

10.2 Research Methodology

In assessing the gender responsiveness of local government budgets, the study followed a two-pronged approach. First, the study reviewed Integrated Development Plans (IDPs) of 30 randomly selected municipalities.³⁴ IDPs are crucial documents that provide insight into the strategic goals and detailed action/implementation plans of municipalities. An IDP is an excellent tool to check a particular municipality's commitment to women empowerment and gender equality, as the local government budget's aim is to provide resources to the IDP. Therefore, if the IDP and its underlying sector plans are not gender sensitive, the underlying budget is unlikely to be gender sensitive.

Second, the study assesses gender responsiveness of municipal budgeting processes through case studies of municipalities, with a particular focus on local economic development (LED), water and sanitation, early childhood development (ECD) and housing infrastructure. These four sectors were selected because they are well known to ease the plight of women and, as such, are good quality-of-life indicators. Women are the primary caregivers, and so providing adequate water and sanitation will have an impact on women's time. The availability of adequate housing or shelter affects the way in which women can provide for their dependents, especially given the increase in women-headed households. Adequate housing also affects women's safety (their own and that of their dependents), particularly in areas that experience high levels of gender-based violence. The availability of affordable ECD allows women to participate in other income-generation activities and become more involved in public decision making (e.g. as community leaders).

10.3 The Findings

Gender Responsiveness of Integrated Development Plans

The review of the 30 IDPs reveals the following:

- **There is lack of gender mainstreaming and women empowerment.** Most municipalities fail to mention gender mainstreaming and women empowerment processes in their current IDPs. The exceptions are Mangaung, Mogale, and Sundays River, whose current IDPs name specific processes and programme activities. This lack of gender-specific information in the IDPs is a possible indication of poor gender-specific planning and budgeting processes, as well as poor recording and monitoring processes.
- **Gender equality is seen as a social development issue.** Of the 30 municipalities, 29 deal with gender issues as social development rather economic empowerment issues. Viewing gender equality only within the context of social problems limits the way in which the substantive equality goal (decision making, resourcing and opportunities) should be addressed. In other words, the importance of women's economic access to available opportunities, of interventions that target women's skills development, productivity and financial independence (including independence from government grants) are not recognised.

³⁴ Although small, the sample nonetheless provides trends and important insights on gender budgeting.

Table 10.1. Summary of the case study findings

	Maletswai LM	Emfuleni LM	Mafube LM	Randfontein LM	Thabo Mofutsanyana DM	Amathole DM	City of Cape Town Metro
1. A municipality has an approved gender policy							
2. A municipality has a Gender Mainstreaming (GM) Strategy							*CS&SD
3. A municipality has a dedicated gender focal person (GFP) (work portfolio)	*	*			*	*	*
4. A municipality has a Special Programmes Unit (SPU)	*				*	*	*
5. A municipality has an SPU trained in gender mainstreaming							*
6. A municipality has budget officers trained in gender mainstreaming							*some
7. A municipality has senior managers trained in gender mainstreaming							*some
8. Senior managers regard gender mainstreaming as a high priority			*	*			
9. Political principals regard gender mainstreaming as a high priority		*	*	*			
10. Gender equality is part of senior managers' performance agreement							*some
11. A municipality uses gender equality indicators	*some						*some
12. A municipality collects information that is disaggregated by sex	*some			*some			*
13. All departments plan / budget for gender equality							
14. A municipality has a monitoring plan for gender equality							*some
15. There is sex disaggregated reporting from all departments							
16. A municipality does sex disaggregated public expenditure incidence analysis							*partly
17. Tenders issued to 100% women-owned entities	*			*			*
18. Tenders issued to ≥50% women-owned entities	*					*	*
19. Tenders issued to women-owned companies ≥R500,000	*			*		*	*
20. Tenders issued to women-owned companies ≤R500,000				*		*	*
21. ECD centres run by the municipality				*			
22. Funded projects: calendar events e.g. Sixteen Days, Women's Month, etc.	*	*		*	*	*	*
23. Funded projects: Local Economic Development	*					*	*
24. Funded projects: Gender Based Violence	*						*

NB: *indicate yes/existence

Table 10.2. Summary of findings

	Maletswai LM	Emfuleni LM	Mafube LM	Randfontein LM	Thabo Mofutsanyana DM	Amathole DM	City of Cape Town Metro
1. LED funding for companies that are 100% women owned	*			*			*
2. LED funding for companies which are 50%–99% women owned	*			*		*	*
3. Tenders of ≥R500,000 issued to women-owned companies	*			*		*	
4. Tenders of ≤R500,000 issued to women-owned companies	*			*		*	
5. A municipality has ECD Policy Guidelines (detailing operational relationship with province)				*			
6. There are registered ECD centres in the municipality	*			*			*
7. There are ECD centres run/managed by the municipality				*			
8. The municipality collects sex disaggregated data on the provision of housing? If yes, the last update was when?				*		*	
9. ≥ 50% of households served water pipe connection							*
10. ≥ 50% of households served by communal water pipe	*					*	*

Source: Interviews with Municipalities. NB: * indicate yes/existence

10.4 Conclusion

The above analysis shows that gender-responsive budgeting is limited in local government. For municipalities to move towards a gender-mainstreaming approach and to the institutionalising of GRB, the following are the key areas of intervention needed:

- **Collection of gender disaggregated data** is fundamental for gender-responsive planning and budgeting. Without meaningful data on the situation of women and men, an analysis of target group(s) is not possible.
- **Sensitisation of decision makers (political, principals and officials)** to raise awareness about gender issues and to provide them with skills to analyse the issues and act as change agents. Gender mainstreaming and GRB is not only about planning and budgeting but also about the local government approach to women empowerment and gender equality.
- **Increase the number of women in decision-making** processes of local government where they can ensure that gender commitments are translated into fiscal commitments. Within patriarchal structures, women are more likely to champion the cause of gender equality and speak directly to the needs and priorities of women.
- **Sensitisation of planning and budget officials** so that municipal officials who plan and draw up budgets see that the work they are doing may affect women and men differently. Gender sensitisation must not only focus on a change in attitudes towards patriarchy and gender equality, but also provide officials with the skills to plan for gender responsiveness and to track budgets accordingly.

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