



Financial and Fiscal Commission

Researchers, Projects and Contact Details

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1. Research Program Overview

The Research and recommendations Program (RRP) provides the Commission with an understanding of what allocations and resource envelopes are in the realm of possibility both in the short- and the long run as well as working out alternatives and trade-offs. To accomplish these tasks, the programme is broadly split into seven interrelated units, namely: (i) Macroeconomics and Public Finance, (ii) Fiscal Policy, (iii) National Budget Analysis, (iv) Provincial Budget Analysis, (v) Local Government, (vi) Intergovernmental Fiscal Relations and Performance and (vii) Data and Information. Given that the Commission is mandated as an advisory institution to the Government, the research from RRP is directly linked to the flagship products of the Commission – namely, Annual Submission for the Division of Revenue, the responses to the Medium Term Budget Policy Statement (MTBPS), the Division of Revenue Bill (DORB), as well as Appropriations and the Fiscal Frameworks and Revenue Proposals.

The RRP supplies the Commission with a rigorous social and economic analysis to facilitate its decision-making. It is hoped that this has made and will continue to make some contribution in ensuring a more successful outcome than would otherwise have been the case. The volume of information available and needed to enhance decision-making has risen to unprecedented levels in recent years. This trend continued during 2010 and is likely to continue in 2011. At times it has been extremely difficult to keep up with the pace of information. The division has tried its best by making use of state of the art modelling, stakeholder contacts and collaborative research with other divisions as well as external experts to keep abreast. During 2010 alone, seven new models (namely: consolidation, economic growth-expenditure, FDH Model, Municipal Expenditure Model, Intertemporal Computable General Equilibrium (CGE), Provincial CGE and Millennium Development Goals (MDG) CGE) were developed and used for analysis in ongoing work, responding to MTBPS, Fiscal Frameworks and other stakeholder requests (previous record being two in 2008 and 2009), in an attempt to keep up with what was going on and likely to influence the economy.

2. Research Thematic Focus for 2011/12

Over the last few years, South Africa has experienced a significant decline in income and employment. Approximately 1,000,000 jobs have been lost since 2008. These developments have exacerbated serious structural unemployment problems that the country suffers from. Alongside unemployment is a phenomenon of high inequality manifesting through huge social and spatial divisions. The country exhibits one of the highest Gini coefficients in the world reflecting income, geographic, gender and age dimensions. While absolute poverty has fallen largely due to the extension of government social grants, challenges remain especially among African and female-headed households. The symptoms of poverty and inequality are apparent in health and educational

outcomes, settlement patterns and vulnerability to crime and environmental disasters. Coupled to this are problems associated with adaptation to global climate change for the whole country. Climate change will be reflected in increased frequency and intensity of extreme weather events, reduced precipitation in many regions and an increased probability of flooding episodes with accumulated precipitation in heavy rainy periods. On the agricultural sector front, there are likely to be net adverse effects emanating from negative impact of temperature change and from pressures on available water supply. There will be differential impacts across regions, with shifting to different crops in different zones adding to the already dire problems of unemployment, inequality and poverty.

The way in which the Government raises revenue and the means by which it spends it have significant impacts on these problems as well as Government's own accounts. Government of South Africa is proposing substantial changes to urban housing and transport that will change the urban space and shape in fundamental ways compared to how we have known them. Changes in the delivery of basic services at the municipal level such as extra-ordinary intervention to speed up the delivery of basic services at municipal level (special purpose vehicles) that are being proposed will have far reaching impacts as well. At the provincial level there are discussions taking place about the future configuration of provinces. This, coupled with the realisation that dates for meeting Millennium Development Goals (many of which are directly linked with areas where provinces have a constitutionally assigned mandate to deliver on) will hugely influence the trajectory provinces will follow. At the national level, ever large social reforms are being proposed to address the poverty, growth and inequality problems. The National health Insurance (NHI) promises to be the largest reform yet undertaken in the health sector since the end of apartheid. Government has recently given top priority, and is gearing itself up to pursue a new economic policy in the form of the New Growth Path (designed to boosting employment and to tackling poverty and inequality). Government as a whole has shown a direct intent to use strategic planning to address these issues. Moves by the government since 2009 are casting government firmly in the role of a developmental state and the installation of the National Planning Commission indicates increased centrality of planning. Indeed, the country's budget process is undergoing reform shaped by the outcomes approach as well as the Money Bills Amendment Procedure and related Matters Act (2009).

These are hugely challenging undertakings and government faces many difficult dilemmas and balances to be struck – between stabilisation, interconnectedness, broad-based development and short-term growth, economic inclusion/equity and productivity/efficiency, and social transformation and stability/confidence. Government's institutional capacity and unity across and within the spheres of government will be substantially strained. Government will need all the ideas, advice and research assistance it can get if it is to address these challenges. The Research and Recommendations Programme's work for 2011/12 examines the analytical and policy possibilities to create an enabling fiscal framework for such development transformations. The research plan envisioned is designed to complement Government growth framework and is based around six policy drivers: *improved public sector performance and cooperation; improved skills and education; quality infrastructure;*

innovation; improved health for all and a focus on economic growth. All or parts of the planned research pillars are really inter-connected through sectors, geography (local/province/region/nation/continent/world and rural/suburban/urban), demographics and natural environment). With a broad mandate as government advisor on all matters financial and fiscal, the Financial and Fiscal Commission has a unique opportunity to contribute to the formulation and refinement of the new policy. As an organisation whose independence derives directly from the constitution, it is in a prime position to help shape the policy over time.

3. Researchers, Projects and Contact Details for 2011/12

The following project concepts around these broad themes to be elaborated on in the project proposals underpin the workplan for 2011/12:

Project Title	Description	Researcher	Email
Large Scale Model for Policy Analysis in South Africa	The main objective of the present study is to develop a prototype and a system of regional model for a chosen set of South African regions/sectors. The developed model will be further used in order to perform an ex-ante impact assessment of various policies aimed at integration and cohesion policy for the period up to 2025. Examples include New Growth Path, Meeting MDGs, Tax Reforms and so on	Ramos Mabugu	Ramosm@ffc.co.za
Fiscal Decentralisation and Economic Growth in South Africa	This work examines whether provinces play a useful role in the promotion of economic growth in South Africa and if so, in what way. Endogenous growth model specification that includes cross section regressions (long run averages of annual data to capture purely long-run effects), pooled cross-section regressions (capture complicated interactions between	Marina Marinkov	Marina@ffc.co.za

	<p>short run and long run) are used. To check for robustness, alternative estimation techniques (e.g. Bayesian Model Averaging), and alternative variable specifications and control variables to avoid specification problems is undertaken. The study will inform calls in the new Growth Path for subnational government to adapt broad drivers to their circumstances.</p>
Local Government Fiscal Framework)	<p>This project seeks to address pertinent questions around the Local Government Fiscal Framework such as (a) whether the different types of municipalities in the country are financially and fiscally well resourced to fulfil their constitutional mandates (b) Is the LGFF in its current form, adequately and effectively catering for the different needs and developments in different municipalities? (c) How can the current LGFF be configured to appropriately fund the various needs and developments in different types of municipalities? (d) Is the local government fiscal framework robust and dynamic enough to cater for a</p>

Jugal Mahabir

Jugalm@ffc.co.za

	continuously evolving local government system? The project seeks to contribute to this debate as well as finding possible solutions to challenges affecting the local government sector.		
Assessing Gender Responsive Budgeting in the Local Government Sphere in South Africa	This project assesses the gender responsiveness of municipality budgeting processes through a thorough and systematic evaluation of the gender sensitivity of budgets as they go through the budgeting cycle. The project will systematically scrutinise the gender sensitivity of the entire budgeting process relying on both secondary and primary data. The evaluation of gender budgeting, will involve computing frequencies and other descriptive forms of analysis. The judgement will also make use of qualitative information.	Mkhululi Ncube	Mkhululi@ffc.co.za
The Impact of Climate Change on the Agriculture Sector, Water and Food Security in Rural South Africa	This study seeks to establish and identify the pathways in which climate change impacts South African agriculture sector (productivity/net revenues), food and water security. A Ricardian modeling approach is used to evaluate different interventions and	Mkhululi Ncube	Mkhululi@ffc.co.za

	recommend appropriate fiscal policies and programs and intergovernmental arrangements that are worth pursuing in mitigation and adaptation against climate change in the rural sector.		
Understanding the Dynamics of Capacity Challenges at Local Government	Using secondary and primary data through a carefully designed and implemented questionnaire, this project seeks to understand the magnitude of the municipal capacity challenge and contribute to improved understanding of what constitutes lack of capacity at the local level. Existing capacity interventions are evaluated and alternative strategies and alternative/complementary intergovernmental measures to assist in minimising the extent of the challenge are proposed.	Sasha Peters	Sasha@ffc.co.za
Alternative Service Delivery Arrangements:	Using Special Purpose Vehicles as an illustration, this project assesses the debates surrounding alternative mechanisms internationally and nationally to deliver municipal infrastructure. Based on the analysis, the project will propose alternative or supplementary	Sasha Peters	Sasha@ffc.co.za

	measures to assist with improved delivery of basic services.		
Challenges and opportunities in housing finance in South Africa	This project this project intends to (a) develop a consensus position on the dimensions and drivers of the challenges in housing delivery and housing finance policy; (b) consider the capacity of South Africa's housing finance sector (including both public and private finance, as well as individual household finance) to address the challenges it faces; and (c) make detailed recommendations on approaches to housing finance.	Sabelo Mtantato	Sabelo@ffc.co.za
Evaluation of Public Transport Operating Subsidies in South Africa	The poor in South Africa spend more than 10% (national policy objective) of their income on public transport. This project seeks to investigate the problems in the current design of public transport operating subsidies, identify the main beneficiaries and assess whether public transport subsidy policy goals can be achieved using current public transport subsidy design. Legislative as well as policy review of public transport subsidies is carried out and case studies and data analysis are used to	Sabelo Mtantato	Sabelo@ffc.co.za

	address the research issues.		
The Impact of No Fee Schools Policy on Equity, Funding and Learner Performance	This project will examine the implementation of South Africa's school no fees policy and analyzes its effectiveness in tackling the issues of equity and redress as well as the impact on learner performance. It will draw data and literature partly on a study of the implementation and impact of the no-fee and exemption policies, commissioned by the Alliance for Children's Entitlement to Social Security (ACCESS) in 2008. The methodology will also include school case studies on the implementation of NFSP schooling and household expenditure trends on basic education over time.	Tebogo Makube	Teboko@ffc.co.za
Budget Reforms of the Health Conditional Grants and Strengthening of Health Performance	The study will use multidimensional provincial-level data to assess the impact of health conditional fiscal transfers on health outcomes. Two key questions guide the analysis. First, do more conditional fiscal transfers assist provinces to perform better, measured in terms of health system performance indicators? Second, what role do	Tebogo Makube	Tebogo@ffc.co.za

	<p>intergovernmental transfers play in explaining different health outcomes? A time series analysis will be done on health conditional grants allocations and expenditure trends and the “fly-paper effect” which suggests that conditional grants tend to be considerably more stimulative than would be expected by economic theory will be empirically tested.</p>		
<p>Identifying Gaps and Progress Made with Government Outcomes: A Spatial Approach</p>	<p>This project seeks to identify areas that are in most need of government services and eventually provide methodologies and approaches that government could use in ensuring better alignment of budgets to service needs within the identified outcomes. What is unique about this research would be a spatial perspective of progress in various parts of the country in respect of government earmarked outcomes. Literature review, data related to the specified outcomes and their indicators will be collected and manipulated and analysed using GIS techniques and presented as both static maps and intelligent live maps that are web enabled for production</p>	<p>Vincent Makinta</p>	<p>Vincent@ffc.co.za</p>

	of reports relevant to the responses the Commission needs to give in any ad hoc request at hand.		
Provision and Financing of Skills development in South Africa	<p>The project assesses the efficiency and effectiveness of government in financing skills development. Quantitative and qualitative methods are used. This is done through analysis of skills development budgets and spending trends over the last 5 years and over the MTEF. Policy performance is done by comparing relative growth rates of budgets against policy priorities, evaluating whether the Departments are adequately resourced and comparison of policy priorities to the key cost drivers of the budget. Delivery performance will be done using departmental Strategic Plans, Annual Performances Plans and Estimates of National Expenditure. Based on the analysis, policy recommendations and interventions required to improve the financing of skills development in South Africa will be made.</p>	Lydia Ntenga	Lydian@ffc.co.za
		Conrad van Gass	

4. Ongoing Projects

Project Title	Description
Public Expenditure-Economic Growth Nexus: The South African Experience (<i>Marinkov</i>)	Ongoing
Impact of Government Revenue on Economic Growth (<i>Marinkov</i>)	Ongoing.
Project Title	Description
Fiscal Rules (<i>Marinkov and Mabugu</i>)	A small open-economy gap model is built using South African data, where the budget deficit is endogenised by way of a fiscal policy “rule”.
Short-term Forecasting Model for South Africa (<i>Marinkov</i>)	A macroeconomic model is built which will be used to generate quarterly forecasts of selected macroeconomic variables. The idea is to use this model as a foundation for a more comprehensive model of South Africa which seeks to model and describe the behaviour and interactions between the four agents (sectors) of the South African economy (i.e. households, firms, government, as well as trade and financial linkages between South Africa and rest of the world).
The Role of Intergovernmental Fiscal Relations (IGFR) in Innovation Financing in South Africa (Ramos Mabugu, Marina Marinkov)	Against the backdrop of inequality which characterises much of South African economy, and given that innovation is identified as one of the main drivers of economic development, this paper seeks to understand the role of intergovernmental fiscal relations (IGFR) in the innovation process in South Africa. Specifically, the aim is to investigate how the different elements of the IGFR, as well as the different spheres of government, can be efficiently utilised in addressing inequality issues in South Africa and stimulating innovation.
National Budget Analysis (<i>Ntenga</i>)	Ongoing
Provincial Budget Analysis (<i>Conrad van Gass</i>)	Ongoing
Local Government Budget Analysis (<i>Ncube, Peters, Mahabir</i>)	Ongoing
Reforming Division of Revenue Bill (<i>Makinta</i>)	Ongoing
Rural Development (<i>Tebogo Makube</i>)	Ongoing
Data Support and Identifying Data Gaps in the IGFR System (<i>Sibanda, Makinta</i>)	Ongoing

5. Core Activities

The following are RRP's core activities:

- i. **Reviews of the evidence base.** Following the advice and suggestions of Commission, we will assemble and analyse evidence on particular policies and programmes and create portable document formats for our stakeholders. For example, this may be an assessment of the use of fiscal rules in international countries or the functioning of equitable sharing arrangements elsewhere.
- ii. **Research papers.** This activity will involve an analysis of the literature and data to help address relevant research questions.
- iii. **Statistical reviews.** This will involve an analysis of statistical data, patterns and trends on a particular theme. For example, the review might seek to answer a question about whether spatial disparities in SA are widening or narrowing, or which sectors are more or less labour absorbing.
- iv. **Policy papers.** The idea here would be to prepare policy ideas and proposals to guide decision-makers.
- v. **Conferences, seminars and workshops.** We envisage a regular series of highly professional events to discuss and debate aspects of the new research plan. Such events are particularly important to explore the pros and cons of policies where the arguments are finely balanced and where proposals are highly controversial. FFC's reputation for integrity and independence should help to attract wide interest and involvement from diverse stakeholders, and to assist in identifying common ground and building consensus.
- vi. **Capacity building.** We will continue with developing a programme of internships, postgraduate training and on the job training to build staff capacity. This will be done in conjunction with various stakeholders including universities.
- vii. **Website, Popular Media etc.** We will continue populating our website with all our policy briefings and other publications. It will also contain links to other websites run by government departments and other research organisations. We will continue striving to publish our work in popular media in accessible form to a larger audience.

6. Staffing Profile

We believe that RRP needs a critical mass of at least 15 researchers to fulfil its potential. These researchers will have their own specialist fields of knowledge and expertise, and their own external networks and public profile. However, the unit will also require a strong team spirit to develop and

exploit the synergies between staff working in cognate fields¹. The following figure shows the areas of cross-cutting interest that will help to integrate the programme's research programme. By working together they will transfer knowledge and competencies within the team and thereby create strength in depth. Effective RRP leadership will encourage cooperation and mutual learning, and thereby ensure that the total is much greater than the sum of the parts.

	Sectoral			Spatial			Functional		
Cross-cutting	Industry – Mining, Manufacturing, Agriculture, Services	SMM Es	Energy, Water	Rural devt	Urban dynamics	Local/Provincial/National/Global	Modelling	Sector Policy	Devt finance
Jobs and livelihoods									
Poverty and inequality									
Land and infrastructure									
Climate change									
Education, Health, Social Development									

7. Outputs

The enlarged RRP unit will produce a range of high quality, branded outputs for different purposes and audiences:

¹ For example, the macro-economic and fiscal policy functions are not structured according to the spheres of government. Hence, the managerial matrix of RRP needs to ensure that these loops are closed through cooperation with budget analysis which are structured according to local, provincial and national spheres of government.

- **Policy briefings and Newspaper Articles.** This will be a steady stream of short, readable digests of important information designed for high impact – policy implications of significant research, summaries of evidence on policy impacts, reviews of the arguments for and against particular policy proposals. We envisage moving towards at least 25 policy briefings each year from the end of 2012 onwards. Some of these will be translated into newspaper articles.
- **Research reports.** These are more substantial documents containing the full analysis emerging from particular research projects, assessments of the evidence base and reviews of the literature. We envisage at least 15 research reports each year from the end of 2012 onwards.
- **Journal articles and sole-authored books.** These are more academic outputs intended for the conventional audience of researchers, lecturers and university students. They will help to strengthen the intellectual reputation and identity of RRP, with benefits for FFC as a whole. We envisage meeting at least the targets set for each researcher in the Research Policy.
- **Edited books.** These may include a regular annual edited collection analysing developments in South Africa public economic policy and intended for a broad public audience. We envisage at least one edited book each year from 2012 onwards.