

COST DRIVERS IN FOREIGN MISSIONS

1 Introduction

South Africa's foreign missions play a pivotal role in maintaining diplomatic relationships with the rest of the world; facilitating international trade, investment and tourism; and strengthening political and social ties with host countries. They raise awareness of the country's foreign policy and articulate its position in global and regional multilateral forums (e.g. the United Nations and the African Union). Falling under the Department of International Relations and Cooperation (DIRCO), the main functions of foreign missions are to:

- Represent South Africa in the host country or multinational organisations.
- Promote policies, strategies and programmes to advance South Africa's national priorities with targeted countries and multilateral agencies.
- Render consular assistance to South Africans abroad (e.g. visa applications and assisting with the identity documents of South Africans living overseas).

Government expenditure at foreign missions amounts to about R2.5 billion per year, or just under half of DIRCO's annual spending. Expenditure on missions grew by 24% between 2010/11 and 2012/13, which was faster than the depreciation of the currency over this period. The purpose of this performance and expenditure review (PER) was to examine trends in expenditure on foreign missions during this three-year period and suggest ways to increase the efficiency of expenditure and reduce costs. The PER was conducted between August 2013 and January 2014 by Ernst and Young Advisory Services. Some of its key outputs, insights and recommendations are summarised here. The full report and the costing model are available at: www.gtac.gov.za/programmes-and-services/public-expenditure-and-policy-analysis.

As DIRCO declined to participate in the study, National Treasury proceeded with the PER analysis, drawing on desktop information readily available in basic accounting system (BAS) and the personnel salary system (PERSAL).

2 Institutional space

Of the 126 foreign missions South Africa maintained in 2014, 37% were located in Africa, 25% in the Middle East, 22% in Europe and 16% in the Americas and the Caribbean. The three main drivers of spending levels at foreign missions are:

- The number of staff employed at the mission;
- The cost of living in the host city in which the mission is based; and
- The exchange rate between the rand and the local currency of the host city.

The cost-of-living allowance (COLA) indexes the cost of living in each host city to that of New York. This methodology is frequently used by international organisations and tailored to suit their needs. It has also been adopted by the Department of Public Service Administration. Table 1 shows that 67% of South Africa's 126 missions are located in cities with a cost living lower than that of New York, 19% are in cities with a similar cost of living, and the remaining 14% are in cities with a higher cost of living (Geneva, Oslo, Tokyo, Brasilia, Canberra and Caracas).

In 2012/13, 2 852 staff were employed in foreign missions, of whom 689 were South African and the remaining 2 163 had been locally recruited. Of the 689 South Africans, 26% were diplomats, 18% were heads of mission or senior managers, 14% were administrative policy officers, and 1.5%



held finance or economics posts. The other 40.5% of posts were mainly administrative. South African staff are deployed to a mission for four years, after which they are rotated to another one.

Table 1: Categorisation of foreign missions by region and relative cost of living

Region	Cost of living relative to New York (New York = 100%)						Total
	<75%	75.1% – 95%	95.1% – 105%	105.1% – 125%	125.1% – 145%	>145%	
Africa	12	27	8				47
Americas and Caribbean	2	9	3	2	4		20
Asia and Middle East	9	16	5		1		31
Europe	3	6	9	8		3	28
Total missions	26	58	24	10	4	3	126
<i>% missions</i>	21%	46%	19%	8%	4%	2%	100%
Rand million	364.9	922.9	626.5	342.3	165.0	128.8	2 550.7
<i>% rand</i>	14%	36%	25%	13%	6%	5%	

Staff in foreign missions are assisted by the mission support desk in DIRCO's head office. On average, for every person employed at the head office support desks, 1.4 South African staff are employed at the missions. This ratio is as high as 1:2 and 1:1.8 for Africa and the Americas and Caribbean, and as low as 1:0.2 for the multilateral desks. In addition to the 487 support desk staff, another 1 274 staff work in corporate services, human resources, protocol, diplomacy, and the Diplomatic Training and Research Institute.

Most locally recruited personnel at the missions have relatively low-skill, non-core functions as cleaners, gardeners, maintenance workers or drivers. Only a small proportion have 'core' roles (e.g. consular assistants, trade and information officers, translators), but a breakdown of the number and functions of locally recruited personnel per mission was not available to the PER team.

The number of full-time equivalent South Africans (RSA FTEs) at each mission was used as a proxy for its total number of staff. (An FTE equates to one person employed on a full-time basis for an entire year, while a partial FTE is registered if someone has been employed on part-time basis or for a part of the year.) Based on this calculation, 31% of the missions were classified as small (<4 RSA FTEs), 52% as medium-sized (4–7), 10% as large (7–11) and 7% as very large (>11). The latter are Geneva, the New York United Nations mission, London, Washington, Paris, Brussels, Beijing, Vienna and Addis Ababa (a multilateral mission representing South Africa at the African Union).

3 Expenditure analysis

Average expenditure per mission is R20 million per year, but ten missions are disproportionately costly – New York, Milan, Luanda, Buenos Aires, Port Louis, Riyadh, Dublin, Tripoli, Hong Kong and Shanghai – even after adjusting for the cost of living in these cities and the size of the missions. The adjusted expenditure per RSA FTE of these missions is more than 30% above the average.

Expenditure of missions in some countries (e.g. Russia, Austria, the Democratic Republic of Congo, Canada, Sudan, Mauritius and Israel) is significantly higher than the host country's ranking in terms of trade relations. A mere 25 countries account for 80% of the total bilateral trade with countries in which South Africa has foreign missions.

About 90% of annual spending on foreign missions in 2011/12 was in five cost categories: locally recruited staff (24% of the total), allowances (21%) and personnel costs (17%) for South African staff, property leases (21%) and property-related costs, such as municipal rates, maintenance, furniture and equipment and utilities (7%). On average, expenditure on each of these increased by

13% per year. Only personnel expenditure for South African staff is based in rand; the remaining 83% of spending is in foreign currency (and hence subject to currency fluctuations). The rand depreciated by 18% over the period under review, as reflected in Table 2.

Table 2: Depreciation in the rand–US dollar exchange rate, 2010/11 to 2012/13

Average	Rand–US dollar exchange rate	Year-on-year depreciation	Depreciation of two years
2010/11	7.1743		
2011/12	7.4213	3%	
2012/13	8.4935	14%	18%

4 Costing model

The PER constructed a model to estimate expenditure and analyse trends for the next three years. It is based on 14 expenditure categories, including the salary costs of South African and locally recruited personnel, foreign allowances, foreign travel, entertainment, and security. It facilitates the analysis of expenditure from a number of perspectives, such as global, regional grouping, the cost of living, and individual mission perspectives.

The model includes expenditure information for 2010/11 to 2012/3 and staffing information per level and position type, based on PERSAL data for 2012/13. These data sets can easily be updated. The projections of the future costs per mission and region are based on assumptions about increases in various cost categories, including allowances for South African staff, the costs of local and South African staff, and lease costs. Each of the 126 foreign missions can be benchmarked against global and regional averages, averages for a particular size of mission, and averages for each of the major expenditure categories.

While the model is flexible enough to accommodate a range of scenarios, it highlights the fact that at current growth rates per cost driver, the total expenditure on foreign missions could be as high as R3.7 billion by 2015/16, as against the 2012/13 baseline of R2.5 billion.

5 Findings

In summary, the annual government expenditure at foreign missions amounts to R2.5 billion. Over the three years under review, the rate of growth in expenditure at foreign missions exceeded the rate of depreciation of the currency. This growth was driven largely by higher personnel costs, allowances for South African staff, and growth in the number of locally recruited personnel.

The COLAs for South African staff at missions are exceptionally generous, ranging from R600 000 to R1.3 million per year, and are paid on top of full salaries, free accommodation, and education and other allowances. South Africa's COLAs are 60% higher than those paid to US staff and 40–50% higher than those for UN staff (who also pay their own accommodation, unlike South African staff). South African staff do not pay taxes on these allowances. While the COLA methodology is a standard practice, its base rates were set high and its implementation has therefore been costly.

The distribution of the expenditure on foreign missions could be optimised to focus on countries where South Africa could potentially see the greatest return in terms of trade, tourism, investment and security objectives.

6 Postscript

Since the completion of the PER, the currency has depreciated significantly, increasing the rand cost of foreign missions.

