

Local Government in a Decentralised System of Government: A Comparative Analysis



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Outline of Presentation

- Compared with many other countries that have established decentralised systems of public finance, South Africa's efforts have been quite successful
 - What has South Africa done well
- How can South Africa's decentralised system of local government finance be improved?
 - Lessons that can be learned from other countries experiences



The Advantage of a Decentralised System of Local Government Finance

- More efficient provision of public services
- Enhances government accountability to citizens
- Enhances political stability
 - Allows diversity within a unified political system



What Has South Africa Done Right? Elements of “Good Practice”

- Having a good decentralisation plan
 - The Constitution set the basic parameters of the system, made many of the difficult decisions
 - The White Paper provided a plan for the development of local government finance
- Give both real political power and responsibilities for public service provision to local governments



What Has South Africa Done Right? Elements of “Good Practice” (cont.)

- Providing local governments with real taxing (revenue-raising) authority, and where feasible borrowing authority
- Eliminating small local governments through the demarcation process
- A well-developed system of intergovernmental finance
 - Horizontal allocations are based on objective formulas
 - Reliance primarily on unconditional grants



What Has South Africa Done Right?

Elements of “Good Practice” (cont.)

- Developing (and supporting) asymmetrical approaches to financing local governments that allow for differences in fiscal and institutional capacity
- Placing *hard* budget constraints on local governments
- Putting in place mechanisms for monitoring the fiscal behavior of local governments
 - Municipal Structures Act
 - Municipal Finance Management Act



What Has South Africa Done Right? Elements of “Good Practice” (cont.)

- The establishment of a relatively transparent system of local government finance
 - The *Intergovernmental Fiscal Reviews* play an important role
- Establishment of the FFC
 - As a independent institution with a commitment to local government decentralisation
 - As an important force for maintaining flexibility in the country’s fiscal arrangements



Challenges for the Future

- Guaranteeing that all local governments have the capacity to provide basic municipal public services
- Reforming the RSC levy
 - Wide agreement that the current tax is seriously flawed
 - Reform or replacement with a true local government tax



Challenges for the Future

- Expand the property rates to all local governments, including hard to tax area such as tribal lands
- Reform of the local government equitable share formulas
 - Formulas need to do a better job of reflecting the *expenditure needs* of local governments
 - As Property Rates Bill is implemented, formulas should be adapted to include a comprehensive measure of the *revenue-raising capacity* of each local government
 - Better link between equitable share allocations and the ability of local governments to deliver services (presence of infrastructure)



Challenges for the Future

- Within the newly demarcated local governments and within the Metros, strike a balance between devoting resources to providing basic public services to areas that lack public services or are under-served, and maintaining high quality services where they already exist



Challenges for the Future

- Improved monitoring of the actual provision of public services by local governments
 - If resources available (from local sources or from the Equitable Share), develop mechanisms to deal with failures by local governments to deliver services
- Maintaining simplicity and transparency in the intergovernmental system
 - Resist profusion of conditional grants, especially those linked to factor inputs
 - Increase clarity in the determination of the vertical share of transfers to local governments



Challenges for the Future

- Maintain flexibility in the system of local government finance
 - Change revenue-raising instruments to reflect changes in the economy
 - Change expenditure assignments to reflect changing conditions and realities
- Be vigilant to prevent the imposition of both unfunded mandates and revenue limits by higher level governments