

Improving public sector performance: An international perspective

Executive Summary

In today's globalised economy, economic growth and development depend on the public sector. Government's primary role is to eliminate market inefficiencies and correct missing markets and environmental externalities that the market economy fails to resolve. By rebalancing resource flows and producing the public goods and services that are necessary for the optimal functioning of the market economy, government encourages and supports the private sector to maximise its contributions to growth and development, while securing and optimising social welfare gains.

Measuring performance is essential for organisations to fully understand their operations and assess productivity, quality, customer satisfaction, timeliness and innovation. It enables them to identify areas for improvement, make informed decisions and effectively achieve their objectives, while retaining desired levels of service quality. This research aims to quantitatively analyse the impact of public sector productivity on economic growth in 23 upper-middle and high-income (UMH) countries. Furthermore, this study is a comprehensive compilation of international cases demonstrating how lessons from global experiences could be adapted and implemented in the South African context.

The findings reveal the positive effect of public sector employment and capital on government output and the positive impact of technological change on public sector productivity. In addition, the results highlight the significant difference that increased spending on education can make to public sector efficiency. The results demonstrate the prevailing high technical efficiency within the public sectors of UMH countries. High-income countries generally have superior efficiency scores compared to upper-middle-income countries. The findings show that government investment in infrastructure contributes positively to public sector efficiency and is instrumental in promoting rapid economic growth.

THE FINANCIAL AND FISCAL COMMISSION

The Financial and Fiscal Commission is a body that makes recommendations and gives advice to organs of state on financial and fiscal matters. As an institution created in the Constitution of the Republic of South Africa, it is an independent juristic person subject only to the Constitution itself, the Financial and Fiscal Commission Act, 1997 (Act No. 99 of 1997) (as amended) and relevant legislative prescripts. It may perform its functions on its own initiative or at the request of an organ of state.

The vision of the Commission is to provide influential advice for equitable, efficient and sustainable intergovernmental fiscal relations between national, provincial and local spheres of government. This relates to the equitable division of government revenue among three spheres of government and to the related service delivery of public services to South Africans.

Through focused research, the Commission aims to provide proactive, expert and independent advice on promoting the intergovernmental fiscal relations system using evidence-based policy analysis to ensure the realisation of constitutional values. The Commission reports directly to both Parliament and the provincial legislatures, who hold government institutions to account. Government must respond to the Commission's recommendations and the extent to which they will be implemented at the tabling of the annual national budget in February each year.

The Commission consists of commissioners appointed by the President: the Chairperson and Deputy Chairperson, three representatives of provinces, two representatives of organised local government and two other persons. The Commission pledges its commitment to the betterment of South Africa and South Africans in the execution of its duties.

The analysis of the international case studies drawn on in this study reveals the overriding importance of political leadership as an exogenous factor in successfully driving reform, the necessity of developing institutional capacity, the transformative evolution of incentives, the crucial role of internal or external transparency, and low-cost technology interventions as crucial reform mechanisms to move countries forward on their developmental journeys.

Hence, the Commission recommends the following: National Treasury, in collaboration with the Department of Trade, Industry and Competition, the Department of Public Enterprises, and the Department of Public Works and Infrastructure, should devise and consolidate the various grants and earmarked allocations into an infrastructure incentive grant for economic infrastructure development and public-private partnerships (PPPs). National Treasury should prioritise investment in infrastructure for economic growth and productivity. The Department of Public Service and Administration should improve professionalisation, effective institutional capabilities, transparency and technological advancement, and provide incentives to improve public sector performance and service delivery.

Background

Despite having a well-developed performance management system (PMS) in the post-1994 public service in South Africa, concerns have been raised about its efficacy and impact on public sector performance. The existing system has not adequately addressed issues of target setting, the alignment of individual and organisational performance, the capacity of managers, a focus on outputs as opposed to outcomes, compliance versus actual performance, and accountability. These challenges have impeded the public sector's ability to deliver efficient and effective services to the citizens of South Africa.

Given the shortcomings of the current PMS, there is an urgent need to examine and present recommendations to improve public sector performance in South Africa. In addition, it would be essential to consider international experience to gain insights into successes in countries facing similar challenges through a comparative analysis. Comparing these international experiences will provide valuable lessons and indicate best practices that could form the basis of practical solutions in the South African context.

Research findings

The results suggest that public sector labour and capital positively impact government output. Specifically, a 1 per cent increase in labour input leads to an estimated 2 per cent increase in output, providing the capital input remains constant. They also show that a 1 per cent increase in capital brings about a 4 per cent rise in output, with constant labour input. The result implies that positive technological changes have occurred in the sample period, with output increasing at an annual rate of 2 per cent between 1990 and 2020. Government's education expenditure contributes 27 per cent significantly to public sector output, with other factors held constant.

The findings show that a healthy life equals productive employees, and healthy spending data reduces inefficiency. A 1 per cent increase in health spending causes a decrease of 3.6 per cent in inefficiency. An increase in the share of public health spending causes a reduction in overall inefficiency in the range of 1.6 to 3.1 per cent in health spending. The correlation between government spending on health and technical inefficiency is statistically significant, but does not imply a causal relationship. It indicates that investing in public health enhances healthcare system efficacy, which is positively correlated with health improvement and efficiency.

The results show that the average technical efficiency score for UMH countries in the public sector is 0.74, indicating a potential 26 per cent increase in output without changing input levels.

The range of scores is from 3 per cent to 94 per cent, suggesting room for improvement. This inefficiency may stem from ineffective processes, the underutilisation of resources, suboptimal input allocation, incompetent public servants, lack of accountability, poor financial management and corruption.

The technical efficiency scores reveal that only five of 16 high-income economies have scores below the 74 per cent average. Argentina, Botswana and South Africa stand out as having lower efficiency than other upper-middle-income economies. In the case of South Africa, low technical efficiency can be linked to high public wage bills, low economic growth, corruption, education and skills deficits, wasteful expenditure, poor service delivery, high debt service costs and the underperformance of state-owned enterprises.

The Netherlands and Denmark are the only countries with technical efficiency scores equal to the average for all countries. In contrast, for most high-income countries, technical efficiency scores are above 80 per cent, while in the upper-middle-income economies, only three countries achieve a technical efficiency greater than 80 per cent.

Upper middle-income countries lag high-income countries regarding technical efficiency, mainly due to factors like research and development (R&D) investment and a highly skilled labour force. Lower- and middle-scoring countries could look to and learn from higher-scoring ones, such as Canada, to help improve their efficiency scores. The sharing of best practices, transparency and capacity building can also assist lower-scoring countries like South Africa and Chile. Technical efficiency scores can change over time, and institutional reforms can lead to improvement.

The constant returns to scale technical efficiency score results show that countries operate at approximately 70 per cent of their maximum efficiency potential. That means that UMH countries are about 30 per cent technically inefficient, when all else is constant. The results imply that countries like South Africa and Turkey should implement reforms to improve the productivity of their public sectors through streamlining processes, enhancing transparency, optimising resource allocation and improving the performance chain to combat corruption and maladministration.

Given the above insights, improving the quality of education is important to increase productivity. Investing in education is crucial to equip the workforce with appropriate skills, given the changes in the economy. This could be done by accelerating research and innovation, and aligning education with industry needs. South Africa and Turkey can benefit from optimising the use of inputs and raising economic performance.

The study found that UMH countries operate under increasing returns to scale (IRS). This suggests that increasing public sector inputs leads to more significant public sector service outputs. Therefore, they reveal how a country can take full advantage of the IRS, focusing on specialisation, efficient resource allocation and improved coordination in delivering public sector services. Similar to specialisation enhancement in expertise and mass of resources concentration, the efficient use of resources could be seen as good process allocation for maximum benefits. Through coordination, simple means and faster processes, effective resource allocation can be accomplished. Therefore, taking all three steps could improve efficiency and, as a result, benefit economic development and improve societal wellbeing.

The results show that increasing government expenditure on infrastructure strongly affects public sector efficiency, leading to better economic growth. A notable and statistically significant correlation is observed between a 1 per cent increase in government expenditure on infrastructure and a substantial 4 per cent enhancement in public sector efficiency. Increased infrastructure spending is linked to improved public sector efficiency, emphasising the importance of strategic fiscal allocations for economic growth in upper-middle-income countries.

The qualitative analysis shows that five factors are critical to successful public sector performance: political leadership, institutional capacity, incentives, transparency and technology. Implementing innovation can often involve far more than just technocratic rollout. In some international case studies, the innovations were so far-reaching that they needed a fundamental shift in political leadership at the top to set a new organisational management paradigm. Creating lasting change requires the building of institutional capacity. This was another recurring theme in the range of cases, particularly cases focused on getting results from the apex of government and public financial management.

Typically, officials have developed a mix of tools, processes and staff training to help build those institutions and pursue their results appropriately. Ultimately, sustainable institutions are needed for sustainable reform.

Given the basis for public sector performance improvement, the significance of incentives is apparent both within the framework of the institutional structure and within the civil service cadre. The importance of transparency in driving improvements in the public sector, which can accrue to internal stakeholders, including elected officials, and external stakeholders, like citizens, cannot be overstated. Technology, while not heralded as a universal remedy, emerges as a prominent feature in approximately two thirds of the highlighted cases, either by showcasing the central role of technology application in driving reform or by assuming a complementary role.

Conclusion

The Stochastic Frontier Analysis (SFA) model detects the positive effect of public sector employment and capital on government output, and the positive impact of technological change on public sector productivity. In addition, the research successfully highlighted the significant difference that increased spending on education can make to public sector efficiency. This sends a powerful message that funds poured into this sector can make a big difference. Furthermore, increased allocations towards public health are associated with higher healthcare productivity and decreased technical inefficiency within the health sector.

The findings demonstrate an interesting overview of the prevailing high technical efficiency within the public sectors of high-income countries. Only four high-income countries return scores below the average threshold, suggesting that technical efficiency levels are relatively solid across this grouping. However, the position is less positive across the upper-middle-income economies, as the theory suggests. Argentina, Botswana and South Africa emerge as lower-level performers in terms of technical efficiency.

Furthermore, through data envelopment analysis, the examination of public sector performance reflects a consistent pattern where high-income countries generally have superior efficiency scores compared to upper-middle-income countries. This sharpens the findings from the SFA model and Tobit regression that a great deal of government investment in infrastructure contributes positively to public sector efficiency, which is, in turn, instrumental in promoting rapid economic growth.

An analysis of the international case studies drawn on in this report has yielded several key findings. Firstly, political leadership is of overriding importance as an exogenous factor in successfully driving reform. Secondly, it is necessary to develop institutional capacity. The putative protracted nature of this exercise points to long-term efforts, complemented by a raft of short- and medium-term steps to underpin progress. Thirdly, the transformative evolution of incentives – especially those deeply engrained in the civil service socialisation process – is gradual.

A fourth feature, internal or external transparency, focuses on incentive reform. Time is necessary to bring about structural alterations. However, there are technical adjustments, which, if applied rapidly, like making performance-related information accessible, can have a significant impact. Finally, introducing technology into government functions is often an initiative that can be undertaken relatively quickly. Although not necessarily a panacea for administrative transformation, the targeted, often low-cost technology interventions that countries can consider may be one way to move them forward on their developmental journeys.

Enquiries:

Thando Ngozo

thando.ngozo@ffc.co.za

Financial and Fiscal Commission

11th Floor, 33 on Heerengracht

Heerengracht Street Foreshore, Cape Town

www.ffc.co.za