



Policy Brief

Recentralisation – Implications for Service Delivery and Intergovernmental Relations

20 March 2019

EXECUTIVE SUMMARY

While the 1980s and beyond witnessed a global trend towards decentralisation¹, a number of countries appear to be reversing the devolution of powers and shifting functions towards higher spheres of government (recentralisation). Apart from being driven by the perception that national governments perform better than their subnational counterparts, recentralisation is also popular as a strategy to withstand an economic crisis. Currently, South Africa is facing severe fiscal constraints, driven by low growth. In addition, service delivery failure relating to corruption, among other factors, has brought about fiscal consolidation and recentralisation, premised on the assumption that the national sphere is better able to deliver services within a limited resource envelope. The major research question for this chapter is whether recentralisation poses an effective avenue for delivering better value for money and improved service delivery during this period of financial crisis. Using multiple research techniques, including case studies on fiscal and administrative recentralisation, the research found that national government does not necessarily perform better at service delivery than its subnational counterparts. The study therefore recommends that national government should not automatically resort to increasing its role (i.e. recentralising) in the current constrained fiscal environment. National government should rather adopt a differentiated approach to reforms, targeting weak performances in sub-national governments. To improve service delivery and achieve priority outcomes, the study recommends that National Treasury develop and strengthen control measures to better monitor the use of grant funding and its outcomes, and take decisive action in cases where grants are ineffectively spent.

¹ Decentralisation is defined as a process whereby an authority over a function is transferred from the higher sphere of government, usually the central or national government to a lower sphere of government either provincial or local government. It is the opposite of recentralisation where authority over a function is being transferred from the lower sphere of government to the higher sphere.

BACKGROUND

Since the 1980s there has been a trend towards decentralisation in developing countries. Almost four decades later, it is questionable whether decentralisation has yielded the many benefits that proponents of the approach believed it would. Recently, numerous countries, including some in Latin American and sub-Saharan Africa that previously embarked on extensive decentralisation processes, seem to be reversing the process through recentralisation². Recentralisation in South Africa raises various public finance concerns, including that:

- It is contrary to the spirit and principles of a multilevel system of government that has been established by South Africa's Constitution.
- In South Africa, where the principle of "funds follow function" is embraced, the relocation of functions is accompanied by definite fiscal implications for the government sphere that is "gaining" as well as the one that is "losing" the function. Contestation regarding funding allocations becomes one of the biggest challenges when a function is recentralised.

South Africa is currently facing severe fiscal constraints, where growth has been, and is projected to remain, muted. This has precipitated significant fiscal consolidation and a drive to ensure value for money and more efficient spending across government. In this constrained economic environment, recentralisation is likely. In the drive for recentralisation within a limited resource envelope, national government is presumed to better deliver services than provincial or local government.

The objectives of this study are:

- To analyse the fiscal and service delivery implications of fiscal recentralisation and of administrative recentralisation;
- To assess whether the national sphere performance, in terms of service delivery and spending performance, is superior to that of subnational government; and if so,
- To determine whether recentralisation provides an avenue for ensuring better value for money in a fiscally constrained environment.

RESEARCH FINDINGS

Multiple techniques were used in the research. Case studies of examples of recentralisation generated broad lessons for the public sector, while an assessment of the use and performance of earmarked conditional grants allowed conclusions to be drawn on the financial impact of recentralisation. In the case of administrative recentralisation, a "before and after" analysis identified changes in the performances of Technical and Vocational Education and Training (TVET) colleges as a result of the relocation of the function from subnational to national government. Interactions with relevant stakeholders complemented the quantitative analysis of TVET colleges.

Analysis of conditional grants – financial recentralisation

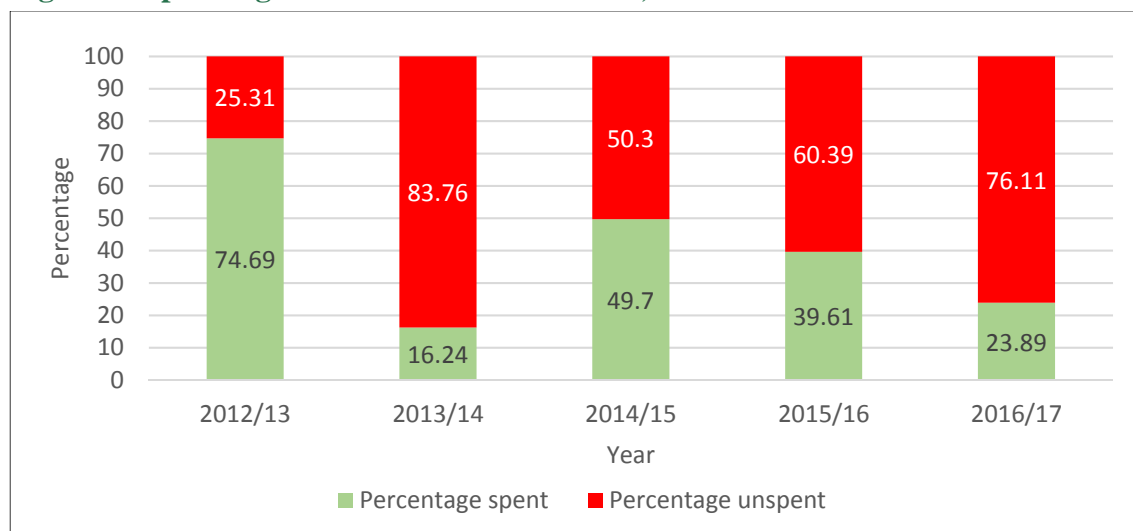
The analysis showed changes in the manner in which government grants are applied during times of fiscal stress. Following the 2007/08 global financial crisis, for example, government

² There are three types of recentralisation: political, fiscal and administrative (Dickovick, 2011b). Political recentralisation involves reducing the right of authorities in a subnational jurisdiction to govern via independent elections. Fiscal and administrative recentralisation, on the other hand, entails reduced autonomy over fiscal resources and expenditures respectively.

placed greater emphasis on conditional grants compared to block grants³. This continued for a few years after the global crisis. It is interesting to note that in the current muted economic climate (2018 Medium Term Expenditure Framework period), government has not adopted the same approach as that post 2007/08 of reducing block grants relative to conditional grants. Instead, the opposite has occurred, with real growth in block grants strengthening relative to real growth in conditional grants. Notable is that while the number of conditional grants are not being significantly increased, pockets of funding within existing conditional grants are, however, being ring-fenced with stringent conditions. This means that recentralisation is being applied, but in a less obvious manner than would be expected in a time of fiscal strain.

A more detailed assessment of earmarked conditional grant funding showed an increase in their usage, particularly in the human settlements sector. Prior to 2012/13 there was only one earmarked conditional grant but the number had increased to four by 2018/19. Furthermore, an assessment of the performance of selected earmarked funds in the sector (using Finance Linked Individual Subsidy Programme (FLISP) and the Upgrading of Informal Settlements in Mining Towns) shows poor performance in the spending of funds and service delivery. Using data from the Department of Human Settlements' Annual Report for 2012/13 and 2016/17 with respect to FLISP, the highest spending recorded was 74.69 per cent in 2012/13. This declined to 23.89 per cent in 2016/17. (See figure 1.)

Figure 1: Spending Performance of the FLISP, 2012/13-2016/17

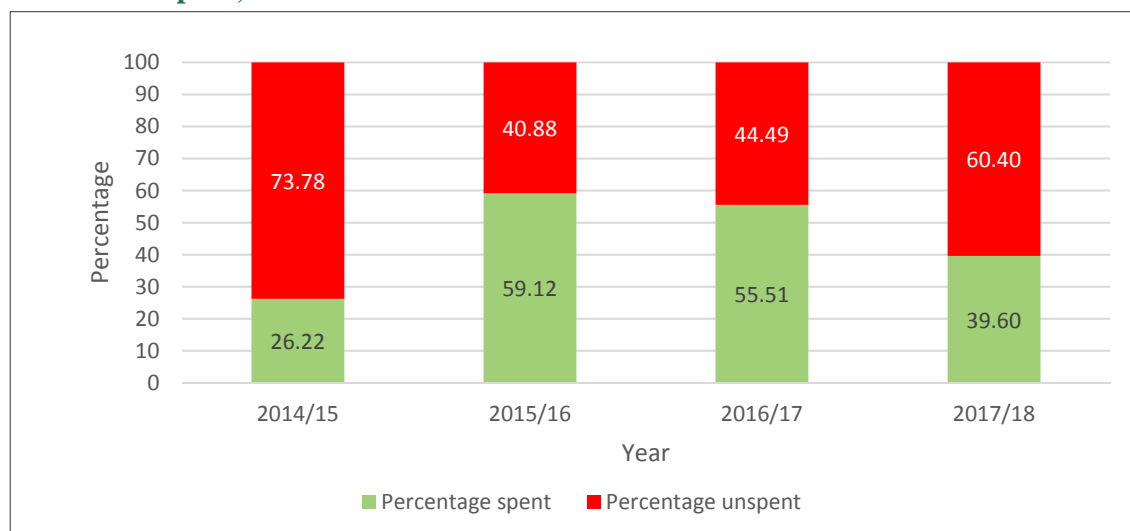


Source: Own calculations using National Department of Human Settlements Database (2012-2016).

A similar trend exists in respect of earmarked funding for informal settlements in mining towns. Financially, this grant has performed poorly over the past four years (Figure 2). Since its inception in 2014/15, the highest percentage that has been spent was only 59 per cent of the allocation, in 2015/16.

³ The term 'block' grants refer to equitable share allocations which are sums of money provided to provincial (provincial equitable share allocation) and local governments (local equitable share allocation). Relative to conditional grants which have specific conditions attached to them, the use of block grant allocations (or equitable share allocations) are at the discretion of provincial or local governments.

Figure 2. Upgrading of Informal Settlements in Mining Towns: Percentage of Total Allocation Spent, 2014/15-2017/18



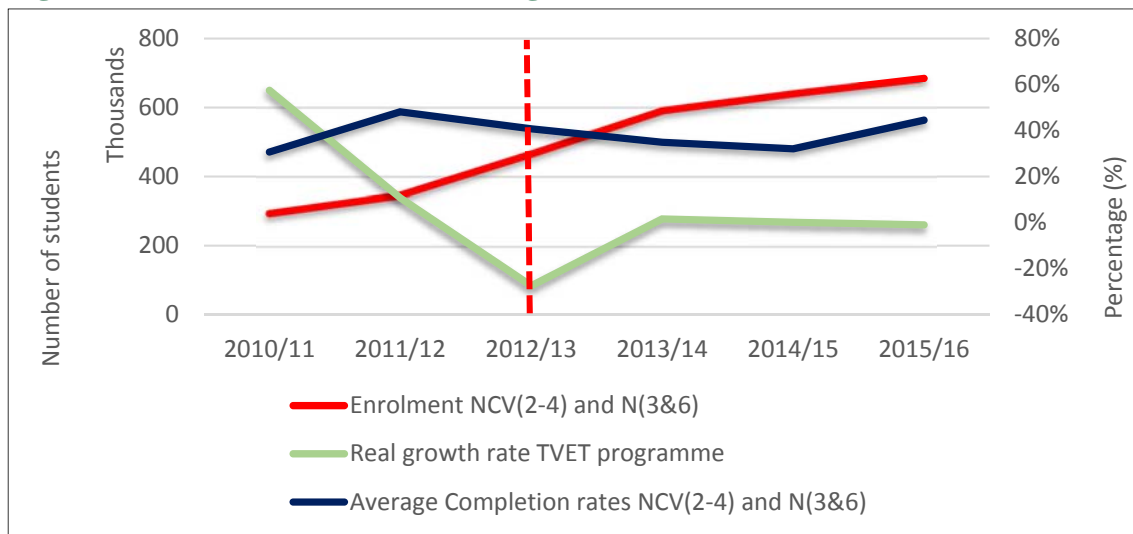
Source: Own calculations using National Department of Human Settlements Database (2014-2017)

Analysis of TVET colleges – administrative recentralisation

As mentioned, a case study of (TVET) colleges provided insight into how reform has impacted on their efficiency and performance.

Prior to 2012, TVET colleges were overseen by the nine provincial education departments (although they were a national competence). As a result, TVET colleges were funded and managed differently in different provinces, leading to inequalities. One of the key reasons underpinning the recentralisation of the colleges' function was to implement a uniform funding and management approach to all TVET colleges. In spite of this, however, the case study found that a misalignment still exists between the ambitious policy aspirations of TVET colleges (set by South Africa's long-term development plan, the National Development Plan) on the one hand, and their funding resources and institutional capabilities on the other. Figure 3 shows that the significant increase in college enrolments since 2010 has not been matched by real growth in college funding. In particular, real growth in allocations to TVET colleges were on a downward trend prior to 2012/13, the year that the National Department of Higher Education and Training assumed responsibility. However, since the function has been recentralised, growth in allocations to TVET colleges remains marginal at best. Over the same period, student enrolment has more than doubled, and while there has been some improvement in completion rates, they remain worryingly low. A second finding was that, despite recentralisation, allocations to colleges in previously better funded provinces tend to be higher than those of previously underfunded provinces. This suggests that, despite recentralisation, inequities in the funding allocations per full time equivalent (FTE)⁴ across the provinces remain.

⁴ FTE is a unit that indicates the workload of a student in a manner that makes workloads comparable across different contexts.

Figure 3. Performance of TVET Colleges Prior and Post Recentralisation

Source: FFC calculations using DHET (2010-2011, 2013a, 2013b, 2014 2015a, 2015b, 2015c, 2017) database

Note: The National Certificate Vocational (or NCV) consists of four levels from NCV 1 to 4, which is equivalent to Grades 9-12. National Certificates (or N) are Certificates for Engineering and Business Studies.

A third finding relates to the impact of recentralisation on the efficiency of TVET colleges. The majority of the top ten colleges are in provinces that previously had better funded budgets, while the bottom ten colleges are comprised mostly of colleges that are in previously underfunded provinces. Close to 50 per cent of the bottom ten colleges that were inefficient prior to the function being moved to the national sphere became efficient post the relocation of the function. In the period post recentralisation, when the DHET assumed responsibility, the extent to which the funding of colleges is equitable and adequate remains the main driver of efficiency. This reiterates that equitable funding across all TVET colleges remains a challenge that affects institutional performance.

With respect to completion rates, the results indicate that the location of the function influences the educational performance of TVET colleges, irrespective of whether the college was previously underfunded. In particular, recentralisation of the function is associated with an increase in completion rates specifically between 2014/15 and 2015/16. This result is consistent with some of the interventions that the national DHET has initiated as a way of addressing the challenges of inadequate capacity to offer new programmes and qualifications faced by many colleges. These interventions include the implementation of lecturer development programmes and ensuring curriculum support through the development of a national framework for curriculum review.

CONCLUSION

Economic crises and fiscally constrained environments necessitate changes in the intergovernmental fiscal relations and the administration of some functions and responsibilities for different spheres of government. Central to these changes are the fiscal and administrative recentralisation reforms which have been implemented in South Africa. This chapter investigated whether recentralisation provides an effective avenue for better value for money and improved service delivery during the current period of financial and fiscal constraints. Two case studies of key examples of recentralisation were used to generate broad lessons applicable to the public sector.

Regarding fiscal centralisation, findings reveal that, overall, over the full period reviewed (2002/03 to 2020/21), conditional grants grew at a faster rate than discretionary block grants. However, during periods of fiscal constraints, this was not necessarily the case. For example, during the period post 2007/08, i.e. the financial crisis, consistent with international literature, conditional grant funding increased markedly, while block grants grew more moderately. Conversely over the current fiscally constrained period, the opposite occurred, with real growth in block grants strengthening relative to real growth in conditional grants. Notable is the increase in earmarked conditional grant funding where ring-fencing and more stringent conditions are applied to pockets of funding within existing conditional grants. This represents a less obvious approach to recentralisation than would be the case with simply increasing the number of conditional grants relative to block grants.

Three key findings emerge from the two case-studies on fiscal recentralisation and on administrative recentralisation. First, the analysis shows that central government does not necessarily perform better at service delivery compared to subnational government. This brings into question the rationale behind recentralisation. Poor spending and service delivery performance of earmarked conditional grants is evidence of this, making recentralisation alone, an unsuitable avenue for achieving improved service delivery. Second, with respect to administrative recentralisation, a blanket approach to its implementation is unsuitable as results show that some TVET colleges that were efficient prior to recentralisation saw a decline in levels of efficiency post the reform. Third, the analysis indicates a negative impact on the achievement of policy goals in situations where recentralisation occurs in the context of a misalignment between policy aspirations, the resources allocated, and institutional capabilities.

RECOMMENDATIONS

Based on the research conducted, the Commission recommends that:

- 1) *The government not automatically increase its centralised role in the current constrained fiscal environment, since research does not provide evidence that doing so leads to improved spending or service delivery performance.*
- 2) *National Treasury develop and strengthen control measures to tighten monitoring and reporting on the spending and outcomes of grant funding by sub-national governments. Decisive action, such as the withholding of funds, should be taken as soon as cases involving the misuse of grant funding have been identified.*
- 3) *That a differentiated approach to reforms is adopted to ensure that sub-national governments lacking in capabilities and funding do not continue to be disadvantaged. The possibility that applying a blanket approach may inadvertently have a negative impact on good performers, provides further support for the plea for a targeted approach.*

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