

Address at the Financial and Fiscal Commission
International
Conference on A Review of South Africa's
Intergovernmental Fiscal Relations (IGFR) System:
An African Perspective on Fiscal Decentralization

Cape Town, August 11th, 2014

Introductory
Remarks

Excellences,

Distinguished guests and participants,

Ladies and Gentlemen

On behalf of the Financial and Fiscal Commission, it is an honour for me to deliver this address at the Intergovernmental Fiscal Relations (IGFR) International Conference: *An African Perspective on Fiscal Decentralization*. The Commission is pleased to host this conference to mark the 20 year milestone in the evolution of our democracy.

The theme of this conference — “A Review of South Africa's Intergovernmental Fiscal Relations System: An African Perspective on Fiscal Decentralization” is one that is very pertinent, both for South Africa and

countries on the African continent that have embarked on major political and administrative reforms in the past two decades.

Since the late 1980s, heightened desires of citizens to deal with problems of centralized bureaucracies and bring the management of government functions closer to themselves have created opportunities for central governments in various countries across the world to shift the management of development initiatives to sub-national authorities. In the last two decades, the structural reforms undertaken by many developing countries, particularly in sub-Saharan Africa, have coincided with political transitions seeking to promote greater democratic dispensations. A key component of the reform agenda has been the design and implementation of initiatives aimed at increasing the fiscal and institutional autonomy of subnational administrative units. In many respects, the move towards greater fiscal decentralization is premised on arguments (both theoretical and ideological) that a greater degree of decentralization allows for better alignment between the spending and funding responsibilities of public authorities. Such an alignment of revenues and expenditures creates opportunities for sub-national authorities to improve the efficiency and effectiveness of spending on public services.

Given these purported benefits, it comes as no surprise that many African states have increasingly favoured fiscal decentralization and decentralized governance as a means of strengthening democratic participation, enhancing service delivery and addressing previous systems of ethnic/politically driven allocation of resources. Today, decentralized structures and the existence of decentralization–supporting institutions are formally enshrined within the constitutions of countries including Ethiopia, Nigeria, Sudan, and Kenya among others.

Like the aforementioned countries, fiscal decentralization and the mechanisms to support an effective system of intergovernmental fiscal relations is a key component of South Africa’s 1996 Constitution and the macroeconomic policy frameworks implemented since the advent of South Africa’s democracy in 1994. South Africa’s experience with fiscal decentralization and implementing the current framework of intergovernmental fiscal relations has run concurrently with the country’s transition to a mature, established democratic state. This year, as South Africa marks 20 years of its lauded democratic transition, affords the Commission and its partner institutions, a valuable opportunity to review its contribution to supporting democracy in the allocation of resources. To a

large extent, this contribution has evolved through building a functional system of intergovernmental relations, and using the experiences and lessons learned –from a South African perspective as well as from interactions with intergovernmental practitioners and institutions across the world, to shape the future practice of fiscal decentralization.

Structure of Address

This address will consider three key issues: (a) South Africa's own history with fiscal decentralization and the role of the Financial and Fiscal Commission in shaping this history; (b) observed, practical shared experiences of fiscal decentralization within the context of the Commission's interactions with similar institutions/agencies on the African continent; and (c) highlighting a few matters, based on our own experiences, on improving future decision-making of what exists in implementing fiscal decentralization within the context of developing countries.

The South African Experience

Permit me to share a few observations regarding South Africa's experience with fiscal decentralization. The negotiations for democracy in South Africa (mainly between centralists and federalists, and the debate continues to date) laid the foundations for the country's current system of intergovernmental fiscal relations.

With the unanimous support of political actors, the negotiations culminated in a Constitution that set out a system of a unitary state characterized on a multi-sphere government with national, provincial and local governments operating as distinct, interdependent and interrelated spheres with specific powers and responsibilities regarding governance and delivery of services to the country's citizens. South Africa's 1996 Constitution is one that continues to receive much praise across the world for its pioneering approach to human rights and a living document that symbolizes efforts of achieving a remarkable negotiated transition.

However for practitioners and policymakers alike, the formal adoption of the Constitution marked the difficult beginning of making operational, the actual framework of decentralization outlined in the Constitution. I am sure, many of the "old hands" in the room will recall this period with a tinge of nostalgia and muse about how far we have come! Without much precedent, South Africa had to learn how to build an integrated, inclusive system of intergovernmental relations while managing the complexities around issues of fiscal autonomy and revenue sharing among the three spheres of government. From the treacherous days of function committees and

amalgamating former homelands and local authorities, South Africa has had to literally build an aero-plane in mid-flight. In retrospect, one can only credit this unprecedented achievement to the commitment of Team Finance and the relentless stewardship of the Budget Council

For us at the Financial and Fiscal Commission participating in the broader Team Finance and contributing to the process has been humbling experience. The Constitution defined our role as an independent, impartial body tasked with providing objective recommendations on financial and fiscal matters and placed us at the center of intense debates and at times uncomfortable questions around revenue-sharing mechanisms between and among the three spheres of government. Questions around subnational mandates and sufficiency of transfers still persist and are as relevant today as they were at the beginning. We can however proudly say that through a shared commitment, vision and determination to establish a sound intergovernmental relations system, South Africa has been able to manage the challenges quite remarkably, and now operates an intergovernmental and decentralized framework widely recognized across the world for its noteworthy successes in normally problematic areas of decentralization reforms.

An established, relatively objective and transparent system of revenue-sharing among the three spheres, generally clear assignment of fiscal responsibilities and legal certainty created by the country's Constitution around the fiscal decentralization framework are some of these notable successes. At the center of all of this has been the very sound institutions created through the Intergovernmental Fiscal relations Act, namely the Budget Council and Budget Forum which have been very well managed by the successive Ministers of Finance and have developed and consolidated their credibility through transparent consultation processes.

Ten years ago, the Commission convened a similar conference that reviewed the country's decade long experience with fiscal decentralization and intergovernmental relations. The abiding message from the conference was simple and clear-cut: without any ambiguity, South Africa had in its first decade of full democracy, firmly established a solid legal and operational structure for fiscal decentralization and intergovernmental fiscal relations; what was required was the need to consolidate the massive strides made in using the intergovernmental relations framework as a viable tool that would assist in the achievement of socio-economic and development objectives.

The then Finance Minister – Trevor Manuel was more explicit in his charge to the Commission, as he recommended that proposals by the FFC needed to enhance the value of the intergovernmental fiscal relations system beyond its primary focus on the revenue-sharing formulas and inputs into the Division of Revenue processes.

The Commission responded to that call. In the last ten years, the work of the Commission under the successive leadership of Murphy Morobe, Renosi Mokate and Bethuel Setai has laid the foundation for strategic partnerships with institutions tasked with entrenching and enhancing the benefits of fiscal decentralization. The Commission took the strategic decision of employing a “supply-driven” approach and focus its work on the developmental impact of the intergovernmental fiscal relations system. For this purpose, the Commission established a system of public hearings as a forum to interact with a range of key stakeholders across the three spheres of government in order to gain valuable insights about their experiences and perspectives with implementing the nuts and bolts of South Africa’s fiscal decentralization imperatives especially in areas of concurrent functional assignments.

From these hearings, the Commission's work has increasingly become an essential input into the work of Parliament's Select and Standing Committees on Finance and Appropriations and other relevant portfolio Committees. Similarly, the groundwork laid by these hearings have allowed the Commission to forge more strategic alliances with National Treasury, Provincial Treasuries, respective national government departments as well as organized local government, all of whom have shown faith in the proposals and contributions by the Commission to ongoing work to reform the system of resource sharing and the financing mechanism for sub-national entities to deliver on their Constitutional mandates.

Ten years ago, the institutional arrangements and structures for fiscal decentralization at the local government level were still at a nascent stage. The Commission was and still remains, firmly of the view that the developmental mandate assigned municipalities by the Constitution requires concerted efforts to institute measures aimed at improving on accountability and the fiscal sustainability of local governments. Much as the constitution is very specific on the role of national and provincial governments with respect to capacitating local government, the Commission is also mindful of its central role when it comes to ensuring equitable resource allocation to this

sphere of government including the municipalities' own responsibility in mobilizing resources through the fiscal instruments assigned to it by the Constitution. The need to fulfill increased demands on the Commission to engage in efforts to assist the local sphere find its footing within the country's intergovernmental fiscal system necessitated some internal restructuring of the Commission's work. For this purpose, internal restructuring and alignment of resources led to the creation of a dedicated Local Government Unit with a specific mandate to contribute to the development of a sound fiscal framework for local government and enhancing the fiscal capacity of municipalities to fulfill their core service delivery mandates. The Unit's work on the costing of constitutionally mandated basic services (CMBS), municipal finance framework, municipal infrastructure grants and retooling the equitable share to reflect development and capacity asymmetry across municipalities testifies to the Commission's commitment to this initiative.

Many of you in the audience will surely share the opinion of eminent scholars such as Wallace Oates and Richard Musgrave that rather than being an exercise for academics or ideologues, at the core of implementing a framework for fiscal decentralization is the need to have governments that are responsive to improving the lives of citizens through the effective use of

resources towards fulfilling the service delivery needs of citizens. Over the past decade, the Commission has emphasized partnering with institutions such as the Human Sciences Research Council (HSRC), the Public Service Commission, and the Municipal Demarcation Board with a view to build on its evidence base around the impact of policy decisions on the lives of our country's citizens. Over the next few days, we will all be privileged to share the results of research aimed at providing such insights.

An important development with regard to the system is the establishment of the Parliamentary Budget Office. On a number of occasions, I have been confronted with a question that says now that Parliament has its own Budget Office, do we still need the FFC? My response has been and will be yes, we do but we need to ensure that there is neither competition nor duplication because the mandates are different even though overlaps exist. We have as a Commission been working quite closely with the PBO towards ensuring that our work complements as opposed to competing with the work of Parliament which includes the PBO. I am sure some of the papers for deliberation this week will elaborate on these complex issues.

our guests, speakers from different countries on the African continent. Their perspectives on the development of fiscal decentralization in their respective countries is intended to actualize the theme of this conference.

Across the continent, the decentralized administrative structure bequeathed by colonial administrators but gradually overtaken by centralization initiatives for much of the post-independence period are now being gradually revived. This time however, the revival of fiscal decentralization in many African countries is informed and shaped by our own experiences, our own expectations and our own desires on how best decentralization can work to achieve national goals and objectives. Such an approach has not been without its own share of mistakes and mis-steps. However, just like South Africa two decades ago, our African counterparts in the process of establishing decentralized structures have sought to learn from established structures across the globe. It is noteworthy and with a tinge of 'humble pride', to know that policymakers and decentralization supporting institutions have consistently made the trek down to South Africa with the same message – “how have you managed to establish a functional system of intergovernmental relations and fiscal decentralization, while managing it's tensions?” These groups have not only been from the African continent but

from as far as Sri Lanka and Afghanistan. In 2013, we signed an MoU with Kenya's Commission on Revenue Allocation and the relationship has been mutually beneficial.

Concluding
Remarks

Without straying too much from my brief, I wish to conclude this address by sharing a few suggestions on a range of issues that could be vital to the future functioning, at least from a pan-African perspective, of intergovernmental relations and fiscal decentralization.

- First, we must always bear in mind that decentralization is an institutional arrangement involving local/regional authorities, relations of accountability, and the assignment of powers and functions across different spheres/tiers/levels of government. Without the establishment of the appropriate institutional forms and clear assignment of public powers, the theoretically espoused benefits such as a more equitable distribution of resources and greater efficiency in delivery of crucial socio-economic will not be achieved.
- Secondly, and a concept I often debate with my colleagues, is the concept of "capacity"! As a number of studies have pointed out and as many practitioners are aware, much of the inability of sub-national to

fully deliver on their mandates is attributed to the “lack of capacity”. However, and very often, local preferences and choices that differ from those articulated by central authorities, and inability of local authorities to implement unrealistic, centrally designed programs have come to symbolize the lack of capacity at sub-national levels. As a result of concerns over lack of capacity, few central governments across the continent have trusted local actors enough to transfer powers to local authorities.¹ It would not be unreasonable to consider a ‘differentiated approach’ that takes into account the existence of asymmetric levels of administrative and functional capacities/abilities across sub-national governments. This can ensure that those regions/localities that have the capacity are not denied powers to implement policies that fully reflect local conditions and needs in the delivery of essential public services.

- And finally, in the spirit of enhancing the benefits of decentralization, there must be a drive to provide sub-national entities with sufficient fiscal powers and resources to be effective. Across the continent,

¹ Ribot (2003) argues that such an approach has the unfortunate effect of delaying decentralization and of denying local authorities the very powers they would need to hold in order to improve their technical and managerial skills.

regional, state and local governments face increased demands to fulfill the service demands of citizens. In addition, many central governments now advocate that sub-national authorities implement programs aimed economic development, reducing inequalities and poverty alleviation. If decentralization and intergovernmental relations are to assist in achieving these objectives, there must be a clear commitment to not burdening sub-national with unfunded mandates or inadequate fiscal capacity.

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