



FFC 20TH ANNIVERSARY CONFERENCE

PANEL DISCUSSION

DISCUSSANT:

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11 August 2014

ROLE OF INTER-GOVERNMENTAL FISCAL RELATIONS (IGFR) INSTITUTIONS IN DECENTRALISATION

INTRODUCTION

- 1 There is a sense in which those located outside of government, but somehow indirectly or historically linked to it, can have the advantage of observing from near and objectively judging from afar. But, distance can also create a simplistic view of complex phenomena, thus rendering ideas proffered impracticable and unhelpful. These comments should be taken in that spirit.
- 2 Overall, the observation is apt that the FFC has been one of the iconic institutions in the emergence and evolution of South African democracy in general and its fiscal systems in particular. The 20-year anniversary of the FFC not only marks a critical milestone; but also presents a platform to chart a path that will ensure the FFC's relevance and contribution well into the future.

BASIC UNDERPINNINGS OF IGFR SYSTEMS

- 3 The fundamental purpose of governance, particularly in a democracy, is to build a better life for all and ensure equitable and humane relations with the world. The state and its variety of agencies including fiscal authorities do not exist for their own sake.
- 4 Nations settle on particular permutations of multi-order governance informed by a multiplicity of factors including: history, culture, balance of forces among contending forces, and approach to management of social fault-lines. There is no perfect blueprint; and because these driving forces change, democratic multi-order governance is a continuing experiment.
- 5 In any polity, the pursuit of fair, accountable, incorruptible and responsive governance (FAIR) is a noble undertaking that should inform the efforts of citizens and governors alike. In that

endeavour, it is critical to eschew the temptation to reduce the discourse to dynamics among a select set of indicators. The correlations and causalities among multi-order governance indicators – let alone the very choice of such indicators – are too complex and multidirectional to lend themselves to mechanical reductionism.

- 6 Quite often, systems and institutions of inter-governmental division of responsibilities and revenues do undermine societal efforts to ensure effective and accountable governance. In such instances, attention would need to be paid to these institutional and systemic permutations. Yet, not very seldom either, poor political leadership and a weak bureaucracy can have the same deleterious effect. In the latter instance, the temptation may be to blame systems and institutions, and to reconfigure them, without addressing the root causes of the problems.
- 7 In the South African situation, we opted, after great debate, for a co-operative governance model, proceeding from the premise, firstly, that to reverse the centuries of colonial social engineering and pursue social and spatial equity would require a strong central state; and secondly, that for effectiveness and accountability you needed spheres of government that are distinct but inter-dependent, with vertical and horizontal systems of interaction. These two principles are embedded in how the FFC has operated, including, specifically in developing formulae for the division of revenue across and among the spheres of government.

OBSERVATIONS FROM THE FFC 20-YEAR REVIEW

- 8 It is credit to the FFC and other such bodies that they were able to assert new ways of doing things at the same time as the macro-organisation of the apartheid state was undergoing fundamental transformation. Indeed, both in style and content, the FFC managed in the earlier years to fashion a consultative process, to develop content that was evidence-based and to introduce certainty into the vertical and horizontal division of revenue. Debates there were – and there shall always be – but that contribution has endured as the base frame of reference to this day.
- 9 The presentation on the 20 years of the FFC has sketched out the various phases, challenges, debates and of course interesting idiosyncrasies of palace politics. What requires underlining, in my view, are the professionalism and loyalty to principle that the FFC evinced in the difficult days of setting the original frameworks, when geographic and sectional self-interest sought to pull the Commission in all kinds of directions; the fraught period when the country had to stabilise its macroeconomic indicators (during which issues such as top-slicing of interest payments had to be resolved); and the challenge of the delayed evolution of the local government system.
- 10 In this regard, there is a sense in which Team Finance – of which the FFC is a critical component – galloped ahead of other sectors of government in a number of respects. Two issues stand out in this regard:

- 10.1 Firstly, while all spheres were still experimenting with fora for the expression of inter-governmental relations, Team Finance had practically to resolve the issue of inter-governmental fiscal relations, ultimately formalising this in relevant legislation. Yet up to this day, within and across the three spheres of government, related matters such as inter-governmental macro-planning cycles and systems of monitoring and evaluation, still require refinement – indeed, emphasising the trailblazing role the FFC and partner-institutions played in the area of fiscal policy and praxis.
- 10.2 The second issue is about medium- and long-term planning. Arguably, it is no exaggeration to credit the Commission with the initiation of the medium-term budgeting process. While this may have arisen in the context of meeting the fiscal concerns of the sub-national spheres, the impact of this process has been wider and more profound than the narrow fiscal considerations. It is in the context of the 3-year Medium Term Expenditure Framework (MTEF) that national government introduced the 5-year Medium Term Strategic Framework (MTSF), although somewhat behind the curve. And indeed debate should continue, with active participation on the part of the Commission, as to whether the 5-year MTSF, as launched during the course of last week for instance, should not be accompanied by a broad frame of an expenditure framework that goes beyond the three years.

TWO DIMENSIONS OF PLANNING AND FISCAL IMPLICATIONS

- 11 For purposes of emphasis and generating discussion, it is necessary to foreground the issue of planning. In this regard two dimensions are highlighted: macro-planning, and the spatial dynamics that attach to such. Before doing so, and assuming that most of the participants are familiar with the National Development Plan, the following attributes of a capable developmental state to which South Africa aspires, can be identified:
- firstly, a strategic orientation that is underpinned by a vision, policies and programmes that are aimed at ensuring a decent standard of living for all
 - secondly, the state should be so legitimate as to enjoy the ideational capacity to mobilise society behind the national vision
 - thirdly, the macro-organisation of the state – including inter-governmental permutations – should be geared towards ensuring that the state is able to attain set objectives
 - fourthly, the state system should be run in a professional manner, staffed by bureaucrats who are technically competent to translate political ideals into programmes and projects that are properly monitored and evaluated.
- 12 In addressing matters pertaining to inter-governmental relations, the NDP calls for an appreciation of the original powers and responsibilities conferred in the Constitution, combined with the principle of subsidiarity implied therein. It also emphasises flexibility that can be realised through asymmetric allocation of responsibilities depending on geographic and demographic conditions as well as administrative capacity. A focussed role for provinces, coherent powers for metros, and the role of districts (and regional service providers) are also

highlighted as critical interventions. Attached to all these are fiscal implications; and the FFC should play a critical role in advising on the substance and operationalization of these ideas.

- 13 With regard to **macro-planning and related fiscal matters**, three issues require emphasis:
- 13.1 We are all familiar with the multitudes of long-term plans and visions across various provinces and municipalities attached to which are multitudes of timeframes. The fact that there is some long-term planning is not as such retrogressive – but within each of the multitude of plans there should be clear objectives and targets for 2030 in line with the NDP.
- 13.2 Similarly, the MTSF which seeks to set out the first steps towards the realisation of Vision 2030 should find expression in provincial and municipal five-year strategic frameworks. The process of alignment, which should include rationalisation of planning cycles, started a few years ago. And as argued earlier, at least an outline of an expenditure framework should be attached to these strategies.
- 13.3 Related to this is the issue of the most appropriate geographic basic unit of planning – which should not be so large as to undermine local imperatives; but also not so small as to perpetuate the spatial divisions inherited from the Group Areas dispensation of the apartheid era. The conclusion reached from previous work is that the district and the metro should be the basic units of planning. And planning and resource allocation should proceed from the understanding that all programmes – whether devised at national or provincial level – take place in a local geographic space; and these should be incorporated into the Integrated Development Plans (IDPs) and Local Economic Development Programmes (LEDs); and they should reflect seamless budgeting across the spheres.
- 14 This links up with the second dimension of planning: **spatial development**. This has been a major bone of contention for a variety of reasons, not least amongst which is the implication for the allocation of resources. Among the realities that need to be taken into account in dealing with this matter is the fact that location is critical for the poor to access opportunities; and their sixth sense drives the migration trends that we have witnessed within and across provinces. This is not about to change – on the contrary it should intensify going forward. As a consequence, for instance, among the top 20 municipalities with the highest percentages of those living below the Minimum Living Level (a higher level of the Poverty Datum Line) are at least four metros.
- 15 The allocation of resources and the purpose for which they are allocated need to take into account some basic principles of spatial planning reflected in the National Spatial Development Perspective (NSDP, 2007: The Presidency). Among these principles are the following:
- 15.1 It is the constitutional obligation of government to provide basic services to all citizens irrespective of where they are located. These range from water, energy and health to education, electricity to social grants. Budgetary allocations should naturally take this basic principle of progressive realisation of social rights into account.

- 15.2 Government spending on economic investments should focus on areas with economic growth and/or potential in order to crowd in the private sector, promote sustainable economic activities and provide long-term employment. The definition of such potential, including agricultural opportunities, should be as dispassionate as possible.
- 15.3 Many localities may not themselves have much macro-potential, but they may be located along ‘activity corridors’ that are close to or link the main growth centres.
- 15.4 The issue of permutations at the level of smaller municipalities and the ‘two-tier’ system has been the focus of much debate. As argued above, the approach in this regard should be underpinned by the identification of appropriate basic units of planning (district and metro), the division of tasks among the two-tier local entities, appropriate fiscal arrangements and the role of regional service providers.
- 16 These spatial planning perspectives naturally do generate passionate debate. The Financial and Fiscal Commission, among other agencies, can play a critical role in injecting professional content and evidence-based technical input into the discourse. The reality is that people will continue to respond to their own perceptions of spatial opportunities; the question is how to manage this in a systematic manner, informed by science rather than sentiment.
- 17 Attached to planning imperatives is the vexed question of a cost-based approach to the division of revenue, with minimum norms and standards. Debate on this should and will continue, in search of an appropriate balance in addressing political mandates and constitutional obligations. Yet a debate such as this cannot ignore the issue of value for money – for beyond fiscal considerations are real challenges of poor capacity, inefficiency and venality in the handling of current resource allocations.

INSTITUTIONAL MATTERS

- 18 The Commission’s 20-year review identifies many matters pertaining to institutional configurations and stakeholder relations, which were earlier referred to as idiosyncrasies of office politics, deliberately to avoid dealing with them in the detail. These relate to, among others, the following issues:
- 18.1 It is asserted that the ‘independence’ of the Commission would be enhanced by changes in appointment processes and sourcing of its budget (through parliament, as alluded to by the Kader ad hoc parliamentary committee). There are many good arguments proffered in support of this. However, there are limits regarding the extent to which even parliamentary processes can be sanitised from partisan interests.
- 18.2 There is definitely a need to strengthen interactions with parliament – especially now that it has greater budgetary responsibilities through the Budget Office – and with provincial legislatures and municipalities; as well as relations with the other Chapter 9 institutions.

- 18.3 It would seem that the issue of full- or part-time status of some of the Commissioners is a contested one. This would need to be attended to in the context of cost implications, institutional efficiency and comparable international best practice.
- 18.4 Regarding the tally of recommendations accepted, ignored or rejected by National Treasury, it may be argued that the quality of the submissions and recommendations do come into play. But to the extent that there may be omissions on the part of National Treasury, relevant legislation and regulations may need to be strengthened.
- 19 These and other institutional issues are important in their own right. They should continue to exercise our mind. But this should not be at the expense of addressing the strategic issues, and doing so with such depth and panache that the managerial and administrative matters become easier to resolve. Overall, wherever it may be administratively located, the FFC should be understood to be, and treated as, an instrument of the state and society as a whole – and not as an agency of a single department. Yet, it cannot be emphasised enough that the levels of respect and legitimacy the Commission enjoys will, above everything else, be a function of the quality of its work.

CONCLUSION

- 20 Many of the issues canvassed in this presentation derive from work that has been done by the various state and other agencies over the years. Perhaps among the preoccupations of the Commission in its commendable research activities, should be to trace the evolution of policy discourse over the years on the relevant issues, so it captures both continuity and change within volatile ebbs and flows of political incumbency.
- 21 If there is one central message from the experience of the Commission over the past two decades, it would be that it made the most impact when it was able to identify the fundamental issue of the moment and venture inputs that helped the country move forward. In the current conjuncture, the major game-changers are: long-term visioning, vertical and horizontal integration in policy-development and implementation, as well as social compacting on inclusive economic growth. And the FFC should, as in the past, be found at the epicentre of these activities.

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