Building a capable and developmental state

KEY POINTS

- South Africa needs to build a state that is capable of playing a developmental and transformative role.

- The public service needs to be immersed in the development agenda but insulated from undue political interference.

- Staff at all levels must have the authority, experience and support they need to do their jobs. This will require a more long-term approach to skills development.

- Improving relations between national, provincial and local government requires a proactive approach to resolving coordination problems.

- The governance structures for state-owned enterprises (SOEs) should be simplified to ensure clear lines of accountability and stable leadership.

INTRODUCTION

The National Development Plan requires collaboration between all sections of society and effective leadership by government. In a society with deep social and economic divisions, neither social nor economic transformation is possible without a capable and developmental state. The state provides the institutions and infrastructure that enable the economy and society to operate. Critical interventions are required to build a state capable of realising the vision for 2030. The chapter has benefited from extensive discussion and detailed inputs from a broad range of stakeholders including government departments, municipalities, organised municipality structures, academic institutions, civil society organisations and many members of the public. It should be read in conjunction with the chapters on tackling corruption (chapter 14), education (chapter 9), health (chapter 10), economic infrastructure (chapter 4) and rural development (chapter 6), which all identify improvements the state needs to make to deliver on its objectives. Chapter 3 includes recommendations on public-sector pay.

Progress so far

Since 1994, South Africa has made significant progress in building the structures of a democratic state. The fragmented apartheid governance structures have been consolidated into a system designed to serve developmental objectives. The composition of the public service and local government has been transformed to better represent the entire population. Democracy has laid the basis for greater accountability of the state to its citizens, and there is a crucial role for Parliament and Chapter 9 institutions in exercising oversight, holding government to account and enabling public participation. The state has successfully restructured public finances, created an effective tax system, and built an independent and credible reserve bank. The state has made significant progress in the provision of basic services such as housing, water and electricity. Some departments have also made dramatic progress in improving service delivery; for example, the Department of Home Affairs has achieved significant reductions in the time taken to issue identity books. The foundations have been laid, but weaknesses in how these structures function constrain the state's ability to pursue developmental objectives.

The challenge

The main challenge has been unevenness in capacity that leads to uneven performance in local, provincial and national government. This is caused by a complex set of factors, including tensions in the political-administrative interface, instability of the administrative leadership, skills deficits, the erosion of accountability and authority, poor organisational design and low staff morale. The weaknesses in capacity and performance are most serious in historically disadvantaged areas, where state intervention is most needed to improve people's quality of life. There have been many individual initiatives, but there is a tendency to jump from one quick fix or policy fad to the next. These frequent changes have created instability in organisational structures and policy approaches that further strain limited capacity.

The search for a quick fix has diverted attention from more fundamental priorities. A deficit in skills and professionalism affects all elements of the public service. At senior levels, reporting and recruitment structures have allowed for too much political interference in selecting and managing senior staff. The result has been unnecessary turbulence in senior posts, which has undermined the morale of public servants and citizens' confidence in the state. At junior levels, there has been insufficient focus on providing stimulating career paths that ensure the reproduction of skills and foster a sense of professional common purpose. The state needs a

clear vision for where the next generation of public servants will come from and how specialist professional skills will be reproduced. Weak managerial capacity and lack of leadership prevent these issues being addressed.

South Africa has struggled to achieve constructive relations between local, provincial and national government. A lack of clarity about the division of responsibilities together with a reluctance to manage the system has created tension and instability across the three spheres of government. There is no consensus on how this is going to be resolved and there is a lack of leadership in finding appropriate solutions. These coordination problems are not unique to South Africa.

The issue is how they are dealt with. New initiatives have often been ad hoc, with responses to individual problems being implemented without adequate consideration of the cumulative effect. This has resulted in public servants becoming increasingly overburdened with paperwork. Initiatives targeted at preventing misconduct often focus on restricting the scope for discretion, but this has the unintended consequence of limiting the scope for innovation. Reforms are needed that will enable people to do their jobs by strengthening skills, enhancing morale, clarifying lines of accountability and building an ethos of public service.

2030 vision

To address the twin challenges of poverty and inequality, the state needs to play a transformative and developmental role. This requires well-run and effectively coordinated state institutions with skilled public servants who are committed to the public good and capable of delivering consistently high-quality services, while prioritising the nation's developmental objectives. This will enable people from all sections of society to have confidence in the state, which in turn will reinforce the state's effectiveness. This vision requires a capable and developmental state: capable in that it has the capacity to formulate and implement policies that serve the national interest; developmental in that those policies focus on overcoming the root causes of poverty and inequality, and building the state's capacity to fulfil this role. The National Development Plan highlights the need for a developmental state that is capable of driving the country's development. Building state capacity is the most important step to achieve a developmental state. However, the plan also recognises that not all capable states are developmental and so emphasises the importance of building a capable and developmental state within a vibrant democratic system.

A developmental state brings about rapid and sustainable transformation in a country's economic and/or social conditions through active, intensive and effective intervention in the structural causes of economic or social underdevelopment. Developmental states are active. They do not simply produce regulations and legislation. They constantly strive to improve the quality of what they do by building their own capacity and learning from experience. They also recognise the importance of building constructive relations with all sectors of society, while insulating themselves from capture by sectional interests.

Developmental states have been created in both authoritarian and democratic countries. In many cases, democracy has been crucial in ensuring the state has sufficient legitimacy to bring about transformation. This is particularly important in South Africa where, as the plan identi-fies, one of the most critical roles of the state is to enable people to develop their capabilities. A robust democracy is therefore not just compatible with building a capable and developmental state, it is an essential

prerequisite for the sort of developmental state needed to tackle poverty and inequality.

What needs to be done

South Africa needs to focus on building a capable and developmental state. The experience of other countries shows that this cannot be done overnight. Measures will have to be strengthened over time. There are eight areas where targeted action is particularly important:

○ **Stabilise the political-administrative interface**. Build a professional public service that serves government, but is sufficiently autonomous to be insulated from political patronage. This requires a clearer separation between the roles of the political principal and the administrative head.

○ **Make the public service and local government administration careers of choice**. Build a skilled and professional public service from both the top and the bottom. At senior levels, recruitment and management should be based on experience and expertise, while at junior levels the focus should be on developing the skills and expertise that will be necessary for future public-service cohorts.

○ **Develop technical and specialist professional skills.** Reinvigorate the state's role in producing the
○ specialist technical skills to fulfil its core functions. Develop appropriate career paths for technical specialists.

○ **Strengthen delegation, accountability and oversight.** Promote greater and more consistent delegation supported by systems of support and oversight. Make it easier for citizens to hold public servants and politicians accountable, particularly for the quality of service delivery. Ensure effective oversight of government through parliamentary processes.

○ **Improve interdepartmental coordination.** Adopt a less hierarchical approach to interdepartmental coordination so that most issues can be resolved between officials through routine day-to-day interactions. Strengthen the cluster system and the role of the Presidency in resolving strategic issues.

○ **Take a proactive approach to improving relations between national, provincial and local government.** The state needs to recognise the wide variation in capacity, particularly at municipal level, and devolve greater responsibilities where capacity exists, while building capacity in other areas. Where capacity is more limited, particularly in many rural areas, municipalities should be allowed to focus on their core functions and not be burdened with too many extra responsibilities. A more pragmatic fit between roles and capacity will only partly resolve challenges in the intergovernmental system. It is inevitable that there will be disagreements about how responsibilities are divided, and national government should intervene when necessary to mediate disputes.

○ **Strengthen local government.** Develop an enabling framework for local government with active support and oversight from national and provincial government. Take a more long-term approach to developing skills together with a professional ethos and commitment to public service. Mainstream citizen participation.

○ **Clarify the governance of SOEs.** The major SOEs need clear public-interest mandates and straightforward governance structures that enable them to balance and reconcile their economic and social objectives.

STABILISE THE POLITICAL-ADMINISTRATIVE INTERFACE

All democratic regimes have to balance the need for public servants to be responsive to the priorities of the government of the day with the need for the public service to treat citizens equally and not discriminate on grounds of political allegiance. Where the public service is too insulated from political pressures, there are likely to be concerns that it is failing to serve the interests of the government of the day and therefore not fulfilling its democratic mandate. However, where the public service is insufficiently insulated, standards can be undermined as public servants are recruited on the basis of political connections rather than skills and expertise, or access to state resources and services becomes defined by political affiliation rather than citizenship. Countries have sought different ways to balance these two extremes.

Following the end of apartheid, there was good reason to give political principals wide-ranging influence over the public service to promote rapid transformation of a public service that had previously represented a minority of the population. Having achieved significant improvements in the representivity of the public service, attention now needs to shift to ensuring the public service is adequately equipped to play its part in transforming society. The Municipal Systems Amendment Act (2011) introduced a prohibition on municipal managers, or senior managers who report directly to the municipal manager, holding political office in a political party. This suggests a growing recognition of the need to achieve a clearer demarcation between the administrative and the political.

Many of government's best-performing institutions are characterised by their stability of leadership and policy approach. However, lack of clarity about the division of roles and responsibilities between political principals and administrative heads often undermines this stability. Although public servants work for elected leaders, their role is non-partisan and the potential to forge a collective professional identity as public servants requires that this distinction is kept clear. In South Africa, the current approach to appointments blurs the lines of accountability. The requirement for Cabinet to approve the appointment of heads of department makes it unclear whether they are accountable to their minister, to Cabinet or to the ruling party.

Where the minister makes appointments below the level of director-general, it becomes unclear whether these officials report to the director-general or to the minister. This makes it difficult for directors-general to carry out their day-to-day responsibilities in running the department. Reforms are needed to ensure that directors-general are accountable to their minister, and that departmental staff are accountable to their director-general.

To stabilise the political-administrative interface, we propose the following:

O Strengthen the role of the Public Service Commission (PSC) in championing norms and standards, and monitoring recruitment processes.

O Create an administrative head of the public service with responsibility for managing the career progression of heads of department, including convening panels for recruitment, performance assessments and disciplinary procedures.

O Use a hybrid approach for top appointments that allows for the reconciliation of administrative and political priorities.

O Use a purely administrative approach for lower-level appointments, giving senior officials full authority to appoint staff in their departments.

Strengthen the role of the Public Service Commission

In many countries of the Organisation for Economic

Cooperation and Development (OECD), public service commissions fulfil an advisory and oversight role, ensuring that norms and standards are followed, without themselves being involved in selection processes. In other cases, the public service commission plays a more active role. For example, in the United States, the commission is responsible for appeals, while in much of South Asia it has direct responsibility for recruitment. In South Africa, the PSC is assigned an advisory and oversight role, which includes promoting the values of the public service and investigating breaches of procedure. To fulfil this role, the PSC needs to be a robust champion of a meritocratic public service with a stronger oversight role.

The powers of the PSC are set out in chapter 10 of the Constitution. This gives it the independence that comes from reporting to Parliament. However, the parliamentary *Report of the ad hoc Committee on the Review of Chapter 9 and Associated Institutions* raised the concern that the reports produced by the PSC could only be as effective as the will of the executive to act on those proposals. The effectiveness of the PSC therefore depends on whether Parliament picks up the issues it raises and the Portfolio Committee on Public Service and Administration has a critical role to play in ensuring the PSC's proposals are given adequate attention. Consideration could also be given to whether the relevant departments should be required to respond to proposals raised by the PSC to clarify which proposals will be taken on board and how they will be implemented.

The Constitution also provides for a stronger role for the PSC in upholding the principles of public administration set out in the Constitution through the power "to give directions aimed at ensuring that personnel procedures relating to recruitment, transfers, promotions and dismissals comply with the values and principles" set out in the Constitution. Consideration should also be given to how to strengthen the scope for enforcing other PSC recommendations, linked to penalties for non-implementation where appropriate.

In many other countries public service commissions fall under the executive arm of government. In South Africa, the PSC has a greater degree of independence by virtue of being accountable to Parliament, but to do its work effectively it also needs to have a strong relationship with the executive. This involves a careful balancing act so that the PSC can combine robust independence with sufficient engagement with government structures. The Office of the Public Service Commission, which is the administrative arm of the PSC, is partially dependent on the executive for the appointment of its director-general and the allocation of its budget. This provides some important benefits including the scope to participate in the Governance and Administration Cluster and to submit memoranda to Cabinet, but there is also the potential for these links to compromise the PSC's independence. These are issues that may need to be reflected on going forwards.

It would be counterproductive to give the PSC a far-reaching direct role in recruitment, because an overly centralised recruitment system would make it more difficult for departments to recruit their staff and undermine the ability of departmental heads to formulate a strategic direction for their own departments. However, the PSC should play a direct role in the recruitment of the most senior posts. The chair of the PSC, together with the proposed administrative head of the public service, should convene the selection panel for heads of department and their deputies. This would allow for a transparent process that could reinforce confidence in the way heads of department are appointed. The proposal for a hybrid approach to top appointments later in this chapter suggests how

such a role could be reconciled with the need to ensure senior public servants enjoy the confidence of their political principals.

An administrative head of the public service

To help stabilise the political-administrative interface, we propose the creation of an administrative head of the public service. Many countries have such a post, including Kenya, Ghana, Nigeria, Singapore and the United Kingdom. The administrative head of the public service usually has two main roles: (1) ensuring the effective overall management of the public service and (2) managing the career progression of heads of department. This typically includes convening panels for recruitment processes, performance assessments and disciplinary procedures. The decisions or recommendations of an administrative head of the public service are typically subject to the ultimate approval of the executive authority.

This post would allow for standard procedures to be applied in managing the career progression of heads of department without undermining the political oversight of senior public servants. Indeed, it should help to strengthen oversight by making it easier to identify whether heads of department are performing effectively, and whether the relevant norms and standards are being adhered to. Since the administrative head of the public service would interact with all heads of department, it would also provide him/her with the opportunity to identify broader challenges in the operation of the public service and facilitate better coordination.

The political-administrative interface will necessarily remain contested terrain, and so an important role of the administrative head of the public service would be to mediate issues that arise. As a starting point, this could include organising facilitated workshops that include ministers and heads of

department as a means of demarcating roles and responsibilities, and the ground rules of the relationship.

Measures have already been taken to strengthen coordination through the Forum of South African Directors-General, cluster meetings and the creation of the Department of Performance Monitoring and Evaluation. It would therefore be a natural progression to align the new role with these existing structures by locating the administrative head of the public service within the Presidency. The role could either be assigned to an existing director-general, such as the director-general in the Presidency or the director-general in the Office of the Deputy President, or a new post could be created.

International experience suggests the role might have greater authority if it is combined with an existing and recognised post. In many cases, the administrative head of the public service is also Cabinet secretary. This helps to ensure access to the head of government, which is essential if the advisory nature of the role is to operate effectively. At provincial level, an equivalent post could be located in the Office of the Premier: the director-general in the Office of the Premier would come under the administrative head of the public service in the Presidency while provincial heads of department would come under the director-general in the Office of the Premier. The provincial head could also play an oversight role in relation to the recruitment and performance of municipal managers in that province. With increased delegation to large cities, it may also be important for there to be direct interaction between the national administrative head of the public service and the municipal managers for the largest metropolitan municipalities.

While submissions to the National Planning

Commission have been largely supportive of the proposal to create an administrative head of the public service, they have also stressed that the role should not displace or confuse the line of accountability between a director-general and his/her political principal. The Commission believes that the revised proposal presented here – for the administrative head to be responsible for managing the career progression of heads of department – not only avoids this problem but could actually help to strengthen the lines of democratic accountability by allowing for more consistent oversight. Creating this post would require an amendment to the Public Service Act (1994), which stipulates that responsibility for managing the career incidents of heads of department resides with the President at national level and with the premiers at provincial level.

A hybrid approach to top appointments

For top appointments, the recruitment system needs to be capable of ensuring that a political principal has confidence in his/her head of department, that heads of department have the necessary experience and expertise, and that the appointment is seen to be fair and based on merit. To achieve this balance, the plan proposes a hybrid model similar to that used in Belgium. A selection panel convened by the chair of the PSC and the administrative head of the public service would draw up a shortlist of suitable candidates for senior posts, from which the political principal would select a candidate. This allows independent oversight to ensure that candidates are suitably qualified, while also ensuring that the final selection is compatible with the priorities of the political principal. The selection panel should draw on the information that is available from the competency tests used for senior managers.

In the longer term, this process could be combined with greater job security for directors-general and heads of department, as long as there are robust performance-management mechanisms. Fixed-term contracts are necessary when heads of department are political appointments, but they contribute to organisational instability and make it more difficult to build an experienced senior-management cadre. Greater security of contract is only desirable provided people can be removed if their performance does not meet the required standard. This means greater job security should only be considered once there is confidence that performance-management mechanisms are robust. In the interim, however, it would be beneficial to favour five-year contracts over three-year contracts, which are too short and create too much instability. Even five-year contracts are short for many of the long-term changes that departments need to make and there should be discussion at an early stage of the scope for renewing where a director-general is performing well. This would make it easier to plan over a longer period. Where contracts are not renewed, the administrative head of the public service could play an important role in deciding whether the director-general's track record suggests his/her skills would be beneficial for another department or other parts of the state including municipalities.

Give senior managers authority over appointments

The Public Service Act situates a number of human-resources functions with political principals. Political principals are able to delegate these functions to their director-general or head of department at their discretion. In many cases, the political principal chooses not to delegate these powers. This creates a tension with the Public Finance Management Act (1999), which holds the accounting officer responsible for financial issues, meaning managers are answerable for issues over which they have limited control. It also leads to instability, as the degree of delegation can vary with each change of

minister. This prevents senior managers delegating authority to their line managers on a sustainable basis. We therefore recommend a greater and more consistent devolution of authority for administrative matters from political principals to their heads of department, and from the head of department to managers.

To achieve this shift, the plan proposes that the Public Service Act be amended to locate responsibility for human-resources management functions with the head of department. This would make it easier for heads of department to delegate greater authority for appointments to the appropriate line managers. The complexity of the appointment process means it often takes departments nine months to fill a vacancy. The approval of the head of department is often required at five different stages, rather than simply once at the beginning and once at the end. As a result, departments often avoid recruiting altogether, particularly for junior posts. This leads to an increased reliance on consultants and stymies the development of new skills and experience. It can also increase the temptation to circumvent official processes.

At local government level, the involvement of mayors and members of mayoral committees in recruiting senior managers who report to the municipal manager often complicates the line of accountability between senior managers and the municipal manager. It also raises problems when regional party structures seek to influence

STEPS TO STABILISE THE POLITICAL-ADMINISTRATIVE INTERFACE

- Ensure the public service is immersed in the development agenda but insulated from undue political interference.
- Strengthen the oversight role of the PSC by requiring departments to respond to PSC proposals and giving greater force to PSC recommendations.
- Create an administrative head of the public service with responsibility for managing the career progression of heads of department including convening panels for recruitment processes, performance assessments and disciplinary procedures. At provincial level, the same role should be played by the director-general in the Office of the Premier.
- Use a selection panel convened by the chair of the PSC and the administrative head of the public service to draw up a shortlist of suitable candidates for top posts. The selection panel should make use of competency tests and other assessment mechanisms.
- Move towards more long-term contracts for heads of department and reduce the use of three year contracts.
- Amend the Public Service Act to locate responsibility for human-resources management with the head of department.

appointments, as senior managers are then effectively accountable to neither the municipal manager nor the mayor.

MAKE THE PUBLIC SERVICE AND LOCAL GOVERNMENT CAREERS OF CHOICE

The public service should attract highly skilled people and cultivate a sense of professional common purpose and a commitment to developmental goals. To achieve this, South Africa needs a two-pronged approach to building a more professional public service from the top and the bottom. It needs to increase the pool of skilled people by ensuring that the public service and local government become careers of choice for graduates who wish to contribute to the development of the country, and ensure that high-level staff are recruited on the basis of their suitability for the job.

A professional public service is one where people are recruited and promoted on the basis of merit and potential, rather than connections or political allegiance. This requires rigorous and transparent recruitment mechanisms. However, the public service will not be effective if it is elitist and aloof. Public servants need to have an in-depth understanding of the sections of society with which they work. A highly skilled public service should also be representative of, and connected to, the communities it serves.

The Department of Public Service and Administration (DPSA) has highlighted as one of its 10 strategic priorities the need for "effective entry into the public service and human resource development standards to ensure cadre development". This will require a shift from isolated training initiatives to a long-term approach to recruiting people with relevant aptitude and developing their skills over the course of their careers. It also requires mechanisms for anticipating shortfalls in specialist and technical skills, so that the state can take a proactive role in developing professional expertise.

The tendency has been to value people who already have relevant experience and expertise. Where these skills are not available internally, departments often rely on outside consultants. This is a short-sighted approach that does not address where the next generation of senior public servants and technical specialists will come from. While promising graduates struggle to identify how they can embark on a career in the public service, departments have become top-heavy because of their inability to fill junior posts.

Building a skilled and professional public service requires a vision of how public servants' experience and expertise will develop during their careers. Jobs should be sufficiently stimulating and challenging to ensure people are constantly developing their skills. Recruitment and promotion processes need to emphasise skill and experience, and the state needs to focus on its role in producing and enhancing skills. Below, we set out proposals for how this can be achieved:

- A formal graduate recruitment scheme for the public service
- A career path for local government
- Make adequate experience a prerequisite for senior posts
- A long-term perspective on training and management
- Improve the systems for skills development.

A formal graduate recruitment scheme for the public service

Graduates leaving university in 2012 are part of the pool from which senior managers will be drawn in 2030, while children starting school in 2012 will

form the cohort of aspiring entrants into the public service in 2030. South Africa needs a strategy for recruiting dedicated young people, developing their skills and building an ethos of public service.

The public service has pockets of excellence, where recruitment is highly competitive and people aspire to work, but many departments struggle to recruit appropriate people. Multiple internship schemes have been introduced. In the best cases, these provide an entry point that can be the start of fruitful careers. However, these schemes are linked to specific departments and work best in departments that are already performing well. In addition, because each internship scheme employs small numbers of people, they are not widely known and are too small-scale to transform perceptions of the public service as a career opportunity.

We recommend initiating a formal graduate recruitment scheme to attract graduates into government departments by offering stimulating and rewarding career paths. This scheme should coexist with, rather than replace, other routes into the public service.

Many countries have formalised systems for entry into the public service. Some, such as the Indian Administrative Service, pursue a centralised approach, with emphasis on a mobile cohort of elite civil servants who can be deployed anywhere across government. The difficulty with this is that public servants are moved too often and never manage to build a detailed knowledge of how things work in a particular department. This has contributed to the formation of a state that produces elegant policy documents, but struggles with implementation.

The United Kingdom's Civil Service Fast Stream places recruits in specific departments. This has two major advantages. Graduate recruits can gain experience from a range of jobs within one department. As their careers progress, they develop a stronger understanding of how the department works. It also allows greater autonomy for departments and graduate recruits. Recruits are given an opportunity to shortlist their preferred departments and offered a post in a particular department. Departments have a say in which people they take from the scheme. Similar approaches have also been used in Canada and Japan.

For the scheme to succeed, departments must have confidence in the calibre of the applicants. It should begin with a select number of outstanding recruits in the first years, with the pool increasing gradually. Recruitment should be based on a rigorous meritocratic process that draws on a range of assessment mechanisms such as exams, group exercises and interviews. Rigorous assessment mechanisms would help to build the scheme's credibility with both departments and applicants.

A graduate recruitment programme recruits people on the basis of potential, and therefore needs to provide mechanisms for on-the-job learning and support. Graduate recruits should be given focused areas of responsibility that enable them to develop specific expertise early in their career. This means the quality of management within departments will be important for the success of the scheme. There also needs to be a central strategy for providing training, mentoring and support throughout the first years on the scheme. A common approach to recruiting and training graduates across departments would also enable new entrants to share experiences in a neutral forum in which they can discuss challenges. A formal graduate recruitment programme could also help improve coordination between government departments by enabling staff to form networks across departments. In other countries, such networks

have helped to foster a shared ethos of public service.

It is important for recruits to develop experience of both policy formulation and implementation early in their career. A formalised graduate recruitment programme should expose recruits to a range of posts within the national department and involve an extended placement in an equivalent function at provincial or local level. Provincial departments and municipalities would benefit from the secondment of staff with knowledge of the policy priorities and operating methods of the national department, while the national department would benefit from staff developing a detailed knowledge of the workings and challenges of provincial and local government. Once the scheme is established, recruits could also be placed directly with provincial departments.

The public service should be both skilled and representative. There is no inherent tension between these two objectives. Affirmative action has helped make the public service broadly representative of the country's population, although Africans are better represented in more junior posts. Affirmative action places greater emphasis on potential. This makes it particularly important that there are strong managerial and human-resources processes for selection, mentoring, training and career development. A formalised graduate recruitment scheme could therefore enhance the effectiveness of affirmative action.

A formalised recruitment scheme could be marketed widely with targeted recruitment programmes at universities, where recent recruits talk to students about their experience of being a public servant. Recruitment drives could be linked to the promotion of existing internship schemes that enable students and recent graduates to gain experience of working in government. Internship schemes could also target people from disadvantaged backgrounds to promote representivity.

A career path for local government

A separate strategy is needed to recruit high-calibre people into local government. It is in the interests of all spheres of government to ensure sufficient capacity exists to implement core government priorities and responsibilities, particularly ensuring that everyone has access to high-quality basic services. Yet, skills shortages are most evident in local government, especially in rural municipalities. Municipalities require a flow of promising graduates if they are to manage their core functions. This should be a priority for national government, but imposing a solution on local government will not be effective.

While there are internship programmes for specific skills gaps, there is no overarching mechanism for recruiting graduates into local government. The autonomy of local government means such a scheme would need to be different to the national government programme. In the United Kingdom, difficulty in getting high-calibre graduates to join local government resulted in the National Graduate Development Programme being set up. The programme is run centrally and local governments can choose to participate by employing people recruited through the scheme. Recruits are employed by the local government they work for, but receive training over a period of two years through the central programme, which provides an opportunity to bring the recruits together to share experiences.

In South Africa, local governments should be offered the opportunity to recruit graduates through a formal scheme. A formal recruitment scheme for local government should start gradually,

with a small number of municipalities and recruits so that it can develop on a demand-led basis. If it provides people who are valued by municipalities, the demand for graduates will increase. Similarly, if graduates have a positive experience, more recruits will be attracted. Recruitment should draw on formal assessment mechanisms including exams, which play an important role in strengthening the credibility of recruitment mechanisms.

For this approach to be successful, municipalities will also need to provide adequate training and support for recruits. This means greater attention needs to be given to ensuring municipalities have the necessary human resources and managerial systems in place to provide attractive work environments that are conducive to long-term skills development (see a plan to strengthen local government, later in this chapter).

Make adequate experience a prerequisite for senior posts

Skills, a professional ethic and a commitment to public service should be recognised and valued at all levels of the public service and local government. Many skills can only be developed on the job, but staff are often promoted too rapidly, before acquiring the experience needed for senior posts. As a result, the public service has become top-heavy. This is in part a reflection of skills shortages in broader society; but specific interventions within the public service can help ameliorate this.

Where the authority and experience attached to posts has been downgraded over time, salaries are high for the work required. For example, deputy director used to be considered a senior post, but today people can enter the post straight out of university on a salary higher than in many developed countries or equivalent posts in the private sector. This increases the pressure on higher ranking staff and, in turn, increases the proportion of

work that is contracted out to highly paid consultants who are often former public servants. Policy work becomes about commissioning consultants and managing contracts, rather than engaging directly in policy analysis. The result is a widening gap between policy formulation and implementation.

Rapid promotions also mean people are thrown into management positions too quickly, making it harder to supervise junior staff and nurture their professional development, limiting the ability of the public service to produce the skills it needs. A formalised graduate recruitment process needs to be linked to a clearer and more graduated approach to career development. Rigid criteria can make recruiting and retaining good staff unnecessarily difficult, so it may be counterproductive to have strict requirements for particular grades. It is more constructive to focus on making mid-level posts more attractive, so that staff can build their skills, experience and understanding before rising to more senior posts. Those with a clear aptitude for management should not be prevented from rising rapidly, but such cases should be exceptional, with promotions placing much greater emphasis on experience and depth of expertise. Appropriate assessment mechanisms can help to build confidence in the system for promotions.

As part of this emphasis on the experience and expertise required to operate effectively in senior posts, it would be valuable to look at possible mechanisms for facilitating secondment into a different sphere of government. As highlighted above (see a formal recruitment scheme for the public service), secondments could both help to address skills shortages at the provincial and municipal levels, and help to develop better understanding and stronger relations between the different spheres. The Municipal Systems Amendment Act (2011) provides provision for

secondments to local government where municipalities are unable to recruit suitable people as senior managers.

Staff are more likely to accept gradual promotions if they feel fulfilled in their job and are confident that consistent and transparent criteria are applied to promotions. This will be difficult to achieve as long as there is a perception that senior posts are not always allocated on the basis of relevant expertise and experience.

A long-term perspective on training and management

New recruits cannot be expected to have all the necessary skills. There needs to be a vision of how public servants can develop their skills over the course of their career. Greater clarity about career paths, a less hierarchical approach, training and good management are essential.

Effective training is empowering and makes people feel valued. It fosters a shared understanding of basic principles, gives people a chance to develop specific skills or knowledge and allows a neutral environment in which workers can discuss the challenges they face. A one-size-fits-all approach to training will not be able to achieve these objectives. Training should include a standard element that builds a common understanding of the role and ethos of the public service. However, most training should be tailored to the needs of the individual. This requires a range of options from a range of providers. Rather than trying to centralise all training through a single provider, training responsibility should lie where the policy expertise is located. Rather than creating new training bodies, the focus should be on drawing on existing expertise. This should include using government departments to provide training in areas where they have specialist expertise, as well as partnerships with universities and professional associations. A central agency such

as the Public Administration Leadership and Management Academy (PALAMA) would then have a critical role to play in identifying training needs and ensuring information is available on the different training options and their quality.

Implementing an effective training programme requires good management and strong human-resources capability with specialists who understand their role and, critically, its limitations. Human resources is principally an advisory function designed to provide managers with expert support and enable them to do their job. It is in this enabling role that human-resources functions are currently weakest.

Good management turns aspirational policies into implementable strategies by making optimal use of the financial, human and physical resources that are available. Good managers work closely with their staff to develop a common understanding of how processes work and how they can be simplified to ensure that everybody knows their responsibilities, and how these contribute to the wider objectives of the department. They seek ways to delegate responsibilities and build the capacity of their staff to fulfil those functions. Managers need to become more accessible to their staff. This is particularly important for managers with direct responsibility for service delivery who need to interact regularly with staff at the coalface.

The routines of good management are often missing, in many cases because of the absence of coherent implementation strategies. However, there is no quick or easy solution for improving management standards. There needs to be a production line of skills to create an adequate pool of experienced people from whom managers can be drawn. Managers need experience and expertise in the area they are managing. They also need to be clear about their roles and the powers available to them, and adequately supported to do

their jobs. Greater clarity about the division of responsibilities between political principals and senior managers will make it easier for managers to understand and exercise their powers effectively.

For managers, minimal core training should cover the responsibilities of their grade and the tools and support mechanisms that are available to them. Beyond this, a diverse range of training needs to be provided. It could include leadership training for senior-level managers, a mentoring function that allows them to draw on the expertise of retired

MAKING IT WORK

The importance of improving management and operations systems

○ In January 2008, the Department of Home Affairs began a reform process that reduced the time a citizen would wait for an identity book from over four months to less than six weeks. This was achieved by promoting greater collaboration, clearly outlining achievable and relevant targets, frequently measuring performance and ensuring employees understood the entire process and the importance of their role in it. The identity document production process was simplified. Senior staff became more visibly involved, which boosted morale and fostered a culture of unity and service. The result was a clean audit, improved service and citizens' growing recognition of the department's achievements.

○ The South African Revenue Service is a leading government institution. Its transformation from an unwieldy set of internal directorates to an integrated and autonomous body greatly increased revenue collection. Its successes in widening the tax net and ensuring tax compliance can be attributed to high-level support and building a motivated and skilled staff base. The institution was quick to realise that collection would improve if they were seen as proficient at catching tax evaders, while providing an efficient service to those who complied. It simplified procedures and tailored its actions to local conditions. The South African Revenue Service now has a consulting division that is assisting other government departments in improving their systems.

○ The difficulties faced by public hospitals are well known, but there are important lessons from reform processes in individual hospitals. These have been most effective where they were inclusive and focused on achieving visible improvements. Without changing resource levels or staffing, processes can be refined by addressing centralised control and silo structures, and focusing on health objectives. Pilot programmes have shown that relatively simple changes to operational systems in outpatient departments and pharmaceutical dispensaries can significantly reduce waiting times.

These examples are based on:
- Hausman D (2010). Reforming without hiring or firing: identity document production, South Africa 2007–2009. *Innovations for Successful Societies.* Princeton University.
- National Planning Commission (2011). *Institutions and Governance Diagnostic.*
- Smith L (2003). The power of politics: The performance of the South African Revenue Service and some of its implications. *Policy: Issues and Actors,* 16(2).
- Von Holdt K, Smith M & Molaba M (2011). Transforming hospital functioning: an assessment of the surgical division transformation project at Chris Hani Baragwanath Hospital in *Service Delivery Research Report.* Office of the Presidency.

Impove the systems for skills development

To professionalise the public service and local government, the state needs to address weaknesses in recruitment, training, management and human resources. This requires a more coherent and long-term approach to ensure workplaces provide a conducive environment for skills development. Historically, developmental states have proactively sought to build their own capacity. Post-apartheid South Africa has made very little effort in this direction, partly as a reaction to the centralised apartheid-era model of the public service. The state has tended to assume that it has to choose between centralisation and decentralisation, but this is a false dichotomy. Decisions can be taken at the lowest possible level in order to strengthen the link between decision-making and implementation. However, this does not preclude a central role in building the systems of a capable, developmental and ethical public service.

At national level, it is often assumed that PALAMA is responsible for professionalising the public service. However, PALAMA was set up as a training institute equipped to run short-term courses. Expecting it to deal with all skills-development issues risks over-burdening PALAMA with responsibilities that fall outside its core mandate. PALAMA is constrained by its demand-led funding model. Its reliance on buying in training capacity means trainers do not always have adequate knowledge of the public sector. Consideration should be given to repositioning PALAMA within the DPSA or developing mechanisms to enable the DPSA to exercise a degree of oversight so that PALAMA's work can be better aligned with the wider objectives of professionalising the public service. It would then be easier to redesign PALAMA's funding and training model so that it receives core funding for training provided by in-house staff.

If PALAMA and the other training institutes are to focus on their core priority of delivering quality training courses, it is important that the relevant national departments – particularly the DPSA and the Department of Cooperative Governance – play an active role in driving professionalisation and skills development in the public service and local government respectively. These departments also need to coordinate with the other government agencies that play a role in skills development. This would mean supplementing their current role, which relates primarily to regulation and oversight, with a stronger role in implementing long-term skills-development strategies, such as developing recruitment systems and human-resources capacity. This would also help to build up the ground-level knowledge and profile of these departments, and so help to strengthen their regulatory and oversight functions. An important first step might be to initiate regular discussions with departments on what support or interventions are needed to strengthen their administrative capacity. Monitoring mechanisms such as the Department of Performance Monitoring and Evaluation's management performance assessment tool could be used as a basis for initiating such discussions and identifying appropriate interventions.

> **STEPS TO MAKE THE PUBLIC SERVICE AND LOCAL GOVERNMENT CAREERS OF CHOICE**
>
> - Ensure staff at all levels have the skills, authority and support they need to do their jobs. Develop a shared ethos of public service.
> - Establish a formal graduate recruitment scheme for the public service and a parallel scheme for local government with provision for mentoring, training and reflection.
> - Use assessment mechanisms such as exams, group exercises and interviews to build confidence in recruitment systems.
> - Ensure new recruits are supported by high-quality management and training both centrally and within their departments or municipalities.
> - Use placements and secondments to enable staff to develop experience of working in other spheres of government.
> - Position PALAMA's role in providing training within a wider professionalisation agenda led by the relevant government departments and ensure that core training is provided by in-house staff.
> - Make use of existing expertise particularly in government departments and universities to provide specialist training.
> - Develop mentoring and peer-review mechanisms for senior managers.
> - A stronger role for the main governance and administration departments in long-term skills development strategies, such as developing recruitment systems and human resources capacity.

DEVELOP TECHNICAL AND SPECIALIST PROFESSIONAL SKILLS

Services cannot be delivered without people with the necessary specialist skills – whether they are nurses, doctors, engineers, planners or artisans. There is a shortage of professional skills in government, particularly at the local level. Municipalities require engineers to build, maintain and operate infrastructure. Even when these functions are contracted out, municipalities need to have the technical expertise to commission and oversee contractors.

Efforts to extend access to basic services have not been accompanied by a comparable focus on ensuring the emergence of skilled professionals. In the apartheid era, the state played an active role in producing professionals. Graduate engineers and trainee technicians could enter the public service and obtain sufficient recognised experience, under the guidance of a qualified professional, to enable them to register as engineering technicians and professional engineers. As the initiator of many major infrastructure projects, the public sector was best placed to plan such recruitment and training programmes. Many entrants were on public-sector bursaries, with an obligation to work to pay them back. The skills they developed benefited both the public sector and broader industry. Although such bursaries may still be funded, the public service can no longer provide the required professional training since most work is contracted out and there are few qualified professionals available to provide direction and supervision.

The wider problem of ambivalence towards skill in the public service means professionals in government institutions feel undervalued. Tensions arise because professional conduct cannot easily be monitored through standardised systems for performance management. In fields such as engineering, where public safety and related

financial risks are involved, it is important that only professionally registered persons be permitted to undertake certain tasks in the implementation of projects. The profession needs to play a strong role in monitoring, regulating and maintaining its standards through professional councils and associations. This role should be protected and promoted.

We propose the following:
- Strengthen the state's role in developing technical skills
- Develop career paths for technical specialists
- Ensure procurement systems deliver value for money.

Strengthen the state's role in developing technical skills

There needs to be a clear strategy to produce and develop skilled professionals combined with a work environment in which professional expertise is recognised and valued. The production of technical skills is a long-term commitment. Government needs to anticipate skills shortages and develop training programmes accordingly. This will need coordinated planning by government, in conjunction with training institutions and professional councils and associations.

Increased outsourcing has reduced the emphasis on junior posts, without which there can be no production line for producing experienced professionals. The solution needs to start with apprenticeships, where new entrants can learn practical skills. Bursaries should be made available on a competitive basis for those apprentices with the aptitude to engage in further formal training. Graduate training schemes should be linked to the staffing needs of departments, so that trainees have a clear sense of how their career could develop if they perform well.

Experienced professionals need to mentor trainees. Where there is a shortage of potential mentors within departments, experienced professionals will need to be located from elsewhere. This could involve partnerships with professional associations and firms, or employing retired professionals on a part time basis.

Career paths for technical specialists

To retain experienced professionals, South Africa needs career paths that enable experienced technical specialists to continue as practitioners without having to divert into management careers in order to achieve promotions, so that they can focus on project work and training less experienced staff.

Those appointed to management positions that require professional expertise should have sufficient technical knowledge, along with relevant management experience, to understand the challenges faced by technical specialists and to secure their respect. Divisions such as human resources, supply chain, stores and systems should play a supporting and enabling role to operational line management driven by professionals.

Ensure procurement systems deliver value for money

The state's ability to purchase what it needs on time at the right quality and for the right price is central to its ability to deliver on its priorities. Public-sector procurement expenditure also needs to be used to drive national priorities such as localisation and economic transformation. Procurement systems tend to focus on procedural compliance rather than value for money, and place an excessive burden on weak support functions.

We propose five areas to focus on in designing a procurement system that is better able to deliver value for money, while minimising the scope for

corruption. The proposals should be read in conjunction with those in chapter 3, which deal with how procurement can contribute to broader developmental priorities and chapter 14 on tackling corruption.

○ **Differentiate between different forms of procurement.** The procurement of goods, services and infrastructure all pose different challenges and the required skills sets vary according to context. For routine purchases of standard goods, framework agreements can be used or it may be beneficial to have a database of approved providers and standard prices – goods could then be procured on a rotational basis from the preapproved suppliers at preapproved prices. By contrast, infrastructure procurement involves conceptual design, structuring contracts and ensuring sustainability. As these decisions involve long-term lock-ins, the quality of decision-making is vital. Work is being done between National Treasury and the Construction Industry Development Board to establish an infrastructure delivery management system to develop systems that better accommodate the particular challenges of infrastructure procurement.

○ **Strategise by elevating trade-offs above the project level.** The state's procurement expenditure must be used to push transformation, but it also needs to be realistic about the ability of creaking procurement systems to balance multiple priorities. A long-term perspective would make it easier to reconcile competing priorities. In some cases, long-term contracts with particular suppliers could be linked to requirements for a progressive increase in local content and falling prices. This long-term commitment would make it easier for suppliers and service providers to invest in local production and delivery capacity, while ratcheted targets could then ensure that costs become increasingly competitive. Trade-offs may be easier

to reconcile by looking at procurement decisions across a whole sector rather than viewing each project in isolation.

○ **Build relationships of trust and understanding.** Supply-chain management entails managing information and relationships throughout the life of the contract. Supply-chain managers need to build constructive relations with private contractors and a strong understanding of particular sectors. Over time, lessons learnt will help improve strategic decision-making within government. To ensure there is adequate insulation from capture, there could be a requirement that tender review committees have one external representative, perhaps from a different sphere of government.

○ **Build enabling support structures.** Professional supply-chain management capacity needs to be developed through training and accreditation. This includes a database of registered supply-chain managers and a central list of those who have been barred from working in supply-chain management roles in the public sector. Supply-chain management should support technical and other specialists, and should not displace their involvement in procurement processes. Engineering input is essential for infrastructure procurement where it can contribute to ensuring health and safety, mitigating financial risks, identifying effective solutions, ensuring environmental sustainability and conserving natural resources. Advice and information to support supply-chain managers could include access to information on the prior performance of different companies, the typical cost of particular goods and services and technical expertise from within government.

○ **Ensure effective and transparent oversight.** Oversight functions need to assess value for money. This requires that data is compiled, scrutinised and publicly available and that, where possible, clear

benchmarks are set. Effective oversight runs throughout the process and is linked to appropriate support structures where necessary. Such a system could have safeguards built in, so that tenders above a certain amount or which deviate significantly from benchmarks are automatically subjected to additional scrutiny. Oversight could also vary depending on prior performance so that, where problems are picked up in procurement systems, national government could get more directly involved in overseeing and supporting future procurement decisions.

Procurement systems need to be robust, transparent and sufficiently intelligent to allow for the different approaches that are most suited to different forms of procurement. The five principles presented here provide guidelines for ensuring procurement systems are better able to meet these objectives.

STEPS TO DEVELOP TECHNICAL AND SPECIALIST PROFESSIONAL SKILLS

○ Use apprenticeships and bursaries to ensure the reproduction of technical skills.
○ Use experienced professionals including from professional associations, SOEs and the private sector to mentor trainees.
○ Develop technical career paths that allow technical specialists to focus on project work and training less experienced staff.
○ Ensure managers have sufficient technical knowledge and experience for the work they oversee.
○ Improve the ability of procurement systems to deliver value for money and minimise the scope for corruption by differentiating between different forms of procurement, approaching trade-offs more strategically, building relationships of trust and understanding, building enabling support structures and ensuring effective oversight.

STRENGTHEN DELEGATION, ACCOUNTABILITY AND OVERSIGHT

Measures to professionalise the public service and local government administration need to be accompanied by measures to improve accountability. The proposals in this section deal with the importance of delegation and the structures that support it, and the need to improve accountability to citizens and strengthen parliamentary oversight. The proposals should be read in conjunction with those in chapter 14.

Delegation

Since 1994, South Africa has focused on devolving responsibility to departments and municipalities, so that ministers, premiers, mayors, departmental heads and municipal managers can make, and take responsibility for, decisions. However, this model has been pursued without adequate attention to the systems of support and oversight that enable those in leadership positions to lead effectively and be held accountable when things go wrong. As argued above (see improve the systems for skills development), a false dichotomy has been drawn between centralisation and decentralisation. In practice, decentralised authority requires effective systems of support and oversight.

For the model to be effective, greater attention needs to be given to support functions in areas such as human resources and procurement. The weakness of these functions has resulted in central management seeking to retain control of operational units and a reluctance to delegate. As a result, authority has tended to remain centralised at the top of government departments and

municipalities. The problem is exacerbated because many political principals have not taken full advantage of the opportunity to delegate responsibility for day-to-day administrative matters.

Decentralising authority to ministers and their heads of departments will not be effective unless it is accompanied by greater delegation within departments. Effective delegation enhances staff morale, particularly for middle management who are given the authority to make day-to-day decisions. This requires good managers and strengthened support functions. Human-resources officers need to provide expert advice to managers to help them do their jobs effectively, and ensure they follow appropriate procedures and get the most out of their staff. These functions are not just about the enforcement of rules, but also about using discretion. Staff need to have sufficient confidence in their own abilities to trust their judgement and delegate where appropriate. This needs to be backed up by effective systems for performance management, so that oversight can be maintained and weaknesses identified at an early stage.

The lack of effective delegation slows down decision-making and impedes implementation. Decisions are often out of touch with operational realities, and support services become unaccountable because they operate at a remote centralised level. Accountability is weakened when paperwork has to be signed by multiple people or at multiple stages in the process. Streamlined processes are needed, that maintain checks and balances, while clarifying accountability and making it easier for departments to take decisions. Delegating authority empowers officials to take up grievances and address the concerns of the people they interact with. Where they cannot resolve a problem, they can advise citizens on where best to take up their complaint.

Harness the energy and experience of citizens

Delegation presents an opportunity to strengthen mechanisms of routine accountability, enabling the state to be more responsive to public concerns. Service-delivery protests stem from citizens' frustration that the state is not responsive to their grievances. This is unfortunate, as citizens are often best placed to advise on the standard of public services in their communities and to suggest possible interventions.

There are two main forms of accountability. In the standard hierarchical model, junior civil servants are accountable to their superiors; the public service is accountable to its political principals, who are in turn accountable to the electorate. In the bottom-up approach, citizens hold public officials accountable at the level at which services are delivered. These approaches are mutually reinforcing. Bottom-up approaches are effective where there is a commitment to citizen engagement. Citizen groups cannot be expected to have the time or resources to fulfil a monitoring role, but can highlight shortcomings. Civil society can also play a role in scrutinising government data, while government can encourage such scrutiny by ensuring data is made available in suitable formats.

The Department of Performance Monitoring and Evaluation has primary responsibility for the first form of accountability – each minister is held accountable to the President through a performance agreement, the implementation of which is monitored by the department. This hierarchical accountability would be enhanced by improving everyday bottom-up mechanisms that enable citizens to communicate their grievances and seek redress at the point of delivery. Routine accountability would enable citizens to provide ongoing insights into service delivery.

The Batho Pele principles were introduced in 1997 to encourage public participation and promote citizens' ability to know and claim their rights. They state that "government departments should inform citizens about the level and quality of public services they will receive so that they are aware of what to expect" and that "citizens should be given full and accurate information about the services they are entitled to". These principles emphasise transparency and information as key to accountability. This requires that information is available at the point of delivery and officials are empowered to act. When entering a public building, citizens should be able to see what service they can expect, and where to go and to whom they can talk if they do not get that service. Frontline staff should wear name tags to make it easier for citizens to provide feedback on the standard of service they receive.

The oversight role of parliament and provincial legislatures

In any democracy the link between the legislature and the executive is critical for ensuring that the executive is held to account, that policies are subject to rigorous debate and that questions get asked when things go wrong. Section 55(2) of the Constitution states that the National Assembly should maintain oversight over the executive. However, there are concerns about whether Parliament is fulfilling its role in building an accountable and responsive state. Parliament needs to provide a forum for rigorous debate and champion the concerns of citizens. It needs to scrutinise legislation and, in the case of the National Council of Provinces, this includes paying particular attention to how legislation will impact upon the provinces. It needs adequate support in the form of specialist policy and research staff to support parliamentary committees and brief parliamentarians. The functioning of Parliament is not helped by the separation of the administrative

and legislative capitals, which creates inefficiencies in the use of time and financial resources. It also makes it more difficult for ministers to divide their time between their ministries and Parliament.

Provincial legislatures need to be particularly robust in their accountability function to ensure provinces perform their core function in the delivery of basic services equitably, effectively and honestly. They need to shine a light on issues of poor and uneven performance. This will not happen as long as provincial legislatures are seen primarily as a rung on the way to the national level. If provincial legislatures are not seen to fulfil this accountability function, it is inevitable that questions will be asked about their utility to the governance of the country. The oversight role of provincial legislatures in areas of local government service delivery may also need to be clarified.

At both the national and provincial level more could be done to provide support for elected representatives, but these measures will not fulfil their objectives unless legislatures show a genuine will to hold the executive to account. Parliamentarians will need to embrace their leadership role, while political parties encourage and empower them to do so.

At local government level there is no clear separation between the legislative and executive functions as both reside with the municipal council, which can delegate executive functions to an executive mayor or executive committee. The lack of a clear dividing line between the executive and the legislature is a common feature of the local government system in many countries. However, it will be important for councils to develop a clearer understanding of these different roles and how they can best be managed in order to ensure that the oversight mechanism is not undermined.

INTERDEPARTMENTAL COORDINATION

The challenge of improving coordination runs throughout all sections of government. Too often, departments pursue competing objectives, there are gaps where no department takes responsibility, or areas where departments could be more effective if they worked together and drew on each others' strengths. Coordination problems can be particularly acute where the coordination has to take place both between departments and across spheres.

The temptation is to create new structures such as interdepartmental clusters and implementation forums. While these structures have an important role to play, it is a mistake to assume that all coordination problems can be resolved through high-level coordination mechanisms.

Government is inherently complex. It is unrealistic to expect complete coherence on everything and so prioritisation is important. Coordination mechanisms need to be used sparingly and strategically. High-level coordination meetings are needed where other mechanisms have failed, but this cannot be the standard approach. To improve coordination, we therefore propose a two-pronged approach that distinguishes between routine and strategic coordination.

Routine coordination

Most coordination problems are easier to address if they are broken down into specific issues. These can be dealt with through horizontal coordination between branches, chief directorates and directorates in different departments. This would make it easier to build constructive working relationships at the level where they are needed. Routine coordination is particularly relevant where the problems relate to implementation more than policy formulation. This requires that responsibility is delegated to officials at appropriate levels, together with the necessary guidance. This means moving away from a hierarchical system where it is expected that all coordination agreements will be formalised at the highest level.

Strategic coordination

Some coordination problems arise because of disagreements between departments or gaps that no department is dealing with. In these cases high-level coordination needs to take place on strategic issues. Both the cluster system and the Presidency have a role to play in strategic coordination:

○ **The cluster system.** The cluster system was set up to resolve coordination problems, but is not providing a sufficiently strategic approach to coordination. Clusters often operate as a clearing house, with the agenda driven by departmental

submissions. This is partly due to a lack of prioritisation in what is discussed. The creation of implementation forums for the government's priority outcomes provides focused forums for many policy areas. This means clusters could be freed up for more strategic issues. To achieve this, agendas need to be carefully structured to achieve a better balance between discussion of departmental submissions and discussion of cross-cutting issues that otherwise do not receive attention. The cluster system should also be used as a mechanism for promoting routine horizontal coordination on issues that do not need to be debated at cluster level.

○ **The role of the Presidency.** Where departments are unable to reach agreement or where issues fall through the gaps between departments, the Presidency needs to bring the different parties together to mediate agreements. As this role is required where other coordination mechanisms break down, it should not be allowed to give rise to an expectation that all coordination problems can be resolved at this level. There needs to be clarity on where in the Presidency this role resides.

There is a mutually reinforcing relationship between routine and strategic coordination. High-level structures would be more effective if more issues could be resolved at lower levels. Improved strategic coordination would provide the context for this routine coordination and also make it easier to encourage more consistent delegation within departments. For example, if departments liaise over the formulation of new policy, it will then be easier to achieve the day-to-day coordination needed to ensure policies are implemented effectively.

Coordination problems are particularly acute between national departments with overlapping or interdependent responsibilities. This includes departments responsible for governance and administration issues, and microeconomic issues. In the former case, the governance and administration departments could work together more effectively with greater horizontal and routine coordination between branches, chief directorates and directorates. In the case of the microeconomic departments, there are more likely to be significant policy disagreements or contradictions and this requires a greater role for strategic coordination through both the cluster system and the Presidency.

STEPS TO IMPROVE INTERDEPARTMENTAL COORDINATION

○ Adopt a less hierarchical approach to coordination with routine issues being dealt with on a day-to-day basis between officials in departments.
○ Use the cluster system to focus on strategic cross-cutting issues.
○ Where coordination breaks down, the Presidency should bring different parties together to mediate agreements.

IMPROVE RELATIONS BETWEEN NATIONAL, PROVINCIAL AND LOCAL GOVERNMENT

South Africa's intergovernmental framework is still new: the nine provinces were formed in 1994 and the local government system of wall-to-wall municipalities was established in 2000. There have been extensive debates about whether the basic structures set out in the Constitution are the right ones, or whether restructuring is required. This has deflected attention from the pressing question of how to make these structures work effectively.

While it is true that the governmental system is the result of compromise, this is not unique to South Africa. No country can draw up its governmental framework independently of the politics of the time. Furthermore, South Africa's approach of decentralising responsibility for implementation while maintaining national oversight and using centralised funding mechanisms to achieve redistribution is not out of line with the approach taken by many other countries.

The challenge is to ensure that these structures deliver for all. The Constitution sets out the distribution of powers and functions between national, provincial and local government, but no written document can lay out every feature of the intergovernmental system. The Constitution provides a set of principles for how the system should operate, not a manual for turning those principles into reality. These include principles of subsidiarity and differentiation that allow for an important degree of flexibility in how the Constitution is applied. It takes time and experience to identify the best way of realising these principles.

South Africa has frequently witnessed distrust and conflict between the different spheres. This has replaced efforts to collaborate on overcoming obstacles. The costs of such chronic uncertainty are enormous. This paralysis has led to decisions not being taken, as a wait-and-see approach takes hold. For example, the protracted debate on whether to transfer responsibility for electricity distribution from municipalities to regional electricity distributors resulted in municipalities under-investing in the maintenance and upgrading of infrastructure for electricity distribution.

The experience of other countries suggests that building effective relations between the different spheres of government requires considerable time, effort and will. The current arrangement of the three spheres provides foundations on which to build, but the country will need to focus on issues that require urgent and sustained attention if the spheres are to work together effectively. There are five particular issues that need to be addressed if South Africa is to move its intergovernmental relations onto a more constructive plain:

○ Improve clarity in a differentiated system
○ Regionalisation as a response to capacity constraints
○ A coherent set of powers for metropolitan municipalities
○ A more focused role for provinces
○ A proactive approach to identifying and resolving problems.

At the heart of these priorities is the need to clarify the division of roles and functions, and ensure disagreements are resolved quickly and effectively. This will make coordination and cooperation easier, reducing the areas of potential conflict. Trust and mutual understanding are required to achieve constructive intergovernmental relations. The Constitution refers to the three spheres of government as "distinctive, interdependent and interrelated". No sphere can succeed on its own. The Constitution emphasises the role of national and provincial government in supporting local government, and stresses that this role goes beyond simply producing legislation and regulations. The proposals made in this chapter seek to develop a more constructive form of interdependence through a more proactive approach to managing the intergovernmental system.

The proposals we make here focus on how best to improve performance within the existing system, as this is where gains are most likely to be achieved. However, as long as the current levels of conflict persist, it is inevitable that questions will arise with

regard to provinces and district municipalities. These issues may need to be revisited, and South Africa will need to strike a balance between stability and evolution. This means using reviews and other measures to focus on specific issues rather than trying to recreate the system in one go.

Improve clarity in a differentiated system

South Africa's local government system has to meet varying needs in different parts of the country with differing levels of capacity. This ranges from metropolitan municipalities with substantial financial, administrative and technical resources to rural municipalities that have limited scope to generate their own revenue and lack the capacity to carry out complex tasks. A coherent approach to local government cannot be a one-size-fits-all approach.

Recognising these realities, the Constitution allows for differentiation in the assignment of powers and functions to municipalities through the distinction between single-tier (Category A) municipalities and two-tier (Category B and C) municipalities. There has also been differentiation in the powers assigned to Category B and C municipalities, including provision of bulk infrastructure and network services such as water and sanitation. The funding model for local government recognises the wide variation in revenue-raising capacity at local-government level, as well as levels of access to basic services. Conditional grants allow further differentiation through the targeting mechanisms developed for each grant. This suggests that the intergovernmental framework allows the allocation of powers and functions to evolve over time within broad constitutional principles, but the opportunities this provides are not always used effectively.

A coordinated and cautious approach to differentiation should help to address uneven state

performance by ensuring a better and more strategic fit between responsibility and capacity at all levels. This needs to take account of two possible reasons for uneven capacity:

- The first set of reasons relates to the economic, demographic and geographic conditions of the locality. For example, urban and rural municipalities need to carry out different functions because of their different economic and population patterns.
- The second set of reasons relates to administrative capacity. The capacity of local government has been most restricted in some of the poorest areas where the developmental role of local government is particularly important.

This distinguishes between areas where a differentiated role is necessary because of long-term economic, demographic or geographic features and where differentiation is necessary as a time-bound measure because of capacity constraints within the municipality. In the latter case, differentiation needs to be accompanied by a long-term strategy to build the municipality's capacity. In some cases, this may need to be linked to short-term mechanisms to ensure adequate service delivery in the interim. The capacity of provinces to play this role needs to be strengthened.

Regionalisation as a response to uneven capacity: a differentiated approach to district municipalities and regional service providers

The two-tier system of local government was designed to address the limited capacity of many newly created rural municipalities, with district municipalities providing support to local municipalities. District municipalities were initially intended to play a role in redistribution, coordination and planning.

According to the Municipal Structures Act (1998), the functions of district municipalities related to: planning, bulk infrastructure, supporting local municipalities and providing services where a local municipality lacked the capacity to do so. The 2000 amendment to the act made districts responsible for municipal services, but with the option of devolving responsibility to local municipalities. This has created confusion, uncertainty and sometimes resulted in a stalemate. In some cases, the local municipality has the relevant infrastructure, but the district is receiving the funds and is no more willing to transfer the funds to the local municipality than the local municipality is to transfer control of the infrastructure to the district. This results in funding being paid to the wrong tier, adversely affecting the quality of basic services.

Where district and local municipalities are both providing the same service, despite only one of them being authorised to do so, it will be necessary either to ensure that one stops performing the function and transfers its staff and assets to the tier that is authorised to provide the service, or to allow both municipalities to perform the function with funding shared between them. This would require the national and provincial spheres to facilitate agreement on the division of service jurisdictions and funding.

In many cases, district municipalities have failed to build the capacity needed to fulfil their roles effectively. District municipalities frequently lack the skills and capacity to provide the forms of support to local municipalities that were originally intended, and lack of clarity about how responsibilities are divided between the two tiers has created scope for conflict. However, the logic for the two-tier system remains relevant where local municipalities lack capacity and are unable to recruit the necessary expertise.

District municipalities are most important where the capacity of local municipalities is weakest and those local municipalities are poorly equipped to take on extra functions from the districts. Along with metropolitan municipalities, districts could potentially also serve as basic units of strategic planning and spatial integration. However, there is a more limited role for districts in secondary cities and municipalities where districts are not authorised to provide water and sanitation. In these areas consideration should be given to whether it would be appropriate to establish single-tier municipalities. In such cases a local municipality could operate as a single authority with bulk services responsibilities separate from the district.

Regional service providers could play a larger role especially where municipal capacity is weak. The Municipal Structures Act allows scope for flexibility in the division of responsibilities between districts and local municipalities, depending on specific local circumstances. In the former homeland areas, local municipalities fulfil fewer tasks, with more functions being carried out by the districts and Eskom, while secondary cities assume a large range of functions that, elsewhere, are carried out by the district. Similarly, water boards could play a greater role in rural areas where municipalities struggle to develop the capacity required either by providing services themselves or by transferring skills to municipalities. Where regional service providers are used, political accountability must remain with municipal structures. This means regional service providers should not be imposed on local government. Instead, national and provincial government should assist municipalities in developing such a model in response to local circumstances.

A coherent set of powers for metropolitan municipalities

Metropolitan municipalities contain some of the highest levels of wealth in the country, but also high levels of poverty and service-delivery backlogs. These municipalities produce much of the country's economic wealth and therefore need to protect and enhance their economic status. They also need to protect the interests of the poor and marginalised. The challenge is particularly pressing due to the impact of apartheid on urban spatial patterns – many of the poor are located far from places of work in historically deprived areas with limited access to basic services.

Inward migration puts strain on physical infrastructure and basic services, but it also presents opportunities. Urbanisation requires new housing, extended services and improved public transport. The way in which metropolitan municipalities respond to these challenges can either tackle or reinforce the spatial divisions of apartheid, and can either support or retard economic development and job creation. The scope for creating sustainable human settlements depends on the availability of well-located land, a commodity that is scarce in most cities. As a result, the fragmented spatial legacy remains, making it more difficult for metropolitan municipalities to provide services.

To develop cities that are more liveable, economically dynamic and responsive to all sections of society, metropolitan municipalities need to take an integrated approach to the challenges of development. The potential economic dynamism of a metropolitan municipality cannot be achieved without also considering where people live and how they get to work. This means that these municipalities need to think holistically about issues such as housing, transport and spatial planning so that housing can be well positioned with adequate access to public transport. To achieve this, metropolitan municipalities need more comprehensive control over the core built-environment functions.

Different spheres of government have not cooperated effectively around built-environment functions relating to housing, state-owned land and transport infrastructure. The Constitution and relevant legislation allow the necessary shifts in power to be made, but progress has been extremely slow.

Transferring more functions to metropolitan municipalities will not automatically improve urban governance, nor will it remove all coordination problems. While these municipalities tend to have greater administrative and financial resources than other municipalities, they risk being overloaded if additional functions and larger boundaries are implemented too swiftly. Extra functions need to be phased in together with a long-term plan for developing administrative and financial capacity. A degree of differentiation is also required as the variation between metropolitan municipalities means that what is appropriate for the largest metropolitan municipalities may not be appropriate for the smaller ones. For the largest metropolitan municipalities, it may also be appropriate to consider their current positioning in relation to the provinces.

A more focused role for the provinces

The role of the provinces has been a perpetual issue in post-apartheid South Africa. Controversy arises because the function of provinces was negotiated as part of the interim constitution. It is fuelled by wide variations in living standards and government performance. Provinces that incorporated substantial former homelands consistently perform worse than others. However, unequal access to services and uneven government capacity would have been an issue under any institutional

arrangement. Even if provinces did not exist, implementation would still have had to make use of the same structures. The most pressing issue is therefore how provinces can best contribute to building constructive intergovernmental relations and improving service delivery.

Intergovernmental relations will not improve without a positive vision for the role of the provinces. This vision should focus on strengthening the ability of provincial government to carry out its core functions, especially education and health. Section 156(4) of the Constitution requires that responsibilities be devolved to local government where functions are best administered locally and municipal capacity exists. Yet provinces are often reluctant to reassign functions. This is partly because debate about the role of provincial government has led to chronic levels of instability and uncertainty. There is also little clarity on the role of the provinces in economic development and how this relates to national initiatives. Greater devolution to municipalities with capacity would enable provinces to concentrate more effectively on their core functions and support those municipalities where capacity is weakest. The capacity of provincial governments needs to be strengthened, so that they can play this capacity-building role for local government.

As with the relationship between provinces and municipalities, differentiation in the allocation of responsibilities from the national to the provincial sphere would be beneficial.

At the administrative level, there needs to be a relationship of trust between national departments and their provincial counterparts. This is essential for national departments to develop sufficient understanding of challenges at the provincial level and for provinces to have confidence in the support national departments can provide. Routine

coordination will help to build this trust (see the section on interdepartmental coordination for more detail), but some additional measures might be of value. For example, it could be mutually beneficial for the director-general of a national department to sit on the selection panel when a new head of department is selected for the equivalent provincial department.

Identifying and resolving problems

As with interdepartmental coordination, the challenge is to address problems when they arise, rather than to eliminate all coordination problems. This requires leadership from national government, particularly from the Department of Public Service and Administration (DPSA), the Department of Cooperative Governance, National Treasury and the Department of Performance Monitoring and Evaluation. These departments need to work together to ensure there is alignment between powers and functions, planning processes and budgetary allocations. In many cases, these departments will not be able to resolve assignment issues on their own, but will need to work with the relevant sector or provincial departments. They also need to work together to identify coordination problems and use their collective influence to ensure disagreements are resolved promptly. In some cases this may require research to assess the effectiveness of particular aspects of the intergovernmental system. However, sweeping reviews of the entire system are unlikely to be effective. Such reviews are much more likely to be productive if they focus on specific issues and use the review process to bring different parties together and build consensus.

A PLAN TO STRENGTHEN LOCAL GOVERNMENT

The vision of developmental local government is central to many of the other objectives in both this chapter and the rest of the plan. However,

STEPS TO IMPROVE RELATIONS BETWEEN NATIONAL, PROVINCIAL AND LOCAL GOVERNMENT

○ Strengthen the interdependence of the three spheres through a more proactive approach to managing the intergovernmental system.

○ Use differentiation to ensure a better fit between the capacity and responsibility of all spheres.

○ Mediate agreements between district and local municipalities where there is disagreement about the division of service jurisdictions and funding.

○ Consider establishing single-tier municipalities in secondary cities and where districts are not authorised to provide water and sanitation.

○ Consider establishing regional service providers where municipalities lack technical capacity or economies of scale.

○ Give metropolitan municipalities comprehensive control over built environment functions provided they have the necessary capacity.

○ Provinces focus on their core functions and develop the capacity to support and oversee local government.

○ Improve coordination and cooperation between national departments and their provincial counterparts especially at the administrative level. Consider including the director-general of a national department on the selection panel when a new head of department is selected for the equivalent provincial department.

○ National departments work together to identify coordination problems and use their collective influence to ensure disagreements are resolved promptly.

○ Use reviews and other measures to focus on specific issues and build consensus rather than trying to address everything at once.

municipalities have often found that expectations exceed their administrative and financial ability. This has led to a loss of confidence. To overcome these issues, a clear, long-term and consistent approach is required. This can be achieved through a shift in four critical areas:

○ An enabling framework for local government
○ A proactive approach to improving inter-governmental relations
○ A long-term approach to building capacity
○ Mainstreaming citizen participation.

An enabling framework for local government

In response to the problems facing municipalities, the temptation has been to issue more regulations and legislation for local government. However, many of the existing regulations are not implemented. National government needs to shift towards developing a more enabling framework that focuses on developing the systems to strengthen local government. This could include operational guidelines for routine tasks and staffing frameworks for different municipal functions, so that municipalities can tailor their capacity-building strategy and staffing budget to their core functions. Such guidelines could also provide an accountability mechanism, making it easier to identify where resources are being misallocated or processes mismanaged. This should be accompanied by strengthened national and provincial support and oversight for local government.

Only by engaging intensively with local government can national and provincial departments develop an

in-depth understanding of the challenges. National and provincial departments have a constitutional right to intervene, and they should be prepared to utilise this when necessary. However, they are less likely to need to do so and more likely to intervene effectively if they are already engaged in working with the municipality to improve performance. Municipalities also need to strengthen their commitment to improving efficiency and effectiveness, avoiding wasting funds on non-priority expenditure and collecting all the revenues that are due.

A proactive approach to improving intergovernmental relations

Intergovernmental coordination problems have an adverse effect on local government. This plan proposes several changes to the intergovernmental system including that provinces should focus on their core functions and that metropolitan municipalities should be given full control of built-environment functions as long as they have suitable capacity. The most fundamental proposal is a change of approach away from trying to find new structural arrangements, which is destabilising, towards identifying and resolving specific coordination problems. This would include mediating agreements between district and local municipalities where there is duplication or conflict over the allocation of responsibilities and resources. It also includes developing regional service providers where municipalities cannot secure the expertise to provide services themselves. This would be pursued as a voluntary, negotiated approach since an imposed solution could undermine municipal accountability for service provision.

A long-term approach to building capacity

There have been many short-term interventions to build municipal capacity, but capacity building is a long-term process. National and provincial government should promote local government as a career path in its own right through measures such as a local

government graduate-recruitment scheme and skills-development strategies for technical specialists. They should also work with municipalities to strengthen their human-resources and management capacity. For this approach to be effective, it is essential that municipalities are committed to improving their approach to recruitment, management and training. This could be encouraged through mechanisms such as the preparation of standard frameworks linking staffing needs to a municipality's core functions. Linking skills plans to a municipality's integrated development plan (IDP) could ensure greater attention is given to capacity building. Other measures are also needed to incentivise municipalities to invest in developing the skills of their staff. In the absence of standardised pay bands, there is an incentive for municipalities to poach staff from each other by offering higher salaries for the same job. This reduces the likelihood of them investing in training their staff. To address this problem, national government should seek to formulate guidelines on standard salary levels. It should also develop standard assessment procedures for different jobs, perhaps in conjunction with the relevant professional associations. Municipalities could then use these assessment procedures when recruiting new staff to ensure new recruits have the necessary skills set.

Mainstreaming citizen participation

Local government is conceived as the most participatory sphere of government. Participation is critical for democratising governance processes and ensuring local government remains responsive to its citizens. However, participation is often a formulaic exercise run by consultants and citizens have little confidence in the value of engagement. Where municipal officials outsource the writing of IDPs to consultants, this reduces the likelihood of councillors and municipal employees being fully committed to delivering on the commitments in the IDP and so also reduces the incentives for citizens to engage with the process. First, the IDP process

needs to be led by the municipality and not outsourced to consultants. Second, participation in IDP processes needs to be deliberative and engage communities in prioritising and making trade-offs. Both of these objectives will be easier to achieve if IDPs are more narrowly focused on the core priorities of local government. Third, local government needs to engage people in their own spaces. Elected representatives and administrative officials should be prepared to go to community organisations, housing associations or business associations rather than expect them to come to governmental forums. Community development workers have an important role to play in facilitating these engagements. These shifts would help local government to focus on citizens' priorities. It is also important that civil society and citizen groups make use of the data that is already available in order to hold local government accountable.

THE DEVELOPMENTAL POTENTIAL OF STATE-OWNED ENTERPRISES

SOEs are central to advancing national objectives through providing economic and social infrastructure. If this is done in an equitable and cost-effective way, SOEs can contribute to both

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STEPS TO STRENGTHEN LOCAL GOVERNMENT

- Develop systems to strengthen local government, including recruitment systems, operational guidelines for routine tasks, staffing frameworks for municipal functions, standard assessment procedures for recruiting new staff and guidelines on salary levels.
- Municipalities need to tailor capacity-building strategies and staffing budgets to their core functions, and link their municipal skills plans to their IDPs.
- Strengthen national and provincial support and oversight.
- Take a more long-term approach to building local government capacity.
- Focus IDPs on the core municipal priorities and ensure the production of IDPs is led by local government staff.
- Ensure participation in IDPs is deliberative so communities are engaged in prioritising and making trade-offs.
- Municipalities need to engage communities in their own spaces.

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economic growth and overcoming spatial inequalities. While considerable attention has been given to the transformation of SOEs, less attention has been given to the transformative or developmental role that SOEs can play.

By 2030, South Africa needs to be served by a set of efficient, financially sound and well-governed SOEs that address the country's developmental objectives in areas where neither the executive arms of government nor private enterprises are able to do so effectively. These enterprises must deliver a quality and reliable service at a cost that enables South Africa to be globally competitive. To live up to these expectations, SOEs will require clear public-interest mandates, which are consistently enforced.

To improve the performance of SOEs, their task needs to be simplified. Asking enterprises with limited capacity and resources to address too many different priorities at once is setting them up to fail, particularly when they have to work through complex or unpredictable governance structures.

They need a stable and straightforward governance structure that allows them to focus on their long-term objectives. The challenge is to develop better ways of working so that the multiple and competing priorities that are recognised in formal documents can be prioritised effectively.

Three broad sets of reforms will ensure sustainable improvements in the performance of SOEs:

O   **A clear mandate.** Each SOE needs a well-defined and transparent mandate that sets out its role and how its activities serve the public interest.

O   **A clear and straightforward governance structure.** This involves clearly identifying and managing the government's roles in policy-making, ownership of utility assets, and regulation of prices and quality of utility services. Consideration needs to be given to how these different roles are allocated to ensure a sustainable balance between short-term and long-term priorities and coordination between different policy priorities.

O   **Deal with capacity constraints.** A long-term strategy must be formulated to develop the policy and technical expertise that SOEs need to carry out their mandate.

Mandates to clarify the role of SOE's

SOEs need a clear mandate. The closest thing to this at the moment is the stakeholder compact required by the Public Finance Management Act. The most important function of the mandate is to specify why the SOE is needed. Given that these enterprises exist to serve the public interest, it is important that the mandate is precise about what public good the SOE provides and how it serves the public interest. For the large SOEs involved in economic infrastructure provision, their mandate should also include the imperative of financial viability and sustaining their asset base and balance sheet in order to maintain and expand services. Attention also needs to be given to the range of

development-finance institutions. Greater clarity about the respective niche filled by each development-finance institution and improved coordination between these agencies could help to maximise their developmental impact.

In formulating a public-interest mandate for an SOE, it is important to recognise that:

O   The reason some SOEs were created may no longer be relevant, because the character of both government and the market changes over time. This would arise if the gap they were set up to fill has either ceased to be of policy significance or can now be dealt with in an equitable and sustainable way without public-sector involvement.

O   The focus of an SOE's activities may have shifted, expanded or contracted over time. This may be an appropriate adaptation to changing circumstances, but it may also be mission creep, where an SOE expands into activities that may not serve the public interest or distract from its core purpose.

This mandate is an important mechanism to hold individual SOEs accountable for how they use public resources. Each SOE's mandate should be scrutinised by the appropriate policy ministry and parliamentary committee. The mandate should be publicly available online, so that other stakeholders can assess its performance. The renewal, refinement or revocation of each public-interest mandate will enable greater consensus between SOEs and their respective departments on how the enterprise furthers the objectives of the policy department. The mandate of each enterprise should be reviewed periodically to ensure there is consensus about its principal objectives and how these are to be met. Review processes should also take into account that new enterprises may need to be created to attend to unmet public interests. While reviews are important, they should not be done too frequently, as the activities of many SOEs

require predictability to make long-term investment decisions.

Other reforms could include improved transparency and flow of information, such as comprehensive annual reports and financial statements; making performance contracts available; and publishing results, investment and coverage plans, prices, costs and tariffs, service standards, benchmarking reports and customer surveys. Information needs to be credible, coherent and timely. The requirement, under the Companies Act (2008), for companies to establish a social and ethics committee provides an opportunity for SOEs to look at how they ensure transparency both in terms of progress in meeting their core objectives, and in terms of their broader social and ethical impact.

A clear mandate can provide the basis for a more detailed assessment of the SOE's performance. A shareholder compact (or performance contract) usually lays out the shareholder ministry's objectives for the utility. Performance contracts are negotiated agreements, clarifying objectives and addressing tariffs, investments, subsidies and non-commercial (social or political) objectives and their funding. The effectiveness of performance contracts is not guaranteed. The information asymmetry between managers and owners can allow managers to negotiate performance targets that are easy for the utility to achieve. Contracts can also be incomplete or fail to anticipate events and contingencies. Government can renege on commitments, including promised budgets for social programmes. Performance contracts should only be used if government is willing to deal with the challenges of information asymmetry, effective incentives and credible commitments.

Clarify and simplify governance structures

The governance structure of SOEs arises from the

need to treat these enterprises differently to executive government departments or privately owned commercial enterprises. They exist to serve the public interest, but they are also expected to generate at least some of their own revenue. The governance structure needs to reconcile their commercial objectives with their public-interest objectives.

There is no single model. Some large SOEs involved in economic infrastructure and identified pre-1994 for privatisation were separated from their policy-making ministry and placed under what became the Department of Public Enterprises as the SOE shareholding ministry. In these cases, the Minister of Public Enterprises represents the interests of government as the shareholder, while the relevant policy ministry has the main interest in the services delivered by the SOE.

The division of responsibilities can help to create a healthy tension between the services provided by the SOE and its financial sustainability. The joint ministry model requires that:

o The shareholder ministry should be responsible for ensuring SOEs are viable and financially sustainable, and that their assets are maintained and renewed. Designing effective shareholder compacts and monitoring the performance of large SOEs requires professional expertise that is best located in a central department, either the Department of Public Enterprises or a division within the National Treasury.
o The policy ministry should be concerned with whether the SOE is serving policy objectives.
For this division of responsibilities to be effective, there needs to be coordination and clarity around policy priorities and sound financial management. The policy and shareholding ministries need to work together to frame the objectives and

performance measures embedded in the shareholder or performance compact. However, effective coordination is not easy to achieve and, where it is missing, split reporting can easily confuse the lines of accountability. If the split reporting model is to work effectively, it will need to start from a clearer delineation of each department's responsibilities, to make it easier to determine the specific issues that need coordination and how this should take place. In some countries, including New Zealand, the two departments are joint shareholders with joint responsibility for appointing the board. This could help to institutionalise coordination and ensure more effective reconciliation of different priorities, especially if the performance contract is designed jointly by the two ministries.

Smaller SOEs, with no substantial commercial purpose or base, could report directly to their policy ministries.

Many of South Africa's SOEs have seen frequent change in board composition and leadership. Effective governance requires stability in the powers and appointment of the boards of SOEs. Many different approaches have been adopted internationally. As with the appointment of directors-general, the most important issue is to achieve credibility in the appointment process and greater stability in appointments. The Commission is of the view that the optimal approach is for the shareholder and policy ministries to jointly appoint the boards and the boards to appoint their chief executives. This enables a clear line of accountability between government and the board, and between the board and the chief executive.

The relationships between SOEs and independent regulators have frequently proved problematic. The conditions for a regulator to be effective have tended to be onerous and adequate regulatory capacity cannot be built overnight. For independent regulators to be effective, they must have clearly defined powers and adequate human and financial resources (see section on regulation and the role of regulators in chapter 4). Sector regulators need to be drawn into the process when shareholder and policy departments design performance contracts.

Address capacity constraints

Clear governance structures and focused mandates will reduce the burden on limited human and financial resources. However, there also needs to be a long-term strategy to develop the skills required by SOEs and to ensure that they are financially sound.

SOEs require administrative, policy, managerial and technical skills. Government needs to have a strategy for how these skills are going to be produced and developed. The skills needs of individual SOEs must be identified. Where gaps exist, government needs to formulate recruitment and training strategies to develop a new generation of skills.

Salary levels have risen rapidly in many SOEs, particularly at senior levels, but there is no evidence that high salaries enable these entities to obtain and retain the best people. High salaries are a costly and ineffective alternative to developing the skills base and ensuring working environments recognise and value professional skills. Instability in policy approaches and organisational structures aggravates the difficulty of attracting and retaining appropriate people to address the challenges of strategic direction (typically the role of the board) and of operational effectiveness (senior management). In most cases, leaders lay the foundation for future success in their first three years in office; this means stable leadership is a prerequisite for improving performance.

SOEs need a funding strategy that is reliable and

consistent to ensure they are able to recover their operating costs and provide for capital replacement and expansion. However, there is often a mismatch between the funding dynamics of government and the enterprises it owns. Some SOEs can look to private investment. Mixed-capital enterprise arrangements also encourage increased stakeholder involvement. These can be established either by selling a minority or non-controlling equity stake to private investors or through private debt markets. Shareholders and bond-holders can provide additional pressure to perform well. Credit agencies provide financial discipline over managers, who fear a credit downgrading and an increase in capital costs. Even where private finance is used, government needs to create the necessary conditions to attract and secure investment.

SOEs that provide goods and services for which charges are levied should where possible recover their operating costs through those charges. However, pricing decisions have public consequences and government may have an interest in subsidising the provision of some goods. Such decisions should be based on a clear understanding of the different commercial, social and developmental objectives. For example, Eskom has a mandate to provide reliable and competitively priced electricity to mining, industry and business, but it also has a mandate to extend affordable access to electricity services to poor households. The former should generally pay a tariff that reflects the full cost, whereas the latter may be eligible for subsidies for their connection fees and possibly a portion of their energy-consumption costs. It can be disastrous to the financial sustainability of SOEs to confuse these mandates and provide services at below cost if the gap is not covered by an alternative source of finance.

CAPABLE, DEVELOPMENTAL, PROFESSIONAL AND RESPONSIVE: THE STATE IN 2030

Between now and 2030, South Africa needs to

STEPS TO ACHIEVE THE DEVELOPMENTAL POTENTIAL OF SOE'S

- Develop public interest mandates that highlight an SOE's core purpose. Make these publicly available to promote accountability.
- Clarify the responsibility of policy and shareholder ministries.
- Improve coordination between policy and shareholder ministries by making them jointly responsible for appointing the board.
- Ensure appointment processes are credible and that there is greater stability in appointments.
- Ensure regulators have clearly defined powers, and adequate human and financial resources.
- Formulate a long-term plan to develop the policy and technical expertise that SOEs need to fulfil their mandates.

move towards a developmental state that is capable, professional and responsive to the needs of its citizens. Progress needs to be pursued most rapidly in those areas where state capacity is at its weakest. The plan has set out proposals to unlock opportunities, tackle major problems and put South Africa on the right path for building the state's capacity to promote the objectives of eliminating poverty and reducing inequality.

The implementation of these proposals will depend on the commitment to drive them forward and the willingness to tackle problems as they arise. This requires a willingness to learn from experience and build on what works. This means initiating policies on a small-scale, developing an understanding of the obstacles to effective implementation, and scaling up where measures prove effective.