

# Chapter 13

## **BUILDING A CAPABLE STATE**

*“We feel loved, respected and cared for in public institutions.*

*What we contribute in our taxes, we get back through the high quality of our public services that is why we have:*

*good clinics and hospitals with well trained, caring doctors and administrators, nurses who rush to our aid with empathy and expertise;*

*affordable effective medicines, because they were made for all of us;*

*good schools with well educated, trained and caring teachers.*

*Each community has:*

*a school,*

*teachers who love teaching and learning,*

*a local library filled with the wealth of books,*

*a librarian,*

*a police station with respected and upright police,*

*a clinic with nurses who love caring for people.”*

### **Introduction**

In this chapter, we identify critical interventions to build a professional public service and a state capable of playing a transformative and developmental role in realising the vision for 2030. South Africa’s National Development Plan will require collaboration between all sections of society and strong leadership by government. In a society with deep social and economic divisions, neither social nor economic transformation is possible without an effective state. The state provides the institutions and infrastructure that enable the economy and society to operate. Its ability to carry out these functions has a profound impact on the lives of all South Africans.

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## Progress so far

Since 1994, South Africa has made significant progress in building the structures of a democratic state. The fragmented governance structures of apartheid 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. The introduction of democracy provides a basis for greater accountability of the state to its citizens. 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. The foundations for a capable state have been laid, but there are major concerns about the weaknesses in how these structures function, which constrain the state's ability to pursue key developmental objectives.

## The challenge

In the diagnostic documents, the National Planning Commission highlighted the unevenness in state capacity, which leads to uneven performance in local, provincial and national government. The uneven performance of the public service results from the interplay between 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, inappropriate staffing 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 to address these problems, but there is a tendency to jump from one quick fix or policy fad to the next, rather than pursuing a long-term sustained focus on tackling the major obstacles to improving the performance of the public service. These frequent changes have created instability in organisational structures and policy approaches that further strain limited capacity, exacerbating the problem of uneven performance.

The temptation of quick fixes has diverted attention from more fundamental priorities, particularly the deficit in skills and professionalism affecting all elements of the public service. At senior levels, reporting and recruitment structures allow for too much political interference in selecting and managing senior staff. The result has been unnecessary turbulence in senior posts in the public service and reduced confidence in the leadership, which undermines 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 lacks 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 a lack of leadership prevent these issues being addressed promptly.

South Africa has struggled to achieve constructive relations between the three spheres of government. A lack of clarity about the division and coordination of powers and responsibilities together with the lack of coherent and predictable mechanisms for delegating or assigning functions has created tensions and instability across the three spheres. 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. They are made more difficult by gradual mission creep as each government agency is expected to fulfil multiple objectives. The key issue is how they are dealt with. At present, there is no clarity on who has responsibility for mediating disputes and overcoming coordination problems.

## 2030 vision

If we are to address the twin challenges of poverty and inequality, a state is needed that is capable of playing a transformative and developmental role. This requires well run and effectively coordinated state institutions staffed by skilled public servants who are committed to the public good and capable of delivering consistently high-quality services for all South Africans, 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.

## What needs to be done

South Africa is a long way from this desired end-state, and some fundamental steps need to be taken or South Africa is unlikely to achieve many of the other objectives set out in the rest of the plan: high-quality public services, improving and maintaining infrastructure, and the conditions for economic development all require a professional public service and a capable state.

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

- Stabilise the political-administrative interface – A focus on skills and professionalism will be ineffective unless the political-administrative interface is clarified to ensure a clearer separation between the roles of the political principal and the administrative head. The current emphasis on “political deployment” needs to be replaced by a focus on building a professional public service that serves government, but is sufficiently autonomous to be insulated from political patronage.
- Make the public service and local government careers of choice – South Africa needs to focus on building a skilled and professional public service from both the top and the bottom. At the top, recruitment and management should be based on experience and expertise, while at junior levels, the state needs to focus on

producing the skills and expertise that will be necessary for future public service cohorts.

- Develop technical and specialist professional skills – The state needs to reinvigorate its role in producing the specialist technical skills that are essential to fulfil its core functions, and provide appropriate career paths for technical specialists.
- Improve relations between the three spheres of government – South Africa cannot afford to continue with the current level of confusion about how responsibilities are divided, shared and monitored across local, provincial and national government. We need 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 municipalities, municipalities should be allowed to focus on their core functions and not be burdened with too many extra responsibilities. These challenges can only partly be resolved by clarifying roles and functions. It is inevitable that there will be disagreements about how responsibilities are divided or shared, but national government needs to intervene to mediate disputes and enable consensus to emerge.
- State-owned enterprises – The major state-owned enterprises (SOE) need clear public interest mandates, and straightforward governance structures that enable them to balance and reconcile their economic and social objectives. This includes ensuring there is greater stability in SOE boards and that the chief executive is clearly accountable to the board.

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 and new initiatives. Initiatives targeted at preventing malfeasance often focus on restricting the scope for discretion, but this has the unintended consequence of limiting the scope for innovation. The danger is that the principal objective of public servants becomes following rules, whereas it should be about getting things done. We need reforms that will enable people to do their jobs by strengthening skills, enhancing morale and clarifying lines of accountability.

### **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. There has to be a clear demarcation between the roles and responsibilities of public servants and their political principals. Where the public service is too insulated from political pressures, this is likely to lead to concerns that it is failing to serve the interests of the government and is 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 become closely associated with the apartheid regime. Having achieved significant improvements in the representivity and focus 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 2011 Municipal Systems Amendment Act introduced a prohibition on municipal managers or those directly accountable to a municipal manager holding political office in a political party, suggesting there is 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 stability of leadership and policy approach. However, the lack of clarity about the division of roles and responsibilities between political principals and administrative heads often serves to undermine 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 overly difficult for directors-general to carry out their day-to-day responsibilities in running the department. Reforms are needed to simplify and clarify the lines of accountability, to ensure that directors-general are accountable to their minister on policy matters, and that departmental staff are accountable to their director-general. This includes responsibilities for human resources functions, which currently reside with ministers and are either reluctantly delegated to the director-general or not delegated at all.

In many other countries, a clearer distinction is drawn between the powers and responsibilities of political principals and administrative heads. This demarcation needs to be clarified in South Africa to stabilise the political-administrative interface. This can be done either through a designated head of the public service or an independent public service commission, or a combination of the two. In South Africa, we recommend a combination, with certain functions allocated to a career public servant in his/her capacity as head of the public service and others being allocated to a strengthened Public Service Commission. The commission should promote the skills, values and ethos of the public service, while operational accountability for administrative functioning falls to the head of the public service. Senior officials should continue to be accountable to their political principals for policy matters. This would make it easier to distinguish clearly between the head of department's accountability to the minister for policy issues and non-political accountability for issues relating to the administrative functioning of the department.

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This approach will be most successful as part of a broader commitment to building a public service based on skills and professionalism. This requires elected leaders to shift their attention away from operational details towards their core strategic function of ensuring their department fulfils its objectives. In the longer term, a focus on attracting and recruiting the best candidates to build a skilled and professional public service will benefit elected leaders, because their departments will be better equipped to pursue key policy objectives.

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

- A strengthened role for the Public Service Commission in promoting norms and standards, and monitoring recruitment processes.
- Create an administrative head of the public service to whom directors-general report on organisational and administrative matters.
- A hybrid approach to top appointments that allows for the reconciliation of administrative and political priorities.
- A purely administrative approach to lower-level appointments, with senior officials given full authority to appoint staff in their departments.

### **Strengthen the role of the Public Service Commission**

In many Organisation for Economic Cooperation and Development countries, public service commissions fulfil an advisory and oversight role, ensuring that norms and standards are followed correctly, 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 Public Service Commission is assigned an advisory and oversight role, which includes promoting the values of the public service and investigating breaches of procedures and practices. The role of the Public Service Commission should be strengthened to make it a robust champion of a meritocratic public service by promoting and monitoring key norms and standards. Consideration should also be given to whether its mandate should be extended to include the primary responsibility for setting key norms and standards, especially for recruitment processes.

The powers of the Public Service Commission are set out in Chapter 10 of the Constitution where, like the Chapter 9 institutions, its mandate is outlined in terms of the contribution it can make to protecting and supporting democracy. This gives the commission the independence that comes from reporting to and being accountable to parliament. However, the *Report of the ad hoc Committee on the Review of Chapter 9 and Associated Institutions* chaired by the late Professor Kader Asmal raised the concern that the reports produced by the Public Service Commission could only be as effective as the will of the executive to act on those proposals.

It would be counterproductive to give the Public Service Commission a far-reaching direct role in recruitment, because an overly centralised recruitment system would

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make it more difficult for departments to recruit their staff and would undermine the ability of departmental heads to formulate a strategic direction for their own departments. However, consideration should be given to whether the commission should play a direct role in the recruitment of the most senior posts. For example, the chair of the Public Service Commission, together with the proposed head of the public service, could 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. Proposal 3 suggests how such a role could be reconciled with the need to ensure senior public servants continue to be accountable to their political principal for policy issues.

Strengthening the role of the Public Service Commission would help ensure that recruitment into the public service is based on merit. However, its credibility will depend on the commission being seen to have a strong, independent chair who carries cross-party support and commissioners who are appointed on non-political grounds. The appointment of commissioners becomes a litmus test for the government's commitment to retaining the independence of the Public Service Commission. Unfortunately, in many countries it becomes a battleground, with the independence of the public service commission having to be defended repeatedly. This will be easier to achieve if politicians are confident that the recruitment processes are delivering high-calibre staff. The model is unlikely to succeed if it achieves the objective of preventing inappropriate political interference in appointments, without also attracting the best people into the public service.

### **An administrative head of the public service**

The role of the Public Service Commission should relate to the promotion or setting of norms and standards, not oversight of daily operational matters. We propose the creation of an administrative head of the public service to whom directors-general would report on operational and administrative matters. Many countries have such a post, including Singapore, Kenya, Ghana and the United Kingdom. A senior public servant could be assigned as head of the public service in his/her capacity as the head of an existing government department, most likely either the Department for Public Service and Administration or the Presidency, with the heads of other government departments reporting to this official on organisational and administrative matters. Measures have already been taken to foster stronger coordination through bodies such as 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 administrative oversight of senior public servants with these existing structures by locating the function within the Presidency. Heads of department would report to the head of the public service on administrative matters, while reporting to their minister or political principal on policy matters. At provincial level, an equivalent post could be located in the Office of the Premier. Consideration should also be given to whether the responsibility of the provincial head could extend to

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playing an oversight role in relation to the recruitment and performance of municipal managers in that province.

### **A hybrid approach to top appointments**

While directors-general and heads of department should report to an administrative head on routine organisational matters, it is still essential to ensure they are accountable to their political principal on policy issues. Political principals need to be able to have confidence in their head of department, while the administrative head of the public service has confidence in their managerial abilities.

To ensure an ongoing role for political accountability, a hybrid model could be considered. A selection panel convened by the Public Service Commission and the administrative head of the public service would draw up a short-list of suitable candidates for senior posts, from which the political principal would select a preferred candidate. This model has been used in Belgium. While it does lengthen the selection process, it 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.

In the longer term, this process could be combined with greater job security for directors-general and heads of department. The current short-term three year contracts are necessary when heads of department are political appointments, but they do contribute to organisational instability and make it more difficult to build an experienced senior management cadre, as some experienced people are lost to the public service unnecessarily. However, greater security of contract is only desirable if 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.

### **Give senior managers authority over operational matters**

The Public Service Act (1994) situates a number of human resources functions with political principals. This includes matters relating to organisational structure, appointment, promotions and transfers, performance management, and the obligations, rights and privileges of employees. 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 means senior managers cannot delegate authority to their line managers on a sustainable basis – if a future minister recentralises powers, the director-general's scope to delegate will also be undermined. We therefore recommend greater and more consistent delegation of authority for administrative

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matters from political principals to their heads of department, and from the head of department to managers.

This devolution of powers should include delegating greater authority for appointments to the appropriate line managers. It is not uncommon for a department to take nine months to fill a vacancy, as the bureaucratic process has been made far too complicated – 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 more junior posts, which leads to an increased reliance on consultants and stymies the development of a new generation of skills and experience. These overly complex procedures have not been effective at preventing inappropriate appointments. Indeed, they may have made the problem worse – overly complex procedures make it harder to attribute responsibility and increase the temptation to circumvent official processes. An effective recruitment process gives line managers the scope to recruit the people they need into funded posts within a reasonable timeframe. It also has to ensure that recruitment processes are geared towards recruiting the best people. The more rigorous approach to appointing heads of department, together with the proposed strengthening of the role of the Public Service Commission in shaping norms and standards for recruitment, provides adequate protection to allow managers the freedom to recruit within those norms and standards.

### **Make the public service and local government careers of choice**

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. The public service should attract highly skilled people, binding them together by cultivating a sense of professional common purpose and a commitment to working towards 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 – an approach that places the development of skills and professionalism at the heart of the plan for improving the public service. 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 high-level staff are recruited on the basis of their suitability for the job.

*“If we are to develop and maintain a professional, people and service orientated public service we need to ensure that the public service becomes a calling of excellence and a career which should be sought after not for its financial gains and security but because it is the haven for passionate patriots who want to serve ALL South Africans.”*  
– NPC Jam

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

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skilled public service should also be representative of, and connected to, the communities it serves.

There is a serious ambivalence towards skill in the public service. The skills that staff possess are not always valued, and status or connections are often prized more than expertise. The Department for Public Service and Administration 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 that focuses on 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 will come from. Departments need to place greater emphasis on potential. Recruitment should focus not just on the skills people have today, but also those they could develop while working for the department. This requires a recruitment and on-the-job development strategy that is more closely linked to a vision of how public servants’ experience and expertise will develop during their careers. While graduates with potential 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 more junior posts. This is an unsustainable situation.

To build a skilled and professional public service, we need to attract talented people from a diverse range of backgrounds. Jobs should be sufficiently stimulating and challenging to ensure people are constantly developing their skills. Recruitment and promotion processes need to place an overriding emphasis on skill and experience; and the state needs to focus on its role in producing and enhancing skills. This requires a clear vision of public service career paths. Below, we set out key proposals for how this can be achieved through:

- A formalised graduate recruitment scheme for the public service
- A career path for local government
- Making adequate experience a prerequisite for senior posts
- A long-term perspective on training and management.

#### **A formalised graduate recruitment scheme for the public service**

South Africa needs a strategy for recruiting dedicated young people and ensuring that their skills are developed, with career progression linked to performance. Graduates leaving university in 2011 are part of the pool from which middle and senior managers will be drawn in 2030, while children starting school in 2011 will form the cohort of aspiring entrants into the public service in 2030. To improve capacity and performance,

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we need a strategy that will not only attract young people with potential, but also retain them by developing their skills and sustaining their morale. Vital to achieving this is the need to develop a sense of professional common purpose, so that public servants feel motivated by working together in the public interest.

The public service has pockets of excellence, where recruitment is highly competitive and people aspire to work, but in general, it is not the employer of choice for many graduates. The best entrants tend to be concentrated in a few departments, while many departments struggle to recruit the best people. Multiple internship schemes have been introduced. In the best cases, these provide an entry point for promising people and can be the start of fruitful careers. However, these schemes are linked to specific departments and, inevitably, they will work best and be most attractive 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. There needs to be a mechanism for recruiting high-calibre applicants into all government departments.

We recommend initiating a formalised graduate recruitment scheme to attract talented graduates into government 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. These schemes vary in their level of centralisation. Some, such as the Indian Administrative Service, pursue an overly 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 they progress through their career, they develop a stronger understanding of how the department works. It also allows greater autonomy for departments and graduate recruits: recruits can be given an opportunity to shortlist their preferred departments and offered a post in a particular department, rather than having to accept the uncertainty of being posted anywhere in government.

South Africa needs to ensure that it not only recruits high-calibre people, but that these people develop experience in the early stages of their career – not just of high-level policy formulation but also of the challenges faced in implementation. A formalised graduate recruitment programme should not only expose recruits to a range of posts within the national department, but also involve an extended placement in the equivalent department at provincial level. Provincial departments would benefit from the secondment of staff with knowledge of the policy priorities and operating methods

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of the national department, while the national department would benefit from its staff developing a detailed knowledge of the workings of provincial government and the challenges faced at provincial level. In time, as the scheme develops, consideration should also be given to placing recruits directly with provincial departments.

A graduate recruitment programme recruits people on the basis of potential, and therefore needs to provide adequate mechanisms for learning and support. The most important skills will be learnt on the job and it is vital that graduate recruits are given focused areas of responsibility that enable them to develop specific expertise and take responsibility for particular projects early in their career. Those going into divisions and departments that function well may need no further support. If the scheme is to work in those departments where it is currently needed most, however, there 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, providing a neutral forum in which they can discuss challenges. Over time, a centralised graduate recruitment programme could help improve coordination between government departments by enabling staff to form networks across departments. In other countries, such networks have been vital in creating an ethos of public service.

The diagnostic documents highlighted the importance of a public service that is both skilled and representative. There is no inherent tension between these two objectives, between a meritocratic recruitment system and a representative public service. Affirmative action has already achieved a great deal in terms of producing a public service that is broadly representative of the country's population, although Africans are better represented in more junior posts. The difficulties with affirmative action are not with the policy itself, which is an essential if limited tool in the project of transformation. Rather, problems have arisen in circumstances where other aspects of the public service are operating imperfectly. Affirmative action places greater emphasis on potential rather than just prior performance, such as formal qualifications and exam results, making it particularly important that there are strong managerial and human resources processes for selection, mentoring, training and career development. A formalised graduate recruitment scheme linked to coordinated systems of training, mentorship and on-the-job learning could provide a strong mechanism for improving the effectiveness of affirmative action and realising its full transformative potential.

For the scheme to succeed, departments must have confidence in the calibre of applicants recruited. It should begin with a select number of outstanding recruits in the first years and the pool could be increased gradually. Recruitment should be based on a rigorous meritocratic process. It will be beneficial to look at mechanisms used in other countries, which frequently include a range of assessments such as exams, group exercises and interviews.

A formalised recruitment scheme could be marketed widely with targeted recruitment programmes at universities. These should include recent recruits talking to students at

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their alma mater about their experience of being a public servant. These recruitment drives should also be linked to the promotion and extension of existing internships to provide students and recent graduates with experience of working in government. Internship schemes could also target people from disadvantaged backgrounds to promote the objectives of affirmative action.

### **A career path for local government**

A distinct strategy is needed to ensure high-calibre people are recruited 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 everyone has access to high-quality basic services. Yet, skills shortages are most critical in local government, especially in rural municipalities. Like national government, municipalities also require a flow of promising graduates if they are to manage their core functions. Tackling this deficit should be a priority for national government, but imposing a solution on local government will not be effective.

Internship programmes have been set up to deal with specific skills gaps. For example, internship schemes exist for both financial and engineering posts in municipalities. However, there is no overarching mechanism for recruiting graduates into local government. The autonomy accorded local government means such a scheme would need to be different to a programme for national government. This is not unusual – many countries allow local government significant autonomy in recruiting staff. In the United Kingdom, difficulty in getting high-calibre graduates interested in joining local government resulted in the National Graduate Development Programme for local government as a parallel to the Fast Stream for the national civil service. The scheme is run centrally, but local governments can choose to participate. Recruits are employed by the local government they work for but receive training over a period of two years through the central scheme.

An advantage of this approach is that it could start gradually, with a small number of municipalities and a small number of recruits. The scheme would 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.

Municipalities will need to provide adequate training and support for recruits. However, given that the need for the scheme arises partly from the current shortfall in the performance and capacity of municipalities, there also needs to be a realistic strategy to provide external support and training. As with the national equivalent, it will be important to have regular events to bring the recruits together to share experiences. A graduate recruitment scheme for local government could help build this sphere's capacity.

**Make adequate experience a prerequisite for senior posts**

Skills, motivation and a professional ethic should be recognised and valued at all levels of the public service and local government.

It is essential that talented people are recruited into the public service, but it is also essential to recognise that many skills are developed on the job. The public service has become increasingly top-heavy, with staff being promoted rapidly and a shrinking proportion of staff in more junior posts. As a result, staff are often promoted too rapidly, before acquiring the experience needed for senior posts.

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 it is often treated as a junior post people can enter almost straight out of university – and on a salary higher than that of the best new entrants in many developed countries. Starting salaries are also significantly higher than equivalent entry-level posts in the private sector.

This creates three mutually reinforcing problems. It increases the pressure on more senior staff and, in turn, increases the proportion of work that is contracted out to highly paid consultants. This hinders the scope to develop capacity, because policy work becomes about commissioning consultants and managing contracts, not engaging directly in policy analysis. This is likely to lead to a widening gap between policy formulation and implementation.

The downgrading of mid-level posts also increases the ambition of middle management to be promoted to senior management levels as rapidly as possible. This creates serious problems. Rapid promotions mean people are thrown into management positions when they are still getting to grips with their policy brief. Talented young people who are promoted too quickly are likely to become frustrated. In this environment, the ability to supervise junior staff and nurture their professional development is also lost, limiting the ability of the public service to reproduce the skills it needs.

It is essential that a formalised graduate recruitment process is linked to a clearer and more graduated approach to career development. Overly rigid recruitment criteria can make recruiting and retaining good staff unnecessarily difficult, and so it is counterproductive to place strict requirements for particular grades. It will be more constructive to focus on increasing the attractiveness of mid-level posts. Promotions need to be made more difficult, but mid-level and junior posts need to be more fulfilling, 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.

Gradual promotions are more likely to be accepted where staff feel stretched and valued in their current job. They are also more likely to be accepted if staff are confident that consistent and transparent criteria are applied to promotions, with a clear career path to which they can aspire. This will be difficult to achieve as long as the perception exists that senior posts are not always allocated on the basis of relevant expertise and experience. If skills and professionalism are to improve, it is essential that the way senior public servants are appointed and managed is addressed. These appointments must not only be based on merit, but also seen to be based on merit.

### **A long-term perspective on training and management**

To get career paths right, training and management need to address shortcomings in routine aspects of the public service. The public service lacks a vision for how promising graduates who join in their mid-20s will become skilled and experienced public servants by their mid-30s. The public service cannot expect its new recruits to have all the necessary skills, so it must incorporate a vision of how public servants can develop their skills over the course of their career. Greater clarity about career paths and a less hierarchical approach will be beneficial, but training and good management will also be essential.

Good training serves multiple objectives. It fosters a sense of professional common purpose and a shared understanding of basic principles, provides a way to communicate specific information, gives people a chance to develop specific skills or knowledge, and allows a reflection space and a neutral environment in which workers can discuss and share challenges they face in the working environment. A one-size-fits-all approach to training will not be able to achieve these objectives.

Done well, investing in people's skills is an excellent way to make them feel valued and improve staff morale. When done badly, it becomes a bureaucratic burden. To be effective, training must be empowering and led by demand. Training should be tailored to the needs of the individual, with a minimum core that focuses on building a common understanding of the role of the public service. We envisage a minimal core training function with a degree of standardisation, followed by a much broader range of options allowing individuals to take training that suits their specific needs.

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.

Effective management is about making things work. Too often, policies are formulated without adequate consideration of how they will be implemented. Good management should turn aspirational policies into implementable strategies. Good managers do not impose standardised solutions, but work closely with their staff to develop a common

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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. This helps staff feel more empowered, with a better understanding of their own role. Good managers seek ways to delegate responsibilities and, where necessary, work to build the capacity of their staff to fulfil those functions. Yet, the daily routines of good management are often missing. To address this, consideration should be given to how managers can become more accessible to their staff. This is particularly important for managers with direct responsibility for service delivery who should ensure that they are regularly interacting with staff at the coalface, in order to develop an understanding of the challenges faced at the point of delivery and to enable the routine flow of information.

There can be no doubt that good management is essential for making optimal use of the financial, human and physical resources that are available. However, there is no quick or easy solution for improving management standards. The quality of management depends, in part, on the production line of skills to create an adequate pool of experienced people from whom managers can be drawn. It also requires that managers are clear about their roles and the powers available to them, and that they are adequately supported in carrying out their job. Managers are rarely empowered and encouraged to use the discretion and flexibility that is potentially available to them. 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 include understanding their powers and the degree of discretion that is available to them within the rules. This requires targeted training to ensure that managers understand the responsibilities of their grade and the tools and support mechanisms that are available to them in fulfilling their responsibilities. Beyond this core minimum, there needs to be a diverse range of training provided. This could include leadership training for top managers, including a coaching or mentoring function that allows managers to draw on the experience and expertise of retired managers, as well as peer review mechanisms through which managers are able to support one another. It should also include access to a wide range of courses from external providers, including academic and other sources.

**Making it work<sup>1</sup>***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 which 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 key health objectives. Pilot programmes have shown that relatively simple changes to operational systems in outpatient departments and pharmaceutical dispensaries can significantly reduce waiting times.

<sup>1</sup> 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.

-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, *Service Delivery Research*

## Develop technical and specialist professional skills

Government's strategy for administrative and policy skills needs to be accompanied by a strategy to ensure the availability of key technical and specialist professional skills. Services cannot be delivered without people with the necessary specialist skills – whether it is nurses, doctors, engineers, planners or artisans. Government lacks many key professional skills, and is suffering the consequences of its inability to reproduce expertise. This shortage is particularly severe at municipal level, where municipalities require engineers to build, maintain and operate infrastructure. Even when these functions are contracted out, municipalities still 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. This problem has arisen partly because the state has retreated from its core role in training and producing professionals. This contrasts with the apartheid era, when government played an active role in producing professionals. In the past, 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 qualify for registration as engineering technicians and professional engineers. The public sector's position as the initiator of many major infrastructure projects meant it was best placed to plan such recruitment and training programmes. Many of the country's technical professionals were trained in this way and supplied not just the public sector but also broader industry. Many of these entrants were on public sector bursaries, with an obligation to work to pay them back. Although such bursaries may still be funded, they can no longer be provided with the required professional training post-graduation, and graduates are often lost to the public service as a result. This route is virtually non-existent now, because so much work is contracted out, and there are too few qualified professionals able to provide the necessary direction and supervision. This has a negative impact on the entire economy.

Simply focusing on the production of key skills is insufficient if professionals are not empowered to do their jobs. The wider problem of ambivalence towards skill in the public service is particularly acute when it comes to professionals. Too often, 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 are permitted to undertake certain tasks in the implementation of projects. The profession needs to play a strong role in monitoring, regulating and maintaining its professional standards through professional councils and associations. It is essential that this role is protected and promoted.

We propose the following:

- Strengthen the state's role in developing technical skills
- Career paths for technical specialists.

### **Strengthen the state's role in developing technical skills**

These specialist skills will never be produced in adequate numbers without a clear strategy for training and recruitment. This requires a proactive 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 be proactive in anticipating skills shortages and ensuring there are appropriate training programmes with adequate capacity to produce the technical skills required in future. This will need coordinated planning by government, in conjunction with training institutions and professional councils and associations.

Increased outsourcing has resulted in a reduced emphasis on more junior posts, yet without these, there can be no production line for producing experienced professionals. This is a major problem. The solution needs to start with apprenticeships, where new entrants can learn practical technical skills to alleviate shortages of artisanal skills. Bursaries should be made available on a competitive basis for those apprentices with the aptitude and inclination to engage in further formal training. Graduate training schemes for those who lack necessary experience should be linked to the longer-term staffing needs of departments, so that trainees have a clear sense of how their career could develop if they perform well.

For apprenticeships and graduate training schemes to work effectively and reproduce expertise across generations, experienced professionals in the same field need to mentor trainees. Where there is a shortage of such professionals within relevant departments, innovative steps will need to be taken to locate suitable mentors. 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, it will be important to have a specialist technical career path that enables individuals with high levels of expertise to continue as practitioners, without having to divert into management careers. This will enable retention of experienced professionals who 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 technical challenges faced by technical specialists and to secure their respect. At the same time, support divisions such as human resources, supply chain,

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stores and systems should play a supporting and enabling role to operational line management driven by professionals.

### **Getting the basics right: delegating and simplifying routine tasks**

South Africa's focus has been on devolving responsibility to departments and municipalities, so that ministers, premiers, mayors, departmental heads and municipal managers can make, and take responsibility for, key decisions. If this model is to be effective, greater attention needs to be given to the support functions, particularly in the areas of management and human resources. In the absence of effective support functions, this model has centralised responsibility at the top of government departments and municipalities. As a result, many are over-centralised, with central management seeking to retain control of operational units, and reluctant to delegate functions like procurement and supply chain management, hiring and firing, and human resources services to managers lower down in the system. This is partly because many political principals have not fully taken advantage of the opportunity to delegate responsibility for administrative matters.

This has several perverse results: it slows down decision making and implementation of decisions, poor decisions are often made that are out of touch with operational realities, support services become unaccountable because they operate at a remote centralised level and their poor functioning undermines the ability of managers lower down the line, who cannot hold those support services to account and properly manage their domains. Accountability is weakened, when paperwork has to be signed by multiple people or at multiple stages in the process. It should be clear who has taken a procurement decision and on what grounds. It is important that responsibility can be traced to the person who made the decision. Streamlined processes could still maintain checks and balances, while clarifying accountability and making it easier for departments to take decisions.

Procurement guidelines, issued by the National Treasury in line with the Public Finance Management Act, provide scope for an accountable and straightforward process. While they define certain responsibilities and lines of accountability, authority for procurement can still be delegated where efficient supply chain management systems have been put in place.

A well designed and effectively supported control system allows front-line managers to have some procurement authority and to take responsibility for the impact of supplies, equipment and maintenance. Support service functions, such as human resources, procurement and finance, should be accountable to the appropriate operational line managers. This will enable line managers to take responsibility for operations, including staffing, discipline, expenditure against budget, equipment and supplies. The control framework informs the degree of delegation, with, for example, strict expenditure limits for supplies and procurement at different levels of the organisation. In addition, procedures and controls should be more transparent. This helps to make wastage and

corruption more visible to the direct users of supplies and services, which is an important deterrent to corruption or nepotism. Delegation needs to be accompanied by effective audit mechanisms.

South Africa's approach of decentralising maximum authority to ministers and their heads of departments will not be effective unless it is accompanied by greater delegation within departments. For this delegation to be effective, departments need good managers and high-calibre employees in key support functions such as finance and human resources. These support functions are often constraining when they should be enabling. Human resources officers need to provide expert advice to managers to help them do their jobs effectively, 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. Effective delegation makes it easier for everyone to do their jobs and enhances staff morale, particularly for middle management who are given the authority to make day-to-day decisions.

### **Harness the energy and experience of citizens**

Delegation and simplification of authority presents an opportunity to strengthen mechanisms of routine accountability, enabling the state to be more responsive to citizen concerns. The spate of service delivery protests across the country stems partly from citizens' frustration that the state is not responsive. There is a disjuncture between the communication of community grievances and the state's ability to address them. This is unfortunate, as citizens are best placed to advise on the standard of public services in their communities and to suggest possible interventions. To build a state that is both capable and serves the needs of citizens, the energy witnessed in service delivery protests and the expertise that comes from the daily experiences of using public services must be harnessed to ensure that problems with service delivery are recognised early and the state knows how to respond.

In its diagnostic chapter on institutions and governance, the National Planning Commission set out two 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, mechanisms exist for citizens to hold public officials accountable at the level at which services are delivered. These approaches are mutually reinforcing and work best in tandem. Bottom-up approaches are only likely to be effective where there is high-level commitment to citizen engagement. Citizen groups cannot be expected to have the time or resources to fulfil a complete monitoring role. They can, however, draw attention to shortcomings, highlighting issues that require attention. Senior public servants and ministers cannot realistically know everything, and citizen engagement can play an important role in bringing issues to their attention.

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 top-down accountability would be enhanced by an improvement of everyday bottom-up mechanisms of accountability that would enable citizens to communicate their grievances and seek redress at the point of delivery. This routine accountability would enable citizens to provide ongoing insights on service delivery, not only during formal public participation processes.

It is vital that citizens know their rights, and have the ability and inclination to claim these rights. The Batho Pele principles were introduced in 1997 to encourage public participation and promote responsive governance. Notable among these principles is 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. Translating transparency into responsiveness, however, can only work if the information is available at the point of delivery and if the officials are empowered to act.

Delegating authority can make procedures more transparent to direct users. In addition, it empowers officials to take up grievances. Officials with operational management authority will be better able to resolve many of the basic, everyday concerns of the people they interact with. If they are faced with a problem they cannot take responsibility for, they can advise citizens on where best to take up their complaint. Simplified processes help facilitate communication between citizens and the state. This does not take away from the importance of top-down accountability structures; on the contrary, effective routine accountability to citizens should strengthen these as it provides an effective information channel.

To achieve this, basic information about what citizens can expect should always be available. 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.

### **Strengthen the ability of parliament and provincial legislatures to play an oversight role**

In any democracy the link between the legislature and the executive is important 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 and hold it to account.



In modern complex societies parliamentarians inevitably face difficulties in assimilating enormous quantities of information. However, there are serious concerns about whether parliament is currently fulfilling its role adequately in the building of a capable, accountable and responsive state that works effectively for its citizens. Parliament needs to provide a forum for rigorous debate and parliamentarians need to be bold in championing the concerns of citizens. It needs adequate support, particularly 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.

Given their limited legislative capacity, 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. Provincial legislatures 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.

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

### **Improve relations between the three spheres of government**

South Africa's intergovernmental framework is still relatively new: the nine provinces were formed in 1994 and the current local government system of wall-to-wall municipalities was established in 2000. South Africa is still coming to terms with this set-up, not least because the provincial system was the result of negotiation and compromise. As a result, a great deal of attention has been focused on debating whether the basic structures set out in the Constitution are the right ones, or whether fundamental restructuring is required. This has deflected attention from the much more 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 expect to draw up its governmental framework independently of the politics of the time. Furthermore, South Africa's basic 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.

Following the transition to democracy, the system of local government required a major structural overhaul to move from a system designed to serve the interests of a minority to one that could serve all South Africans. As part of constitutional negotiations, municipalities were given a comparatively high degree of autonomy. The challenge is to ensure that these structures deliver for all South Africans, but there is concern that the way responsibilities are divided is creating new forms of fragmentation rather than serving national developmental objectives.

The Constitution sets out the distribution of powers and functions between the three spheres of government, but no written document can lay out every feature of the intergovernmental system. The Constitution provides a set of high-level principles for how the government system should operate, not a manual for turning those principles into reality. It takes time and experience to identify the best way of realising these principles. It is therefore unsurprising that 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 key 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, unsurprisingly, in municipalities under-investing in the maintenance and upgrading of infrastructure for electricity distribution.

The experience of other countries does not suggest that there is an optimal approach to dividing powers and functions, but it does suggest that building effective relations between the different spheres of government requires considerable time, effort and will. The current arrangement of the three spheres of government 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 more 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 more 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 different 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 number of areas of potential conflict. There is no doubt that the three spheres of government need to cooperate with one another, but the system currently relies too much on cooperation without paying attention to the conditions needed for effective cooperation to emerge. This makes it extremely difficult to achieve constructive intergovernmental relations. Cooperation requires a basis of trust and mutual understanding.

The proposals we make here focus on this question of how best to improve performance within the existing system as this is where we believe gains are most likely to be achieved. However, as long as the current levels of conflict persist, it is inevitable that more fundamental questions will arise, particularly with regard to provinces and district municipalities. These are issues that may need to be revisited, and South Africa will need to tread carefully in order to strike a balance between stability and evolution.

### **Improve clarity in a differentiated system**

South Africa's local government system has significant powers and responsibilities. However, the system has to meet very different needs in different parts of the country with different levels of capacity, ranging 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.

The trend in South Africa has been towards greater differentiation in the treatment of municipalities. In recognition of these realities, the Constitution allowed for differentiation in the assignment of powers and functions to municipalities through the distinction between Category A and Category B municipalities: the former being the metropolitan municipalities that are responsible for all local government functions and the latter being local municipalities where powers and functions are shared between the local municipality and a district municipality that encompasses several local municipalities.

There has also been differentiation in the powers assigned to Category B and C municipalities; for example, in the provision of bulk infrastructure and network services such as water and sanitation. The funding model for local government is based on a differentiated approach that recognises the wide variation in revenue-raising capacity at local government level, as well as levels of access to basic services. The increased use of conditional grants has allowed for further differentiation through the targeting mechanisms developed for each grant. This suggests that the intergovernmental framework allows for the allocation of powers and functions to evolve over time within broad constitutional principles. This allows for a pragmatic approach to differentiation that is a necessary response to the wide variation in local government capacity, but the opportunities this provides have not always been used effectively.

The way in which differentiation is done has often created confusion, instability and conflict. The allocation of responsibilities to local government is determined by the provincial member of the executive council for local government, although powers and functions can only be taken away from municipalities where they lack the necessary capacity and where the Municipal Demarcation Board has assessed that capacity. This inevitably results in instability, because it creates an ad hoc approach to the assignment of powers and functions. A future member of the executive council, or even the same

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person at a later date, is able to reassign powers and functions. This illustrates the need for a more systematic and predictable approach to assigning powers and functions.

A more systematic approach to dealing with the variation in the levels of capacity that exist within local government needs to take into account two possible reasons for uneven capacity:

- The first set of reasons is external to the government system and 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 to accomplish its core objectives has been most restricted in some of the poorest areas where effective local government is urgently required to play its transformative and developmental role.

This distinguishes between areas where a differentiated role is necessary because of long-term economic, demographic or geographic features and cases 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 realistic long-term strategy to build the municipality's capacity. This requires that the capacity exists to provide targeted support. In some cases, this may need to be linked to short-term mechanisms to ensure adequate service delivery in the interim. It is essential that districts and provinces have the capacity to play this role; capacity that they too often lack.

Differentiation is not without risks. It could formalise second-class municipalities, which would be concentrated in the most historically deprived parts of the country. This is why it is essential to distinguish between long-term and time-bound capacity constraints and, in the case of the latter, have a realistic strategy for building capacity together with a graduated devolution of powers and functions. This requires that other spheres of government have the capacity to take on these functions where necessary, but also the ability to build capacity in the municipality to engage in a phased handover of powers and functions. If this is to be accomplished successfully, it is also essential that the approach to differentiation does not overcomplicate the intergovernmental system. A coordinated and cautious approach to differentiation should make the roles of all spheres of government easier by allocating powers and functions that better reflect the capacity levels that exist.

### **Regionalisation as a response to uneven capacity**

The wide variation in the challenges faced by local municipalities and their capacity to meet those challenges means there is a vital role for other levels of government. Indeed, 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. Originally, district municipalities played a role in redistribution,

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coordination and planning, as well as the delivery of bulk services for rural municipalities.

According to the 1998 Municipal Structures Act, 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. Their role has subsequently been extended to give districts responsibility for key municipal services such as water, sanitation, electricity and health, while their redistributive role has been reduced. The 2000 amendment to the Municipal Structures Act made districts responsible for key municipal services, but with the option of devolving responsibility to local municipalities. This has created confusion, uncertainty and sometimes resulted in 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 a situation where funding is being paid to the wrong tier, adversely affecting the quality of basic services. Even where district municipalities have undisputed responsibility in technical areas such as water supply, they have often failed to put in place the capacity needed to undertake these roles.

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 agreement on the division of service jurisdictions and funding.

The two-tier system of local government is clearly not operating as smoothly as it could. District municipalities have frequently lacked the skills and capacity to provide the forms of support to local municipalities that were originally intended, and lack of clarity about how powers and functions are divided between the two tiers of local government has created scope for confusion and conflict. However, the basic logic for the two-tier system remains relevant in many parts of the country where local municipalities lack the capacity to carry out key functions and are unable to recruit the necessary technical expertise.

District municipalities play their most important roles in areas where the capacity of local municipalities is weakest, and those local municipalities are poorly equipped to take on extra functions from the districts. There is a much more limited role for districts in secondary cities and consideration should be given to establishing single-tier municipalities in these areas. In such cases it is possible either to consider a local municipality operating as a single authority with planning and bulk services responsibilities separate from the district, or the majority of municipalities in a district being amalgamated into a single authority. South Africa needs to move towards a more differentiated approach to districts that will better accommodate the gaps they need to fill in different parts of the country.

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A differentiated approach to local municipalities entails a differentiated approach to the role of district municipalities. The Municipal Structures Act (1998) allowed scope for flexibility in the division of responsibilities between districts and local municipalities, depending on specific local circumstances. For example, 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. In rural areas, water boards, the regional equivalent of Eskom, could play a greater role where districts struggle to develop the capacity required. However, if utilities are engaged as service providers, which is allowed for in current legislation, care must be taken to ensure that political accountability remains with municipal structures. Greater attention should also be given to the role they could play in providing specific types of technical expertise. For example, if local municipalities are unable to recruit their own technical specialists, specialists could be recruited at district level or from a regional utility to provide services to a set of local municipalities.

### **A more coherent set of powers for metropolitan municipalities**

Metropolitan areas play a vital role in driving economic growth and development. The clustering of physical infrastructure and financial, academic and socio-cultural institutions in metropolitan municipalities makes urban governance vital for shaping the pace and trajectory of broader national development.

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. This challenge is made particularly pressing due to the impact of apartheid on the spatial pattern of South Africa's cities – 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 an opportunity. 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. However, the scope for creating sustainable human settlements depends on the availability of well located land, a commodity that is scarce in most South African 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, more economically dynamic and more responsive to the needs of all sections of society, metropolitan municipalities need to take a more integrated approach to the challenges of development. The potential economic dynamism of a metropolitan municipality cannot be fully achieved without also considering where people live and how they get to work. This means that these

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municipalities need to think holistically about issues such as housing, transport and spatial planning. If this is not done, housing will continue to be built on poorly positioned land on the edge of cities, without adequate access to public transport. It is important that metropolitan municipalities are given more comprehensive control over the core built environment functions that lie at the heart of urban planning.

Different spheres of government have not cooperated effectively around built environment functions relating to housing, state-owned land and transport infrastructure. Despite the need for metropolitan municipalities to take an overarching view of these built environment functions, none have been given full accreditation for housing, while only five metropolitan municipalities and two districts have received level 2 accreditation. This shows that the Constitution and relevant legislation allow for the necessary shifts in powers and functions, but these shifts are not being done. The problem is lack of leadership and imagination on how best to overcome the stalemate. As discussed in the next section, there is a lack of a positive vision for the provinces that encourages them to devolve greater responsibilities to the local level by increasing their responsibility for strategic coordination and policy oversight.

Transferring more functions to metropolitan municipalities is a necessary step towards improving the coordination of urban governance, but it is not sufficient. These municipalities tend to have greater administrative and financial resources than other municipalities, but they also risk being overloaded with additional functions and larger boundaries if changes are implemented too swiftly. As a result, a coherent approach is required to phase in extra functions together with a long-term plan for developing the necessary administrative and financial capacity. In the longer term, consideration needs to be given to the variation between metropolitan municipalities, as 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.

Expanding the powers and functions of the metropolitan municipalities should be an integral part of a differentiated approach to local government. The complex set of challenges faced by these municipalities means that careful consideration needs to be given to ensuring that they have a coherent set of functions enabling them to take a holistic approach to economic and social issues. This involves deepening their role to make it more comprehensive. Metropolitan municipalities need a broader set of powers to be able to take a coordinated approach to the built environment functions of housing, transport and spatial planning. This requires greater devolution of powers and functions from provinces, including full assignment of responsibilities in areas such as housing and public transport. This would allow the provinces to focus on priorities outside metropolitan municipalities, while concentrating on their core service delivery functions and playing a more strategic role in the province's overall development trajectory.

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### **A more focused role for the provinces**

Provinces have been a perpetual issue in debates about the governance structures in post-apartheid South Africa. This controversy arises because the function of provinces was negotiated as part of the interim constitution, and 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 system of government and any institutional arrangement. Even if provinces did not exist, implementation would still have had to make use of the same structures.

Provincial demarcations make the persistent legacy of apartheid on both living conditions and institutional capacity highly visible, but they are not the cause of these differences. The real issue is how provinces can best contribute to building more constructive intergovernmental relations. It is this question that is the most pressing priority, and one that requires urgent and focused attention. Intergovernmental relations will not improve without a positive vision for the role of the provinces.

A differentiated approach to assigning powers and functions to local government requires that provinces devolve responsibility to local government, where organisational, financial and human capacity exist. Section 156(4) of the Constitution requires that responsibilities be devolved where functions are best administered locally and municipal capacity exists. Yet, provinces are often reluctant to reassign functions to the local level. Constant debate about the role and relevance of the provincial sphere of government has led to chronic levels of instability and uncertainty. In this context, it is unsurprising that the provinces have been reluctant to devolve their powers and functions. This has made it more difficult for provinces to focus on their core role in the delivery of essential services, especially education and health. There is also little clarity on the role of the provinces in relation to the task of economic development. While in recent years, more effort has been expended in the provinces in attending to this issue, there is little clarity on how this should be done and how it should relate to national initiatives. Devolving more authority to municipalities with adequate capacity would enable provinces to concentrate more effectively on these key areas that constitute some of the most pressing challenges facing the country. Provincial government would also be better able to focus on providing support to those municipalities where capacity is weakest. The capacity of provincial governments therefore 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, that takes into account capacity, would stand government as a whole in good stead.

### **A proactive approach to identifying and resolving problems**

Clearer mechanisms are needed for the allocation of powers and functions. This cannot be done with a one-size-fits-all approach, but rather by ensuring the powers and functions of local government are consistent with its levels of capacity. This means that the flexibility allowed for in the Constitution is appropriate – it is essential that the allocation of powers and functions is allowed to evolve over time, and is tailored to the pace of capacity development. However, the current levels of uncertainty are seriously damaging the capacity of local government to fulfil its developmental mandate.

The challenge is not to try to eliminate all coordination problems overnight, but rather to ensure that there is an adequate way of addressing these problems as and when they arise. This requires leadership from national government, particularly from the Department for Public Service and Administration, the Department of Cooperative Governance and Traditional Affairs, National Treasury, and the Department of Performance Monitoring and Evaluation. These departments need to work closely 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.

Where there is lack of clarity about the respective responsibility of different national departments and how they coordinate with one another, this can create knock-on effects on the other spheres of government. These questions have to be judged on a case-by-case basis. In general, a more streamlined approach is preferable to having large numbers of ministries and agencies with overlapping mandates, but stability is also important as this allows more scope for departments to find ways of cooperating and working together. For example, there are multiple departments with responsibility for micro-economic issues, and more could be done to improve clarity about their respective roles and how they relate to one another.

### **The developmental potential of state-owned enterprises**

State-owned enterprises have a vital role to play in advancing key national objectives, particularly through providing economic and social infrastructure. If this is done in an equitable and cost-effective way, SOEs can contribute to both economic growth and overcoming spatial inequalities. In 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.

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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. SOEs need to focus on their main policy priorities. Efforts to improve the performance of SOEs have not been particularly successful. Instead, they have been burdened with overly complex objectives and governance structures and, in many cases, perpetual uncertainty about their long-term trajectory. SOEs 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 more effectively in practice.

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

- 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.
- A clear and straightforward governance structure – This involves clearly identifying and managing government’s different roles in policy making, ownership of utility assets, and regulation of prices and quality of utility services. Careful 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.
- Deal with capacity constraints – Where all parties are operating within severe capacity constraints, models are needed that are tailored to existing levels of capacity, even as capacity is built over time. This requires a long-term strategy to develop the forms of policy and technical expertise that SOEs need to carry out their mandate.

### **Mandates – clarify the role of SOEs**

While considerable attention has been given to the transformation of SOEs, less attention has been given to the transformative or developmental role that they can play. As these are publicly owned bodies, any analysis of how to improve their governance arrangements should build on a clear understanding of what each enterprise needs to achieve. SOEs need to have a mandate that is clearly understood and effectively enforced. The closest thing to this mandate 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 the nature of the public good that the SOE provides and how it serves the public interest. For the large SOEs involved in economic infrastructure provision, their mandate should also clearly 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:

- The reason some SOEs were created may not be relevant today, 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.
- 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.

The mandate of each enterprise should be reviewed periodically. This is an important internal exercise for each SOE to ensure there is clear consensus about its principal objectives and how these are to be met. It is also an important external exercise for the state to ensure that individual SOEs are held accountable for how they use public resources in promoting the public interest. The renewal, refinement or revocation of each SOE's public interest mandate will enable a clear consensus about what constitutes success. Review processes should also allow for the possibility that new enterprises may need to be created to attend to unmet public interests. While such reviews are important, they should not be done too frequently, as the activities of many SOEs require predictability to make long-term investment decisions. These review processes will ensure that consensus emerges between individual SOEs and their respective policy departments on how the enterprise furthers the public policy objectives of the relevant department.

The mandate of each SOE should be scrutinised by the appropriate policy ministry and parliamentary committee. The final version should be publicly available on the websites of the SOE, the relevant policy ministry and the shareholder ministry, so that each entity can be assessed on how it is fulfilling its public interest mandate. This will help to strengthen other stakeholders with an interest in improving performance. 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 and customer surveys. Information needs to be credible, coherent and timely.

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. Performance contracts are widespread, but their effectiveness is not guaranteed. They have not always reduced

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the information advantage that managers enjoy over owners, which often allows managers to negotiate performance targets that are easy for the utility to achieve. Contracts can also be incomplete and fail to anticipate events and contingencies. Government can renege on commitments, including promised budgets for social programmes. Performance contracts are not a panacea and 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**

It is essential that SOEs have clear governance arrangements. Clarifying the existing governance arrangements could help SOEs operate effectively and make it easier to recognise when they are not fulfilling their mandates.

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 through their business activities. The governance structure needs to reconcile their commercial objectives with their public interest objectives.

There is no single model currently applied. 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 that ensures adequate attention is paid to both the services provided by the SOE and its financial sustainability. Designing effective shareholder compacts and monitoring the performance of large SOEs is not a simple task. This professional competence is best located in a central department, either the Department of Public Enterprises or a division within the National Treasury. The joint ministry model requires that:

- The shareholder ministry should be responsible for ensuring SOEs are viable and financially sustainable, and that their assets are maintained and renewed.
- The policy ministry should be concerned with whether the SOE is serving key policy objectives.

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

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

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measures embedded in the shareholder or performance compact. However, effective coordination is not easy to achieve and, where it is missing, split reporting lines 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.

Effective governance also requires stability in the powers and appointment of the boards of SOEs. Unfortunately, many of South Africa's SOEs have seen frequent change in board composition and leadership. Given that the powers of ownership are exercised by politicians, there is a risk that appointments, both to boards and senior management, will be politicised, potentially destabilising the performance of the SOE. The chief executives of SOEs are appointed by Cabinet on the recommendation of the Minister of Public Enterprises. This undermines the powers of the board. To achieve greater stability in the governance of SOEs, it is essential that there is more stability of SOE boards and clearer accountability lines of chief executives to the board. The shareholder and policy ministries should jointly appoint the boards and the boards should 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. Sector regulators need to be drawn into the process when shareholder and policy ministries design performance contracts. 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 to fulfil these powers.

### **Address capacity constraints**

Clearer governance structures and more focused mandates will reduce the burden on limited human and financial resources. However, there also needs to be a coherent long-term strategy to develop the forms of policy and technical expertise required by SOEs and to ensure that they are financially sound.

SOEs require a range of skills, including administrative, policy, managerial and technical. Government needs to have a clear strategy for how these skills are going to be produced and developed over time. To develop this strategy, the skills needs of individual SOEs need to be identified. Alongside reviewing and clarifying the mandate of individual SOEs, it is essential that there is a skills audit and an assessment of whether current approaches are adequate for developing the necessary skills. Where gaps exist,

government needs to develop training strategies to ensure a new generation of skills is developed.

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. Indeed, excessively high salaries can create perverse incentives, including increasing the temptation to use senior posts for political deployment, rather than identifying the best person for the job. 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, and only deliver that success subsequently, meaning that stable leadership will be important if major improvements in performance are to be achieved.

SOEs need a long-term funding strategy that is reliable and consistent to ensure they are able to recover their operating costs, and provide for the capital replacement and expansion needs required to enhance their public interest mandate. However, there is often a mismatch between the funding dynamics of government and the enterprises it owns. Nowhere is this mismatch clearer than in the case of Eskom. From its establishment in 1923, Eskom has repeatedly faced funding challenges in replacing and expanding existing infrastructure. 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 has a critical role to play in creating the necessary conditions to attract and secure investment.

SOEs that provide goods and services for which a charge can be levied should ideally recover their operating costs through some form of full-cost pricing. However, the pricing of these goods and services has public consequences, because they are provided for a public purpose and government may have an interest in subsidising the provision of some goods. Commercial responsibilities should be clearly separated from social goals through transparent mechanisms, such as fiscal transfers and subsidies for service provision to poor households. 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 mix up these mandates and provide services at below cost if the gap is not covered by an explicit subsidy. Clarity on how social mandates will be funded or subsidised is essential.

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Non-commercial and social programmes should be clearly separated from the core economic services provided by the SOE. The former require transparent public funding flows, while the latter should be funded through cost-reflective tariffs.

### **Capable, professional, responsive: the state in 2030**

Between now and 2030, we need to move towards a state that is more capable, more professional and more responsive to the needs of its citizens. Progress needs to be pursued most rapidly in those areas where state capacity is currently at its weakest. We have set out key proposals to unlock opportunities, tackle major problems and put South Africa on the right path for building a state that is capable of promoting the key national objectives of eliminating poverty and reducing inequality.

