Understanding fiscal decentralisation in South Africa

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EXECUTIVE SUMMARY

South African society is characterised by large socioeconomic backlogs and underservicing across social groups and regions. One of the critical challenges that the national government faces is how best to redistribute national revenues with a view to equity and poverty alleviation. The South African intergovernmental fiscal system is designed to address this concern through the assignment functions allocated to each sphere of government.

A central priority of the South African government, as set out in the Bill of Rights, is to ensure the provision of a range of services to meet socioeconomic challenges, within the constraints of available resources. However, the effective and efficient delivery of social services that aim to meet the needs of citizens and improve their social and economic conditions needs to be set in a framework of pro-poor policies. These policies have to be costed, translated into budgetary programmes and prioritised through resource allocations to the tiers of government mandated to provide social services.

The central interest in this paper is to examine fiscal decentralisation in South Africa and how it affects the delivery of social services.

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1. INTRODUCTION

Political liberalisation and economic globalisation have opened up possibilities for fiscal decentralisation in South Africa. Apartheid policies left a legacy of severe economic and social disparities, and most South African families still live in conditions that do not meet the most basic needs. The spiralling effects of this legacy, as well as the new challenges of economic globalisation, engage the state in its developmental role and test its institutional capacity to correct socioeconomic imbalances.

In the fight against poverty, the public sector must lead by providing a framework conducive to social and economic development, while productivity is raised to facilitate private-sector activities more effectively. A well-designed public sector, performing clearly defined core functions and using resources productively, offers citizens opportunities to break out of the poverty trap by giving them affordable access to essential services and protecting their basic human rights. In this context, fiscal decentralisation holds great promise for improving the delivery of public services while maintaining economic growth (DeMello, 2000), but the actual outcome depends on its design and the institutional arrangements for its implementation.

A central priority of the South African government, as set out in the Bill of Rights\(^2\), is to ensure the provision of a range of services to meet socioeconomic challenges, within the constraints of available resources. However, the effective and efficient delivery of social services that aim to meet the needs of citizens and improve their social and economic conditions needs to be set in a framework of pro-poor policies. These policies have to be costed, translated into budgetary programmes and prioritised through resource allocations to the tiers of government mandated to provide social services.

South African society is characterised by large socioeconomic backlogs and underservicing across social groups and regions. One of the critical challenges that the national government faces, therefore, is how best to redistribute national revenues with a view to equity and poverty alleviation. The South African intergovernmental fiscal system is designed to address this concern through the assignment functions allocated to each sphere of government.

Despite improvements over the past few years, South Africans are still confronted with rising levels of poverty and unemployment, increased living costs, and high rates of mortality and HIV/AIDS infection. In this light, the ability of the country’s fiscal decentralisation system to focus public service delivery on vulnerable people and communities is open to question.

Over the past ten years, South Africa has made significant progress in social delivery and redistribution, but the majority of South Africans are still poor and suffer disparities in the provision of public services such as health, education, clean water, sanitation and housing. The South African government has committed itself to extending social welfare to all

citizens by providing efficient and effective public service delivery through a progressive realisation of constitutionally mandated basic services. The 2005 Budget Review recognises that a greater focus on providing resources and implementation should continue to deliver the required outcomes. Such broad developmental vision entails social investments and public expenditures on health, education, and social safety so that families can survive.

However, adjusting the framework of revenue allocation to the three spheres of government, and determining the share to be received by each decentralised government to match the social needs of poor communities, while strengthening the economy, is still a challenge for the South African government. In this context, the 2005 Budget has been formulated to reflect the outcomes of a review of provincial and local government fiscal frameworks completed in 2004. As a result, the 2005 MTEF adds R48.8 billion to the baseline allocations for provincial and local governments, reflecting a net annual growth in national transfers of 10.2% to provinces and 13.3% to local government over the next three years (National Treasury, 2005:143).

Our central interest in this paper is to examine how fiscal decentralisation is articulated to address the leading social disparities in South Africa. First we will look at the main features of fiscal decentralisation in South Africa and assess its impact on the major components of social expenditure. This will include a discussion of the institutional framework and the assignment of revenue and expenditure responsibilities.

The next section spells out the main institutional features of the South African intergovernmental fiscal system and recent changes to it, as these factors shape levels of social expenditure and determine how resources are allocated to different spheres of government.

The fourth section discusses on the challenges and perspectives of governance issues in targeting poverty reduction under the fiscal decentralisation system. The last section draws general conclusions about the main budgeting issues related to subnational government in conjunction with its social responsibilities.

2. FEATURES OF FISCAL DECENTRALISATION IN SOUTH AFRICA

“Fiscal decentralisation” refers to the percentage of total government expenditure executed by subnational governments, considering the size and character of transfers, or the level of tax autonomy of subnational governments, or both. The borrowing capacity of subnational government is also taken into account. Fiscal decentralisation encourages public participation in decision-making, since local and provincial governments are supposed to be closer to the communities.

In South Africa, fiscal decentralisation aims to provide a framework for the efficient provision of public services by aligning expenditure with regionally based priorities. This

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3 Constitutionally mandated obligations are listed in section 214(2) of the Constitution.
section gives an overall assessment of fiscal decentralisation in South Africa, the extent of fiscal imbalances and how that has changed over a few years. The questions to be addressed relate to the aims and impacts of the way in which responsibilities are assigned across levels of government:

- Who expends the money (expenditure assignment)?
- How is expenditure funded (revenue assignment)?
- To what extent is there an imbalance between the revenue and expenditure of subnational governments (the vertical imbalance, rectified with intergovernmental transfers)?
- How are the varying needs and capacities of governments at the same level (the horizontal imbalance, usually rectified through interregional compensation) equilibrated?

2.1 Institutional framework of fiscal decentralisation

The Constitution adopted in 1996 established three separate, interdependent and interrelated spheres of governments: a national government, nine provincial governments and 284 local governments. Each sphere is assigned its own powers, functions and responsibilities. The national government is responsible for managing the country’s affairs, shares responsibility for the provision of basic social services with the subnational governments. The national government’s power to intervene in the decisions of provincial or local governments is defined and limited by the Constitution.

Provincial and local government functions consist of exclusive competences and concurrent competences, the latter being responsibilities shared by more than one sphere of government. The provinces are thus mandated to deliver most basic services, including education, health and welfare. Local governments have the major responsibility for certain local services and infrastructure such as water, sanitation, and electricity.

Fiscal decentralisation in South Africa involves shifting some responsibilities for both revenue and expenditure to subnational levels of government. The Constitution deals with various aspects of intergovernmental fiscal relations (IGFR), including the devolution of revenue and expenditure assignments to subnational governments, which acts as a disciplinary force by establishing a closer link between the raising and spending of money. Based on the Division of Revenue Act, which annually allocates national revenues to each of the three spheres of government, the South African intergovernmental fiscal system provides a framework of fiscal arrangements aimed at ensuring that government responsibilities are met, while the right level and mix of public services are delivered to enhance the socioeconomic rights of citizens, especially the disadvantaged.

The IGFR system determines the way in which taxes are allocated and shared among the various levels of government, and how funds are transferred from one level to another. Intergovernmental relations, both vertical (between levels of government) and horizontal

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(within levels), are important for the efficient and effective delivery of public services. In addition, the Constitution provides that a nonpartisan Financial and Fiscal Commission (FFC) should advise parliament and subnational governments on a variety of issues in intergovernmental fiscal relations. These include taxing powers, the allocation of revenue between tiers of government, the grants system and borrowing powers.

2.2 Assignments system under fiscal decentralisation

Since the Constitution was adopted in 1996, there have been progressive changes in the South African intergovernmental fiscal system. These changes aim to build an equitable society. In that light, the design and implementation of this system pose a number of important challenges regarding institutional capacity to mobilise resources for the effective and efficient delivery of services to citizens, especially the poor and vulnerable. The Constitution stipulates that everyone should have access to adequate housing, health care, food, water, social security, and basic and further education. The current context of IGFR is that of a transfer system providing opportunities for residents in various jurisdictions to exercise choice in terms of public service level and taxes.

Fiscal decentralisation in South Africa is evolving towards a significant increase in the role and responsibilities of subnational governments in providing public services. The subnational governments are allocated a proportion of nationally raised revenue and have the legal autonomy to formulate their budgets and spend the funds as they wish. According to the 2005 Budget Review, subnational governments are now empowered to determine their own resource allocation decisions within the context of the government’s broad medium-term strategic objectives (National Treasury, 2005:143). However, they are still heavily dependent on national revenue. Over the period 2005/06, while national departments will account for about 37.6% of total revenue collected nationally, provinces will receive 57.7% and municipalities 4.7%. Over the 2005 MTEF period, the total share of nationally raised revenue transferred to national departments is expected to decrease from 37.6% to 36.9%, while it is expected to improve for provinces (from 57.7% to 58.1%) and local government (from 4.7% to 5.0%). Nationally raised revenue will now be set aside in a contingency reserve, which rises from R2billion in 2005/06 to R8billion in 2007/08. National transfers to provinces will remain an important proportion of their total resource envelope. The remainder of the provinces’ required revenue will be generated from their own sources, which are limited by the nature of provincial functions. National transfers to municipalities take account of their fiscal capacity, complement their own revenue and position them to fulfil their developmental role.

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5 Sections 9 and 10(4) of the Intergovernmental Fiscal Relations Act (Act 97 of 1997).
7 These funds are unallocated and are held in reserve for unforeseen and unavoidable expenditure, such as natural disasters and other emergencies and severe economic occurrences, and for spending announced by the Minister but not appropriated at the time of the budget.
The theory of public finance offers some guidelines on the assignment of revenue and expenditure responsibilities to various levels of government. The focus is on maximising efficiency in the provision of public services, mainly through the assignment of expenditure functions and revenue sources to the appropriate level of government. In general, the assignment of expenditure functions should precede the assignment of revenue sources because the latter needs to be informed by the former. The main objective of the South African assignments system is to reduce interregional inequalities and improve, through the provision of public services, social indicators inherited from past policies. The South African assignments system seems to agree, in many ways, with the principles of expenditure and revenue assignment as set out in the public finance literature (Boadway, R. 2000:44-45). In particular, there is a broad correspondence between the geographic dimension of benefits from a particular service and the level of government responsible for its provision.

### 2.3 Assignment of expenditure responsibilities

The current assignment of expenditure functions in South Africa agrees in many ways with the public finance decentralisation theory, according to which each service should be provided by the jurisdiction with control over the minimum geographic area that would internalise the benefits and costs of such provision (Wehner, 2000:16–19). The design of expenditure assignment in South Africa aims to achieve three main objectives: firstly, an efficient allocation of resources via a responsive and accountable government; secondly, an equitable provision of services to citizens in different jurisdictions; and, finally, macroeconomic stability and economic growth.

The functions allocated to the national government have a national dimension. These include mainly expenditures related to defence, tertiary education, justice, correctional services, water affairs and foreign affairs. Expenditures with macroeconomic and redistributional implications, such as pensions and unemployment compensation, are also the responsibility of the national government. Correspondingly, the Constitution assigns certain expenditure responsibilities for the delivery of goods and services with provincial or

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**Table 1: Division of revenue among levels of government over 2005 MTEF period**

<table>
<thead>
<tr>
<th></th>
<th>2005/06</th>
<th>2006/07</th>
<th>2007/08</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R billion</td>
<td>% Shares</td>
<td>R billion</td>
</tr>
<tr>
<td>National departments</td>
<td>136.3</td>
<td>37.6</td>
<td>146.8</td>
</tr>
<tr>
<td>Provinces</td>
<td>209.3</td>
<td>57.7</td>
<td>229.3</td>
</tr>
<tr>
<td>Local government</td>
<td>17.2</td>
<td>4.0</td>
<td>19.7</td>
</tr>
<tr>
<td>Contingency Reserve</td>
<td>2.0</td>
<td></td>
<td>4.0</td>
</tr>
<tr>
<td>(unallocated)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total non-interest</td>
<td>364.7</td>
<td></td>
<td>399.8</td>
</tr>
<tr>
<td>expenditure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% increase over</td>
<td>13.5%</td>
<td>9.6%</td>
<td>8.9%</td>
</tr>
<tr>
<td>previous year</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Budget Review, 2005: 127
local benefit areas to the subnational governments, either individually or with national government.

Schedule 4 of the Constitution lists the concurrent areas of competence for the national and provincial governments. Part A of Schedule 4 lists, *inter alia*, education, health, housing, agriculture, casinos and other gambling, and public transport. Part B lists a range of local government expenditure responsibilities, including air pollution, building regulations, child care facilities, fire fighting, municipal airports, municipal health and municipal public transport. Schedule 5 lists expenditure responsibilities for which provinces have exclusive competence. Part A includes such services as abattoirs, ambulances and provincial libraries, while part B shows local government matters such as beaches, cemeteries, cleansing and local sports facilities.

The responsibilities of provincial governments include primary and secondary education, health and welfare services, provincial roads and local economic development. Local governments are assigned responsibility for the delivery of municipal services such as housing, water, electricity and sanitation.

**Table 2: Consolidated national and provincial expenditures by function as shares of total government expenditure**

<table>
<thead>
<tr>
<th></th>
<th>2002/03</th>
<th>2003/04</th>
<th>2004/05</th>
<th>2005/06</th>
<th>2006/07</th>
<th>2007/08</th>
</tr>
</thead>
<tbody>
<tr>
<td>General government services</td>
<td>6.5%</td>
<td>6.6%</td>
<td>6.7%</td>
<td>6.5%</td>
<td>6.2%</td>
<td>6.1%</td>
</tr>
<tr>
<td>and unallocated expenditures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Protection services</td>
<td>17.5%</td>
<td>16.9%</td>
<td>16.3%</td>
<td>16.5%</td>
<td>16.0%</td>
<td>15.5%</td>
</tr>
<tr>
<td>Social services</td>
<td>48.8%</td>
<td>50.8%</td>
<td>51.8%</td>
<td>51.5%</td>
<td>54.0%</td>
<td>51.8%</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health</td>
<td>10.96%</td>
<td>11.04%</td>
<td>11.00%</td>
<td>10.86%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Welfare (inc. social security)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing</td>
<td>1.81%</td>
<td>1.67%</td>
<td>1.81%</td>
<td>1.89%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community development</td>
<td>3.22%</td>
<td>3.27%</td>
<td>3.39%</td>
<td>3.39%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic services</td>
<td>12.2%</td>
<td>12.4%</td>
<td>12.7%</td>
<td>12.8%</td>
<td>13.1%</td>
<td>13.5%</td>
</tr>
<tr>
<td><strong>Allocated expenditure</strong></td>
<td><strong>84.9%</strong></td>
<td><strong>86.7%</strong></td>
<td><strong>87.5%</strong></td>
<td><strong>87.3%</strong></td>
<td><strong>87.3%</strong></td>
<td><strong>87.0%</strong></td>
</tr>
<tr>
<td>Contingency reserve</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.5%</td>
<td>0.8%</td>
<td>1.5%</td>
</tr>
<tr>
<td><strong>Total non-interest expenditure</strong></td>
<td><strong>84.9%</strong></td>
<td><strong>86.7%</strong></td>
<td><strong>87.5%</strong></td>
<td><strong>87.8%</strong></td>
<td><strong>88.1%</strong></td>
<td><strong>88.5%</strong></td>
</tr>
<tr>
<td>Interest</td>
<td>15.1%</td>
<td>13.3%</td>
<td>12.5%</td>
<td>12.2%</td>
<td>11.9%</td>
<td>11.5%</td>
</tr>
<tr>
<td><strong>Consolidated expenditures</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Source: Budget Review, 2005:141 (Own Calculations)

An analysis of historical trends and future projections of the consolidated national and provincial expenditures shows that the largest category of spending is social services, followed by protection services and economic services. The government commitment to improve social delivery is a paramount policy in South Africa; the total share of social spending in the government expenditure will increase from 51.5% in 2005/6 to reach 51.8% in 2007/8. Despite its decreasing share in the total government expenditure from 19.59% in 2004/5 to 18.72% in 2007/8, education will remain the first priority within the social services. During the same period, expenditure on welfare including social security.
will also remain the second largest social expenditure of the government with increasing share from 16.25% to 16.91%. Over the next three years, the proportion of the national budget allocated to expenditure supporting economic growth will increase from 12.8% to 13.5%. Protection services, which now represent 16.5% of the consolidated budget, will decrease to 15.5% in the final year of the 2005 MTEF. However, expenditure on police, prisons and justice will grow rapidly, while spending on defence slows down. These trends illustrate the main government priorities, which are improving the quality of education, fighting poverty and reducing crime, and also broad-based development through the extension of basic services and infrastructure among marginalised communities.

In the 2005 MTEF, the national government has allocated an additional R43.4 billion of nationally raised revenue to provincial governments to reinforce service delivery. This includes improving the service conditions of educators and social workers and speeding up the delivery and development of infrastructure. R1 billion is set aside for increasing the pace of social infrastructure delivery in the form of classrooms, health facilities, water and sanitation in schools, welfare services, roads and agriculture. Local government’s share is R5.4 billion to support the provision of free basic services to poor people and improved service delivery capacity.

2.4 Assignment of revenue responsibilities

Responsibility for revenue generation is unequally distributed between the national, provincial and local spheres of government. The national government relies on a wide variety of tax instruments, such as direct, indirect, general, specific, business and individual taxes, while the Constitution gives the subnational sphere limited taxation and borrowing powers. The funds collected nationally are divided among national and subnational governments. The money divided vertically for expenditure is made up of the revenue collected nationally, minus funds to service debt and the contingency reserve.

Fiscal decentralisation in South Africa provides subnational government with lower fiscal autonomy than national government, which levies broad-based taxes such as income and corporate tax, value-added tax (VAT), customs and excise, and fuel levies. The main budget revenue for 2005/06 is estimated at R379.3 billion before proposed tax changes. However, the 2005 tax proposals, which are designed to enhance social equity while supporting sustained investment and economic growth, will have the net effect of reducing total tax revenue by R9.4 billion.

The South African Constitution provides for an elaborate and complex set of revenue transfers from the national to the subnational governments. These transfers have the primary objective of helping the subnational governments provide the services and perform the functions assigned to them under the Constitution, taking into account each sphere’s ability to raise its own revenue. They also have a variety of objectives: the redistribution of wealth among the regions, the funding of programmes dealing with regional backlogs, specific regional or sectoral objectives, and so on.
The two main instruments for national transfers are unconditional shares and conditional grants. These transfers follow the recommendations of the FFC, which annually proposes the amount to be allocated to each tier of government. The principles of equity and need are supposed to drive the distribution of the shared revenues between different subnational governments.

The Constitution provides that programmes are funded primarily through the equitable sharing, between the three spheres of government, of the revenues raised at a national level (vertical division). The provincial share is divided equitably among between the nine provinces and the local government share among the 284 municipalities (horizontal division). While the equitable share is based on a complex set of formulas that consider the specific social, economic and institutional needs of each sphere, conditional grants are allocated to address backlogs and specific sectoral and regional needs.

The provincial formula allocates funds to each province according to its demographic and economic profile, taking account of the services for which provinces are responsible: health, education and welfare. It also includes a component to address backlogs in infrastructure and provision of services. The local government formula is designed to enable municipalities to deliver a package of basic services to low-income households affordably. Despite this, there is still a mismatch between the expenditure assignment of subnational levels of government and their financial resource capacities.

The responsibilities of revenue generation and service provision are unequally distributed between the national, provincial and local spheres of government. Transfers from national government form the largest part of subnational revenues, as the taxing and borrowing powers of subnational government are limited. On average, in the past three years, out of the total revenue generated, 89% accrued to the national government, and the share of provincial and local governments was 5% and 6% respectively.

The allocation of functional responsibilities appears to be somewhat more balanced. The national government incurs 74% of total recurring expenditure, followed by provincial governments with 23% and local governments with 4%. The share of these governments in development expenditures, on the other hand, is 65%, 29% and 6% respectively. The 2005/06 budget allocates 62% of nationally raised revenue to the nine provinces and 284 municipalities.

In addition to transfers, the subnational governments also raise their own revenue by taxation and borrowing. The provinces are allowed to impose taxes, levies and duties other than income tax, VAT, sales tax, rates on property or customs duties. They can also levy flat-rate surcharges on the tax bases of any tax, levy, or duty imposed by national legislation, except corporate income tax, VAT, rates on property and customs duties. Provincial own revenues account for a small proportion (2.68% in 2005/06) of the provincial budgets. In addition, provincial borrowing is highly regulated: provinces can only borrow for capital and bridging finance. Provinces are therefore highly dependent on intergovernmental transfers.
Local governments, on the other hand, have extensive powers to raise their own revenues through property and business taxes and to impose fees for services such as electricity, water, and sewerage. They also received substantial grants and subsidies from provincial and national government and, in urban areas, the proceeds of regional services council levies. The allocation of functional responsibilities to local governments appears to be somewhat more balanced in relation to their share of resource mobilisation.

Intergovernmental fiscal transfers are a prominent feature of South Africa’s public finance structure, and take the form of revenue sharing or grants. Financial resource transfers are executed in four stages: first, from national government to provincial; second, from provincial government to local; third, from national to local; and fourth, from local to local. Subnational governments have relatively limited capacity to issue debt obligations. In the interests of coordinated macroeconomic policy, the national government supervises the debt operations of subnational governments.

### 2.5 Fiscal imbalances

Provincial government incurs 57.38% of total recurring expenditure, followed by national government with 37.37% and local government with 4.71%. The provincial premiers are concerned about a growing fiscal imbalance between the three levels of government, commonly known as vertical fiscal imbalance, and about the fiscal imbalances between government jurisdictions on the same level, known as horizontal imbalances.

Vertical fiscal imbalance exists because the expenditure responsibilities of subnational levels of government are extensive, but their revenue-raising abilities minimal. The gap between expenditure and revenue obliges the subnational governments to depend on transfers from the national government in the form of equitable shares and conditional grants. The allocation of revenue through equitable shares enables subnational governments to achieve the prescribed norm of equity. In the 2004 Medium-Term Budget Policy Statement (MTBPS), the vertical division of resources is made on the basis of the 2001 national census. Conditional grants are allocated to subnational government to meet specific regional and sectoral needs and to correct backlogs.

The Constitution provides that national revenue be divided into equitable shares for national, provincial and local governments. To ensure that each subnational government receives an equitable allocation, the FFC proposes a revenue-sharing formula for the horizontal division of resources over a period of three to five years. The provinces’ shares, ideally, should be sufficient to allow them to provide the nationally mandated basic levels of education, health and welfare services. The equitable share is based on an objective measure of the costs and needs relating to the mandated services. This is translated into a transfer formula.
3 SOCIAL POLICIES AND FISCAL DECENTRALISATION IN SOUTH AFRICA

This section explores the potential contribution of fiscal decentralisation in alleviating poverty in South Africa. Poverty is widespread. It dehumanises and has disturbing implications for social and economic development. The eradication of poverty, and of related conditions such as inequity and unequal access to basic social needs, is an essential part of South Africa’s development agenda, as the government recognises that long-term political and social stability will otherwise be unattainable.

In the past decade, the government has supported several policies to address the adversity of poverty. These policies and their related intervention programmes have different implications for different actors and spheres of government. Some elements require action by national government, while others put the onus on subnational governments. Within the
framework of fiscal decentralisation, subnational governments are set to play an important role in the growth and development of South Africa, and by implication in the alleviation of poverty, given their mandate as set out in the Constitution.

In exploring the responsibilities of subnational governments in alleviating poverty, this section will:

- give an overview of social disparities in South Africa
- provide a workable definition of the pro-poor development concept
- conceptualise fiscal decentralisation as a key component of poverty alleviation strategy
- discuss the sharing of social responsibilities among levels of government in the context of poverty alleviation
- examine the relationship between fiscal decentralisation and the principles of good governance

3.1 Social disparities in South Africa

Poverty, which is the inability to attain a minimal standard of living, is measured in terms of basic consumption needs or the income required to satisfy them. It is multifaceted, being vulnerable to a range of pressures that prevent people from enjoying their lives. This vulnerability manifests itself in various ways, including deprivation of the most basic human survival needs: a lack of income, food, clothing, shelter, health care and education. It allows people insufficient resources and makes them vulnerable to social, political, environmental and economic shocks. Individuals and households become vulnerable because they lack the assets that would enable them to cope with or manage the negative effects of external shocks.

Poverty, therefore, is the result of a number of interrelated factors that create deprivation of basic social needs and vulnerability at an individual and household level. These factors constitute the different dimensions of poverty that any regional development strategy with an anti-poverty focus would have to address.

Poverty is one of the most profound challenges facing South Africa. It is coupled, on the one hand, with a great disparity in living conditions and in access to both services and national resources, and, on the other hand, with extreme vulnerability in households and communities. South Africa is a middle-income country, but a large proportion of the population (48.5% in 2002) is poor, or vulnerable to poverty. According to the Human Development Report (2003)⁸, the percentage of the population living below one US dollar per day has increased from 9.4% in 1995 (3.7 million people) to 10.5% in 2002 (4.7 million people). The rate has increased for all ethnic groups in South Africa and also for all of the provinces. South African society’s is fundamentally divided into two: the richest 10% of citizens control almost half of the country’s wealth, while about 25% live on $2 a day or less. The inequality of income increased from 0.60 in 1995 to 0.63 in 2001. The distribution of income and wealth among social subgroups of the population reveals one of

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the most unequal societies in the world, with a Gini index\(^9\) of 59.3. Unemployment has sharply increased from 5.2 million in 1997 to 7.7 million in 2001 (Statistics South Africa, 2001a).

Efficient interventions aimed at poverty reduction require an understanding of the causes of differences in poverty, vulnerability and living conditions. Poverty is not confined to any particular racial, gender or age-based social subgroup, but there is a strong correlation between poverty and socioeconomic indicators such as education, health, employment and welfare.

The link between poverty and region of residence is strong, but that with households in rural areas, irrespective of province, is more important. Poverty afflicts about half of the South African population, with 72% classified as poor and living in rural areas. Poverty is even distributed unevenly among the nine provinces, being deepest in Limpopo (77.9%), the Eastern Cape (74.3%), Mpumalanga (63.9%) and Kwazulu-Natal (63%).

In South Africa, many poor individuals and households have no access to clinics and hospitals, resulting in huge inequality and inequity in health. There are two main causes for this. Firstly, a large number of health facilities in South Africa are privately owned and operated and thus not accessible to the poor; in fact, they draw medical staff away from the public sector. Secondly, public health care facilities are unevenly distributed across the country, with the most efficient located in urban areas.

In many respects, poverty has a negative impact on access to effective health services. It seems obvious that poor people are more likely to be sick and to die at an earlier age than rich people. Poor health conditions reduce the productivity of individuals, families and communities and make them more likely to fall into poverty. There is increasing evidence that access to health care services in South Africa is unequally distributed between identified social groups, with certain groups being disadvantaged in terms of age, sex, race and geographical location. Such inequalities in health are a major obstacle to social and economic development in South Africa.

The fundamental challenge for the South African public health system, then, is to achieve equity in the distribution of health resources. Increased spending is necessary, but not sufficient on its own. Expenditure schemes need to be reprioritised to improve equity and access to basic health care services, particularly for poor people, communities and regions. Since 1994, the government has attempted to implement several health development programmes to address disparities in health care services.

Education is a major social sector related to poverty in South Africa. Poverty affects schooling profoundly, and there is a causal relationship between educational achievement and standard of living: the poverty rate among people with no education is 69%, compared with 54% for those with primary education, 24% among people with secondary education.

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\(^9\) The Gini index measures the extent to which the distribution of income among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of zero would represent perfect equality, and an index of 100 would imply perfect inequality.
and 3% for those who have had tertiary education\textsuperscript{10}. These statistics show that the poor generally are barely literate. In addition, their children have limited opportunities for better education. They need to be given a better chance of escaping poverty by acquiring skills and knowledge. The dynamic relationships between education and poverty are also critical in the intergenerational transfer of poverty.

An educational policy with a strong focus on equal access to quality education would help bridge the poverty gap. While substantial progress has been made in the past decade towards providing quality education for all citizens, a number of serious challenges still lie ahead. These include financial inequality, both within and among provinces, and unemployment.

Employment is closely related to poverty status. Given that education aims to empower people, and that today’s job market relies heavily on technical skills and knowledge, poor people have limited access to jobs. The higher one’s level of education, the better the opportunities for employment and hence the less likely one is to be poor. The South African social environment displays a causal relationship between education level, employment status and poverty (Bhorat, H. et al. 2004:14-15). Poor people are generally equipped with underdeveloped human capital, leading to exclusion from or limited opportunities in the job market.

Giving poor people access to knowledge and skills is a long-term investment with the aim of empowering them by ultimately increasing their opportunities to participate in the creation of wealth and consequently to prosper. In this regard, labour policies must ensure an effective transition from education and training to the job market. The introduction of the Skills Development Act (Act 97 of 1998) and the National Skills Development Strategy\textsuperscript{11} will have a substantial impact on poverty relief in South Africa. To overcome the negative consequences of poor articulation between the educational system and the job market, child grants are provided to poor families with young children, and the government aims to extend social assistance for adults living below the poverty line.

Notwithstanding the economic prosperity displayed over the past few years\textsuperscript{12}, many households do not have access to adequate education, health care, clean water and sanitation. This situation is likely to affect not only the country’s social and political stability, but also its development path. As Niresh Ramklass (1999) puts it, “countries with less equal distributions of income and wealth tend not to grow as rapidly as those countries with more equitable distributions”. Given these conditions, there is a need for a concerted effort from public institutions to tackle social inequalities and inequities.

The decentralisation of basic social service provision in South Africa demonstrates the convergence of policy towards transforming South Africa into a society in which there is

\begin{footnotesize}
\textsuperscript{10} See Ramklass, N. 1999. \url{http://www.icsw.org/copenhagen_implementation/copenhagen_papers/paper2/south_africa.htm}

\textsuperscript{11} “The National Skills Development Strategy is designed to address the incongruity of skills shortages in some sectors of the economy and existence of a large number of unemployed job seekers who do not have the necessary skills or experience to work” (Department of Education, 2004:3).

\textsuperscript{12} “Growth has averaged 2.8 per cent a year over the past decade, productivity has increased strongly and many industries have successfully adapted to international competition.” (National Treasury, 2004:3.)
\end{footnotesize}
human dignity, equality and equity. Around the world, experience shows that fiscal decentralisation goes hand in hand with increased social service delivery and economic growth, and better poverty reduction (Von Braun & Ulrike, 2000; Ebel & Yilmaz, 2002). South African public finances emphasise budget spending toward the provision of the basic social services set out in the Constitution. In addition, the 2005 MTEF recognises that social services lay the foundation for future growth through human capital development and direct support to the most vulnerable groups in society.

Social spending on health, education, welfare, housing and other social services now accounts for nearly 60% of consolidated non-interest expenditure, up from 52.9% a decade ago. Provincial spending allocated to social services constitutes 82% of the provinces’ total expenditure, and is expected to growth annually by 8.3% over the MTEF period. The growth in social service expenditure at both national and provincial level aims at expanding access to social services, developing the efficiency of services and improving the quality of delivery.

In 1994, South Africa inherited a skewed system that not only disadvantaged the majority of people, but also failed to meet the country’s social and economic needs. It is poor people who suffer the social penalty of these past misdeeds. The statistics on poverty are alarming, to the extent that they have motivated the democratic South African government to develop and implement pro-poor policies and programmes to address this dire situation.

3.2 Are governmental social policies pro-poor?

Policies are considered to be pro-poor “if poor people benefit in absolute terms, as reflected in some agreed measure of poverty such as the headcount index” (Ravallion, 2004). When the objective is poverty reduction – for which economic growth is one of the main instruments – then an absolute definition of pro-poor growth is the most relevant. The policy objective is to achieve the greatest amount of poverty reduction, and hence both growth and distribution policies matter.

Throughout the world, the governments are responsible of raising, allocating and spending public resources to achieve policy objectives. These policy objectives are formulated, costed and reflected into the annual budget. Budgets, and how public funds are raised, allocated and managed, are the main avenue through which the South African government channels resources for carrying out its functions, including poverty reduction.

The government is challenged to take decisive steps to eradicate poverty. In terms of policy strategy, social development has been identified as a key focus for budgeting policy in South Africa. During the past few years, the government has implemented a number of social policies aiming at providing better education, health care, housing and other social amenities to citizens. However, social and economic disparities remain widespread, as economic globalisation and tight budgetary policies complicate the government’s efforts to improve living conditions for the poor and to expand the socioeconomic opportunities for self-sufficiency.
In the face of many competing needs, the government has committed itself to social service delivery for all citizens, particularly the poor. To ensure the effective delivery of social services to the poor in a way that meets their needs and improves their living conditions, policy actions targeting vulnerable social groups are translated into budgetary programmes and prioritised in resource allocation at all levels of government. Substantial progress has been made since the inception of these pro-poor policies. Through both indirect redistribution, in the form of social services delivery, and the direct allocation of funds to the poor, the incomes of poor people have grown faster than those of the population as a whole.

South African development can therefore be described as pro-poor, because inequalities are declining progressively within identified social groups. In the 2004 MTBPS, the government recognised that achieving an appropriate balance between the direct and the indirect redistribution of income to poor people was the central challenge of budget policy. Social services have taken up about 51% of overall government expenditure over the past three years, and the 2005 MTEF announced an average annual increase of 9.7% for the next three years, which represents, in aggregate, nearly 60% of consolidated government expenditure.

Despite its efforts to alleviate poverty, the South African government faces challenges of equity within each social sector. Given current poverty trends in relation to the social sectors, the implementation of sustainable social progress needs to focus on the reprioritisation of social services to improve equity and access to basic social services, targeting identified vulnerable socioeconomic groups. Understanding the relationship between poverty and each social sector can provide insights into the impact of poverty and how to tackle the equity problem in each sector.

3.3 Why does fiscal decentralisation matter for poverty alleviation?

An important rationale for fiscal decentralisation is that subnational governments, being closer to the people and hence better equipped to obtain information on local preferences and needs at lower cost, are more likely to conceive and implement pro-poor policies. Fiscal decentralisation can generate gains in financing, efficiency and quality by devolving resources and decision-making powers to subnational governments for the delivery of services (Robinson, 2003).

For most sectors that are of particular relevance to poverty reduction, such as health and education, there is, in fact, no strong evidence that fiscal decentralisation helps reduce poverty. It is financially attractive to national governments because part of the burden of financing services can be shifted to subnational governments and private providers. Decentralisation is expected to boost public-sector efficiency in service delivery, so that the scarce public resources expended on health, education and other social services can be channelled into more productive, externality-generating uses at the nationwide level. Decentralisation can enhance the accountability and transparency of public institutions in

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13 See “Growth and development challenge: bridging the divide between the first and second economies” in MTBPS, 2004:15.
policy-making by bringing expenditure assignments closer to revenue sources and hence
to the citizenry. The quality of service provision can also be enhanced by decentralisation
since subnational governments will be more sensitive to variations in local requirements
and open to feedback from the users of services.

That said, fiscal decentralisation can be applied in poverty alleviation strategies in a
number of ways: first, to provide opportunities to the poor; second, to empower the poor to
take advantage of those opportunities; and, third, to protect the poor against their own
vulnerability (Rao, 2002). This entails pursuing the implementation of pro-poor interventions within the framework of cooperation between tiers of government. The
impact of these interventions depends on the approaches used to sustain an efficient system
of service delivery capable of combating the adversity of social disparities. Key elements
include a clear characterisation of the poor, a clear understanding of the factors causing
poverty, the design of effective systems to accelerate growth (hence improving capacity)
while enhancing the satisfaction of immediate needs (safety nets) and the institutional
capacity to deliver.

An important feature of public finance in South Africa is the decentralisation of social
sectors, by which the government plays a key role in catalysing and spreading social justice
that can only be fulfilled through the direct and indirect redistribution of income to poor
and disadvantaged communities. Pro-poor budgeting, on the expenditure side, is used to
address social inequalities and inequities at all levels of government, and appears to be the
only effective instrument of redistribution. In fact, if public goods and services are
available to all citizens, then people with no income can consume as much as anyone else.
It stands to reason, then, that if essential goods and services become increasingly available
to the poor, not only is their state of relative poverty lessened, but so is their inequality in
relation to others who already have access to those goods and services. For example, if a
newly opened public clinic makes it possible for a previously vulnerable poor child to be
immunised against a disease, then, in relation to that disease, the child is fully equal to all
other vaccinated children, rich or poor. Furthermore, the child’s life expectancy will be
prolonged, closing another gap relative to wealthier children.

In 1995, 51.1% of the population was living below the national poverty line of R355 per
adult person, but recent figures indicate that the rate decreased by 2.6% between 1995 and
2002. However, the total number of poor also increased to 21.9 million in 2002.\textsuperscript{14} Hence,
social and economic inequalities of a class, race, gender, institutional and spatial nature
continue to shape South African society. The government’s commitment to social
transformation is based on the principle of social justice and the Bill of Rights. It is within
this context that the government develops and implements social policies aiming to ensure
the provision of social protection and social welfare services to all citizens.

\textsuperscript{14} UNDP, 2003.
3.4 Repartition of social responsibilities between levels of government

Social policies are playing a key role in building an egalitarian South Africa. Each level of government is assigned specific responsibilities in social services delivery which are based on policies and reflected in expenditure. Currently, much funding for social services passes through the provincial and local governments, about 97% of whose revenue comes from the national government. Because the South African intergovernmental fiscal system is characterised by centralised taxation and decentralised service delivery, and by the dependence of subnational government on transfers, there is evidently pressure on subnational governments to fund social services from their own revenue. This produces vertical fiscal imbalances between revenue and expenditure.

Social expenditure by all levels of government in South Africa encompasses various transfers for education, health care, sanitation, housing, electricity, water and social security. To the extent that sub-national government are required to manage these transfers, in addition to mobilizing their own resources, and setting priorities among the competing local demands as part of their constitutionally mandate to deliver social and economic services to citizens, it is clear that, efficient delivery of public services that are also pro-poor cannot be achieved in the absence of good governance. In this perspective, the various components of good governance are necessary and functional in all aspects of South African fiscal decentralisation system.

4. GOVERNANCE PERSPECTIVES UNDER FISCAL DECENTRALISATION IN SOUTH AFRICA

This section is devoted to governance challenges and perspectives within the framework of the South African fiscal decentralisation system. Before embarking on the discussion, we briefly describe what governance stands for.

Governance refers to the complex mechanisms, processes used in implementing policy and institutionalising rules and norms within any organisation, institution or society. It involves a combined effort and participation of all stakeholders including state institutions and civil society. The literature views good governance as a government’s responsiveness to the needs and wishes of citizens – for example, bringing the responsibility for providing public services closer to citizens. Similarly, saying that “good governance is perhaps the single most important factor in eradicating poverty and promoting development”, the UN Secretary-General Kofi Anan refers to good governance as a sine qua non for economic and social development. Good governance entails the existence of efficient and accountable institutions; in this view governance has to do with the manner in which responsibilities are devolved to government bodies. At all levels, governments must take responsibility and be accountable. In the context of fiscal decentralisation, this means that national government enables subnational authorities to fulfil these obligations.
4.1 Governance challenges

In South Africa, where there has been an historical record of impaired social policies, the framework of fiscal decentralisation as part of the integrated public sector emphasizes the improvement of the governance environment. The principles of good governance require government institutions to be efficient, effective and consistent. This approach is closely connected to the concepts of transparency, integrity and policy coherence.

Good governance mechanisms and rules aim at promoting development, protecting human rights, guiding the respect the rule of law, and accommodating all stakeholders including people to participate in decision-making processes that affect their lives. In theory, the reduction of poverty is more likely to be assured when the people for whom pro-poor interventions are meant are allowed, through empowerment, to effectively participate in these interventions. Decentralisation is therefore assumed to facilitate redistribution and poverty alleviation since it brings greater local-level control over resources and their utilisation.

Good governance, however, requires institutional capacity and mechanisms to ensure accountability through the capacity to monitor and enforce rules and to regulate societal activities in the public interest. Such requirements involve assigning responsibilities to other state institutions in controlling and verifying that government decisions are formulated and implemented in line with its legal commitments. These institutions include an integrated public sector and administrative legislation, efficient parliamentary oversight, an independent judiciary system, and an adequate and independent auditing body.

Under a decentralized fiscal system, good governance ensures that public resources are effectively and efficiently managed. In addition, it must also ensure effective and sustainable resource mobilization and its efficient use. In this regard government and public institutions must ensure greater transparency, predictability, and accountability in the decision-making process. They must to provide reliable, relevant, and timely information about their activities.

4.2 Good governance issues in public service delivery targeting the poor

The Public Finance Management Act of 1999 recognizes the salient importance of good governance for achieving social development in South Africa. In general, the Constitution of South Africa promotes of participatory decision-making, transparency, accountability, integrity, and respect for human rights. Several legislative Acts also promotes the rule of law, in particular the adoption of effective measures to combat corruption.

Since 1997, the South African government has identified and implemented an extensive set of governance measures as part of a systematic approach to address poverty. The approach has focused on enhancing accountability and transparency, strengthening the public sector and strengthening budget decision-making processes. Considerable effort has been put into formulating legislative and policy frameworks to enhance social development. Although not fully realised, the framework is already exposed to the risks inherent to fiscal...
decentralisation. First, there is no automatic assurance that increased fiscal autonomy for subnational governments will lead to improvements in public services. Secondly, at local government level the institutional and technical capacity may be lacking to deliver even the most basic services, and local political elites may aggravate these difficulties. Thirdly, pro-poor budgeting creates incentives for macroeconomic risk-taking by increasing government vulnerability to financial deficit and overexpanding the size of the public sector.

The governance gap in targeting poverty reduction within the South African fiscal decentralisation system is caused by related factors. Firstly, the equity outcomes for poor and socially marginalised people have not yet been realised. Secondly, there is no explicit universal quality standard of service provision, which complicates the measurement of the real impact on targeted populations. Thirdly, efficiency is still problematic because financial responsibility for service provision has been delegated from national to subnational governments, but the resources have not been adequate to ensure efficiency, coverage and quality.

This evidence suggests that the government’s challenge in providing public services is to identify the conditions in which increased participation by subnational governments enhances the equity, quality and efficiency of services. Robinson (2004:10-12) points out the following leading requirements to enhance citizen participation in fiscal decentralisation:

- “Political commitment is essential, for the reason that successful pro-poor decentralised service delivery is associated with governing parties that are politically committed to providing opportunities to the poor.
- Effective leadership plays a role in fostering local innovation in response to local needs and priorities.
- Mobilisation (of political parties, civil society organisations, trade unions and social movements) is essential, in order to take advantage of increased powers and resources, to take part in consultative arenas and to engage in public protest over inadequate service delivery.
- Institutionalised participation in decision-making, through consultative bodies designed to provide civic oversight over particular services, facilitates and widens public deliberation, planning and implementation.
- Adequate financial resources are critical to ensure the equity, quality and efficiency of public services. Inadequate resources often result in poor service outcomes.
- Technical and managerial capacity is a key determinant of the performance of local officials in relation to service delivery. In other words, the subnational governments must be capable of optimising the use of available resources. It also assumes properly functioning mechanisms with which the community can voice demands, channels through which authorities can translate these demands into action and instruments of government accountability”.

However, if subnational governments are to be effective as agents of local economic development and poverty alleviation, a number of issues need to be taken into account. Firstly, the challenges of economic development and poverty alleviation confronting
subnational governments are not homogeneous. Secondly, local government efforts have to be actualised in the context of South Africa’s system of intergovernmental relations, which has implications for resource allocation and the way in which equity, quality and efficiency issues are balanced within the overall system of governance. Finally, in South Africa, as in many other societies, poverty is fundamentally a national problem, so subnational efforts in poverty alleviation always have to be viewed in a national context.

4.3 Citizen participation in fiscal decentralisation

The response to poverty requires a multisectoral, multifaceted approach relying heavily on the participation of various stakeholders in social development, such as civil society organisations that monitor policy implementation. There is general agreement on the vital role that stakeholders such as civil society organisations and community-based associations can play in influencing policies and practices to make them pro-poor. The poor tend to benefit when civil society organisations are engaged in shaping policy, particularly when that engagement is well-informed and leads to evidence-based policy.

In a fiscal decentralisation perspective, arguments for participation rely on the assumption that resource allocations reflect local preferences, resulting in the efficient distribution of public services. It is also argued that resource mobilisation increases as local governments become better equipped to collect taxes in subnational jurisdictions. The efficiency of revenue collection may also be greater when citizens are involved in decisions taken by local governments through participatory processes. This would be reflected in an increased willingness to pay for services through local taxes (Robinson, 2003).

The democratisation of the South African political environment has created opportunities for increased civic participation in priority-setting and decision-making by elected local governments. Civil society groups are increasingly recognising the need to understand policy processes better so as to engage with them more effectively. However, fiscal decentralisation poses a particular challenge for citizen participation in local governance in view of its technical complexity and critical significance for the delivery of public services. Participation is often restricted to select groups and individuals, and tends to exclude the vast majority of citizens who pay local taxes and consume local services provided by local governments.

Broadly, fiscal decentralization can be perceived as a process, which is expected to enhance the opportunities for citizen participation by bringing the decision-making processes closer to people. It is then an important step towards creating an environment with opportunities for regular interactions between citizens and sub-national levels of governments. Robinson (2004:5-6) suggests that fiscal decentralisation creates a distinctive set of fiscal spaces that offer varying degrees of scope for citizen and civil society participation. These can be divided into the following categories:

- the rules and formulae governing the allocation of grants and revenue-raising powers to local governments
• the decision-making processes concerning the sources and level of locally generated revenues
• the allocation, utilisation and monitoring of earmarked financial transfers
• decisions on the allocation of untied funds and locally generated resources.

Resources allocated for supporting participatory processes in local governance activities, i.e. capacity-building for civil society and local government actors in participatory techniques, are also of relevance.

5 CONCLUSIONS

This paper has examined the framework of fiscal decentralisation in South Africa and its impact on social service delivery targeting poverty. The primary goal of fiscal decentralisation in South Africa is to achieve a broad-based, sustainable improvement in the standard of welfare of all citizens. This requires a concerted effort at all levels of government to tackle the intolerably high incidence of poverty that afflicts about half of the South African population. Subnational governments should be able to mobilise all available resources and use them efficiently and effectively in providing social services in the fight against poverty.

An exploration of fiscal decentralisation in South Africa reveals three fundamental features. Firstly, the national government has a specific responsibility for spearheading action and creating a positive framework, while subnational governments have a vital role to play in meeting the needs of residents through the delivery of basic social services such health, education, water, sanitation and housing. Secondly, the allocation of revenue-raising capacity among subnational governments is uneven, which necessitates compensation between levels of government (vertical) or among the subnational governments themselves (horizontal). Thirdly, the success of public service delivery is still limited, suggesting a need for a strong social policy environment based on equity and socioeconomic justice.

Public spending on social services such as education and health is considered a central redistributive or anti-poverty policy instrument in South Africa. In general, public expenditure in the social sectors has improved access to health care, education and nutrition for most vulnerable South African. The government’s allocations to the social sectors demonstrate that it is committed to bringing social services to the poor. Despite this political will, however, only a small part of social expenditure reaches the intended target groups – namely, the poor and vulnerable. In addition, the benefits of social expenditure are eroded by the low quality of services and the tenuous link between the supply of and demand for services. In other words, there is no clear correlation between increased social expenditure by the various levels of government and the decline in poverty. This suggests that a reallocation of public expenditure combined with a concentrated focus on the effectiveness, efficiency and equity of public expenditure could lead to better outcomes for the poor.

Discussions concerning the appropriate division of powers and functions between the national and subnational governments have concluded that the fiscal empowerment of
subnational governments is an important dimension of deepening and broadening democracy. However, the transfer of responsibilities to subnational governments could slow down the delivery of services unless accompanied by adequate capacity-building. In this regard, participation and partnership need to be accommodated in the implementation of social policy in South Africa. Participation by communities and civil society is necessary to ensure that policies respond to the needs of beneficiary populations, while public-private partnerships encourage the mobilisation of private resources for developmental objectives.

Further steps to enhance service delivery by subnational governments need to focus more sharply on coherent policies targeted towards outcomes. This will require agreement on the outcomes to be pursued over a range of policy interventions and regular monitoring and evaluation of their direct impact on poverty.

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