THE CHALLENGE OF COOPERATIVE GOVERNMENT AND ITS IMPLICATIONS FOR THE FINANCIAL AND FISCAL MANAGEMENT SYSTEMS IN SOUTH AFRICA

By

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A mini-thesis submitted to the School of Government, Faculty of Economics and Management Sciences, University of the Western Cape, in accordance with the fulfillment of the requirements for the degree of:

MASTERS IN PUBLIC ADMINISTRATION

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DECLARATION

I hereby declare that the mini-thesis under the title:
“THE CHALLENGE OF COOPERATIVE GOVERNMENT AND ITS IMPLICATIONS FOR THE FINANCIAL AND FISCAL MANAGEMENT SYSTEMS IN SOUTH AFRICA”**; -** is my own work; that it has not been submitted for any degree or examination at any other institution of higher learning and that all primary and secondary sources have, to the best of my knowledge, been correctly acknowledged by complete references. It is being submitted for the degree of Masters of Public Administration at the School of Government/University of the Western Cape.

NTANDA N'SHI TSHAMBE NGOY

Signature……………………………………… Date 15 October 2009

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Tshambe Ngoy,

Cape Town 2009

DEDICATION

I dedicate this piece of work to my late Grand Fathers – respectively, David Kadindula and Mulopwe Kabenga Kitoko whom, under the fountainless depth of the Blue Sea, have left this physical body for a luminous one and are gone to the abode shrines of the living deads – the deads who are not in reality dead but continue to live in harmonious concomitance with the laws of nature – always eloquent through their enigmatic smile.

To my father Tshambe wa Kayumba Ferdinand - who passed away on the 24th of June 2009 at the doorsteps of my graduation; and whom I resemble very much by the power of character and strong intellectual stamina. The father who never got tired through his advice to frame the avenues of my subsequent picturesque rainbow colors of a mysterious life full of sunshine, yet filled by rhythmic cadence of untarissable tears of sorrows and deceptions, watered by a sublime smile of flowers. To him alone, whose wisdom - as a new crimson dawn removes agonies of Cimmerian Nights.

On his feet, flutes will sing and birds will dance. Sorrows of mine will be no more. To his lotus feet, I dedicate this piece of work!

ABSTRACT

Can a country function without a legislative framework able to inform decision-making processes taken at different spheres of government? To what extent would actions conducted at various spheres of government be efficiently coordinated and informed by appropriate channels of constitutional provisions and legislative amendments to consolidate financial and intergovernmental fiscal relations policy-making tools for the realization of an efficient local developmental state?

Answers to the above mentioned two questions refer to normative fiscal policy principles and prescriptive instruments of intergovernmental fiscal transfer design, whose orientation suggests better ways of framing sound and coherent programs and interventions that strengthen cooperative synergy and transfer knowledge of experience gained in empirical investigations and various South African environments of higher academic learning.

Growing evidence acknowledges South Africa as one of the young democratic countries that has been going through a period of transition over the past three years as it changes its system of public finance from a structure suited to the old apartheid system to one consistent with the new South African Constitutional dispensation. While the former system was highly centralized, the new constitution makes a clear commitment to municipal governments as important providers of government services, with greater tax and spending powers. Even as local autonomy has been substantially increased, there remains uncertainty as to the most appropriate design of a system of intergovernmental fiscal grants to metropolitan areas and townships. This study analyses this situation and further develops a generic design for intergovernmental transfers and its suitability to the realities of South African municipalities on the ground within the framework of Cooperative Government. This study concludes that fiscal management, as a cross-cutting discipline, is a powerful instrument for government's revenue sources at the national, provincial and local government levels. Financial management should be regarded as a co-coordinating mechanism managing government's expenditure and catalyzing sound financial relationship for an efficient management in the country, thus allowing government to budget effectively for the delivery of goods and services in order to attain the constitutional mandate of a developmental state.

KEY WORDS

1. Budgets,
2. Conditional grant,
3. Cooperative Government,
4. Division of Revenue,
5. Equitable Share,
6. Financial and Fiscal Commission (FFC),
7. Financial Management,
8. Fiscal Policy,
9. Intergovernmental Financial and fiscal management systems, and
10. South Africa.

ABBREVIATION AND ACRONYMS

AIDS	Acquired Immune Deficiency Syndrome
ANC	African National Congress
BIG	basic Income Grant
BBBEE	Broad-based Black Economic Empowerment
Capex	Capital expenditure
CDI	City Development Index
CBO	Community-based Organization
CHBCS	Community and home-based Care and Support
COSATU	Congress of South African Trade Union
CSS	Commission of Statistics South Africa
CG	Conditional grant
DP	Democratic Party
DWAF	Department of Water and Forestry
DPLG	Department of Provincial and Local government
DORA	Division of Revenue
DOE	Department of Education
DSE	Department of Social Education
FFC	Fiscal and Financial Commission
FF	Freedom Front
IGFR	Integrated Development Plan
IDP	Integrated Development Plan
IGR	Intergovernmental Relations
LED	Local Economic Development
LGTA	Local government Transition Act
LGTA	Local Government Transition Act
MSB	Municipal Systems Bill

MFMA	Municipal Finance Management Act
MEC	Member of Executive Council
MTEF	Medium Term Expenditure Forum
MIG	Municipal Infrastructure Grant
MFMB	Municipal Financial Management Bill
NIP	National Integrated Plan
NGO	Non-governmental Organisation
NP	National Party
PEP	Post-exposure prophylactic
PAC	Pan African Congress of Azania
PFMA	Public Finance Management Act
PPP	Public Private Partnership
PIT	Personal Income Tax
SMMEs	Small and Medium-sized Enterprises
UNDP	United Nations Development programme
SALGA	South African Local Government Association
SARS	South African Revenue Services
Opex	Operational Expenditure
VAT	Value-Added Tax
VCT	voluntary Counseling and Testing
WPLG	White Paper on Local Government
WPLG	White Paper on Local Government

TABLE OF CONTENTS

TABLE OF FIGURES

CHAPTER 1: INTRODUCTION, BACKGROUND AND CONTEXT

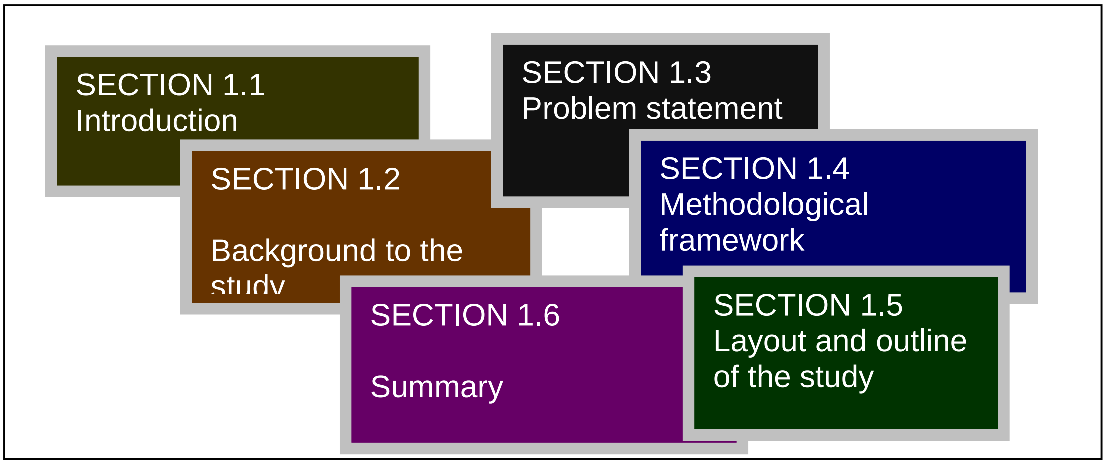
1.1 INTRODUCTION

The winds of change in South Africa brought no t only dramatic transformation in the overall governance and policy transformation; but also culminated into a system which sought to adjust to new challenges and opportunities brought in by the outer environments. One of the changes was the relevance of intergovernmental relations within the whole framework of macro-economic and political set up. However, the way the contention of intergovernmental relations and its fiscal and financial management system are defined and organized in South Africa today needs to be revisited; especially when we take into account the global landscape of socio-economic and political forces – which, to a great extent has direct implications on the autonomy and sovereignty of domestic policy-making. In fact, a substance body of evidence suggests that the South African administrative system does not adequately address the welfare of individual citizens and the principle of fiscal equity is often thwarted regardless of their domicile. The objective of this study zooms into the nature of profound roots underlying these causes – which is one of the ultimate goals for decision-making in any political dispensation. The revitalization of the intergovernmental relations system needs to be approached from a dimension of critical and empirical questioning and evaluation of the epistemological substance of key principles underpinning financial management system against the backdrop of policies, legislations and practices that guide the political system – which is the primary objective of this study.

Although this paper is an attempt to evaluate the content validity, efficiency and effectiveness of the fiscal and financial management system feeding into a cooperative government dispensation and its mandate for a better life for all – evidence suggests that the related administrative financial and fiscal efficiency of political system in any country determines the delivery quality of public services and the welfare of its citizens. In this regard South Africa is not exception. It is in light of these aforementioned premises that the focus of the study is geared towards the effort to analyzing a case in terms of assessing the validity of the principles and practices underpinning the core values and practices of a financial and fiscal system and its operations therein. The findings of the study will consolidate the theory and postulate recommendations where contractions and loopholes are identified.

This chapter is organized in the following manner – section 1.1 provides a general introduction to the research under study and is followed by a background illustrating the geo-political context in which it is undertaken (section 1.2). In section 1.3 the problem to the study is postulated, channeled by the methodological framework (section 1.4) depicting the empirical design suitable to the successful reach of the objectives stipulated in this study. Section 1.5 is a depiction of the layout outlining the different sections of chapter one. At last, but not least section 1.6 presents a short summary to chapter one. This is illustrated in Figure 1: below.

FIGURE 1: BREAKDOWN OF CHAPTER ONE



1.2 BACKGROUND AND CONTEXT OF THE STUDY

In the context of the introductory classifications (section 1.1), the background to the study intends to conduct a scientific inquiry regarding the degree of cooperative government effectiveness and the extent to which it impacts, positively or negatively on the performance of the financial and fiscal management system in South Africa. Having highlighted the Financial Department of the Metro City of Cape Town as the research's unit of analysis and departure for scientific investigation, it is hereby the contention of this study to identify the background to the problem and elaborate on the likelihood of how national macro-economic policy framework together with apartheid legacy and demarcation board policies impinge on government intervention. The research study aims to finds out how the above impact on the geo-political organization of the fiscal and financial nature and how the last curtails or shrinks the effort of local spheres, especially that of the metro City of Town to deal effectively with delivery problems, improvement of lives and social change.

One of the key elements of IGR[1] Constitution mirrors the comparison to that of South Africa and India, whereby the state does not see the three spheres in terms of conflictual and competitive counterparts. Contrary to this, the state mainstreams them as inherent promoters of sound intergovernmental relations between the different level of the Government (Levy &Tapscott, 2001: 1). International experience suggests that every system of intergovernmental fiscal relations be strongly supported by policy pronouncements, legislation systems of checks and balances built into government structures as the core of good governance in order to help empower the citizens in a sustainable way (Shah, 2005:xi). This demands a complex process, which entails negotiating the gap

[1] The relationship between and within the different spheres of government. The aim of intergovernmental relations is to ensure cooperation for the delivery of an effective and accountable public service.

between the technical requirements for interaction between the different layers of the governing structures and the imperatives of political power relations (Levy & Tapscott, 2001: 2), as an incentive that motivates the public servants and policymakers so much so that Shah (2005: ibid) recalls that the rewards and sanctions linked to results that help shape public sector performance is rooted in a country's accountability frameworks: Sound public sector management and government spending is a key toward the determination of a course of economic development and the ability to shape social policies to address the soaring problems of the poor and other disadvantaged groups such as women and elderly in the society.

1.3 PROBLEM STATEMENT

Cooperative[2] government is a new paradigm in South Africa. Owing to apartheid legacy, the distribution of South Africa's revenue among the nine provinces has been fundamentally skewed and distorted and followed racial and clientelism categorization. Social security was disturbed, unemployment rates soared and juvenile delinquency posed serious problem. Given the principles of cooperative government spelt out in the Constitution and its implications on financial and fiscal management system, development and delivery, it is my contention that clear problem statements concerning the study be attempted before any other thing and lucid background tabulated and pursued.

[2] Cooperative Governance refers to the study placed on the three spheres of government by the institution to coordinate their actions and legislation, exercise their powers in a way, which does not encroach on the geographic, functional or institutional integrity of government in another sphere (Presidential Review Commission, 1996). By cooperative government we mean cardinal values of government for the country sketched in the principle of chapter three of the Constitution, and encompassing the institutional ennoblement of these values through appropriate intergovernmental structures and institutions to be established by the Act envisage in section 41 (2) of the Constitution

One of the big challenges highlighted by the scholars following the transitional Constitution of South Africa in 1993 was the crisis of cooperative government, the harmonization of interests and the partnership dispensation among political parties, social groups, provinces, workers unions, government bodies, parastatals, private companies as well as non-governmental and local-based organisations (Haysom, 2001).

1.3.1 CORE PROBLEM STATEMENT:

The core problem statement of this study gravitates around the need for an improved and efficient financial and fiscal management[3] system in South Africa against the backdrop of constitutional amendments (chapter 3). From the onset the study maintains that government overregulation is cumbersome to the efficient delivery of services and should be changed. It generates vertical imbalance (fiscal gap) between the revenue raising ability of sub-national spheres and their expenditure responsibilities. Moreover, fiscal inequality, alarming trends of horizontal disparities aligned alongside with lack of government revenue equity across provinces and sub-national spheres are some of the direct serious implications of the institution of cooperative government on the fiscal and financial management system in South Africa. All these, coupled with externality effects of municipal expenditure not being included in the equalization formula, fail to provide correct optimal level of public services with proper incentives across sub-national spheres.

1.3.2 KEY PROBLEM AREAS

In order to give further substance to the above mentioned problem statement, the following four key problems have been highlighted and outlined in this study.

[3] Fiscal Management: The management of government revenue and everything that influences it, including debt levels and sources and levels of tax revenue.

KEY PROBLEM AREA 1: INTERGOVERNMENTAL RELATIONS' SYSTEMS - A STRATEGIC LANDSCAPE

The present debate is located within the broad framework that provides an overview on the way governmental cooperation has been incorporated in the South African design. Furthermore, it deals with the problems drawing from the origins and principles of cooperative government, its constitutional provision and how this impacts on the political change and transformation as a whole. It gives strategic conclusions, drawing on recent perspectives on intergovernmental transfers, fiscal as well as financial management systems in South Africa as practical examples illustrating the importance of cooperation within a decentralized political dispensation.

The study of this kind suggests the need for developing a strategic perspective in such a way that puts the field of financial and fiscal management not only within a South African context, but also within a more strategic perspective. In this way, the objectives of the study will bear with key issues in outer environment, especially those that pertain to sound financial and fiscal management across departments. This will give a contribution of sound financial and fiscal management system to senior officers, government officials, politicians as well as policy makers.

KEY PROBLEM AREA 2: COOPERATIVE GOVERNMENT SYSTEMS AND CONSTITUTIONAL AMENDMENTS IN SOUTH AFRICA

The challenges of cooperative government have direct constitutional implications for the South African financial and fiscal management system in other spheres of government. This suggests a normative consideration that resulted into the second key problem reflecting on how attempted budget reforms and changes in the assignments of functions should be handled rather than on how they are being made. This is important in order to help gain in-depth understanding on the way the Division of Revenue raises income and how it makes discretionary choice (using a formula) over the split and allocation of expenditure budgets between and across different structures of government. Such assignments of functions at different intergovernmental levels have serious implications on the future of sub-national governments with far reaching constraints for the fiscal relations on the three spheres of government. It is in the confines of the above-mentioned parameters that this study is conducted.

KEY PROBLEM AREA 3: INTERGOVERNMENTAL FISCAL RELATIONS AND FINANCIAL MANAGEMENT SYSTEMS IN SOUTH AFRICA

The general framework of fiscal relations among three spheres of government in South Africa is rooted within the current version of the Constitution. In order to maintain sound intergovernmental relations between and across spheres, it has maintained that some cumbersome legislation pose a serious problem to the efficient revenue generating that has implications on effective delivery of services to the poor. Such legislation is mechanical and need to be changed. However, any attempt to reform and change the assignment of functions has had further impact for the fiscal relations on the three spheres of government.

In this section we will attempt to address specific issues related to constitutional amendments for cooperative government (objective of the study). In light with the aforementioned problem, it will be essential to dwell on the third issue and its implications for intergovernmental financial and fiscal relations[4] in South Africa. This will serve as a legislative framework for understanding the context in which budget reforms and changes in assignment of functions render the future of sub-national governments uncertain. These factors, coupled with the constitutional amendments have far reaching implications for fiscal relations and intergovernmental grants across the three spheres of government.

KEY PROBLEM AREA 4: EMPIRICAL APPLICATION OF INTERGOVERNMENTAL GRANTS AND ITS RATIONALE IN SOUTH AFRICA

The fifth problem concerns the need to build a theoretical understanding underpinning the concept of intergovernmental grants design within the broader national and provincial context in order to minimize fiscal gap and disparities in revenue sharing and bring about fiscal equity among various spheres of government. However, it is argued that fiscal externalities are always difficult to measure, as a corollary, it follows that intergovernmental grants are not easy to design since unspecific and inaccurate grant system yield unintended undesirable consequences.

This section explores the analytical framework influencing the transfers on three areas, i.e., local expenditures for Intergovernmental grants services, locally generated revenues for infrastructure services, and the mix of types of public intergovernmental services provided by national government to sub-national spheres within the context of cooperative government. This will allow theoretical predictions on intergovernmental grants to be tested using available already processed data on HIV/AIDS CGs in public health, Education and Social Development sectors to test the validity of the financial system in South Africa

[4] The fiscal and financial relationship between and within the different spheres of government. The aim of intergovernmental relations is to ensure cooperation for the delivery of an effective and accountable public service.

from the year 2000 to 2010. Content analysis is used to analyze this longitudinal data set cross-sections and time periods in order to find out whether the design of categorical grants have a statistically significant effect on public expenditures, local revenue generation, and the mix of services provided at the sub-national level. In light with this understanding, attention needs to be given to the ground of the fact that local sphere in South Africa is not only a state organ closer to the people, but chiefly it is considered to be the point of implementation[5] of all government programmes since service delivery by all spheres of government come together in a focal point of coordination and alignment at the local level (De Visser, 2005: 222).

Given above-mentioned requirements, a methodological orientation been designed in order to give a scientific and methodological framework to the study. This involves different techniques in the process of data collection, data analysis, interviews, observation and data interpretation as well as the interpretation of secondary sources of information.

1.4 PURPOSE, OBJECTIVES AND ASSUMPTIONS

1.4.1 PRIMARY OBJECTIVES

The main and general purpose of the study is to investigate the challenges of cooperative government and its implications for the financial and fiscal management systems in South Africa.

[5] This is a procedure of putting policy into practice, where activities are presented to achieve the set objectives. It therefore involves a series of determinations and allocations, which lead to a degree of change in the circumstances of the targets, based on central statement of intention. O'Toole (1986: 183) suggests that policy implementation refers to "…*all that is part of the process between initial statement of policy and ultimate impact on the world*". This implies that policy implementation is a process that constitutes the various stages in the performance of actions. It also includes the responses from the target groups, the outcome of the implementing agencies' actions and the assessment thereof.

1.4.2 SECONDARY OBJECTIVES

In order to obtain the primary objective the research is divided into secondary more specific objectives these include:

1. To present an overview of generic principles underpinning the theory of cooperative government in South Africa.

2. To sketch the importance of financial and fiscal relations and its approach to cooperative government within a political context in which these issues are called to play a role in shaping improved and effective financial and fiscal systems. The intention here is to highlight the vice and virtues resulting from an intricate IGR system of cooperative government in a decentralized dispensation.

3. To stress the importance of conceptual issues underpinning the theory of cooperative government and IGRs. Challenges, instruments and implications for the 2001 constitutional amendment and other transitional legislation on intergovernmental coordination will be highlighted in bold fashion; and the scope, structures, processes and factors influencing cooperative government postulated in the first instances.

4. To illustrate the application of specific employed methodologies such as purposive convenience sampling as illustrated by Patton (1990) and Mouton (2001:57) in the process of data collection in order to reach the objectives of the research design of the study.

5. To provide an empirical application of a conditional grant design as a case study across sectoral Departments in South Africa, i.e. the department of

Education, Health for HIV/AIDS and Social Development - analyzing numeric data within the broader context of intergovernmental transfers. In light of this illustration, more detailed accounts of the constitutional context and the contextual background in which such transfers are allocated are discussed and postulated.

6. To present the findings and identify the government weaknesses and strong points and make conclusions or direct recommendations for future consideration with a view to making the government financial and fiscal systems more effective and efficient in achieving its anticipated objectives.

The following section (section 1.4) dealing with methodological orientation of the study provides an introductory methodological overview in the mapping up of intergovernmental financial and fiscal management in South Africa.

1.4.3 RESEARCH ASSUMPTIONS:

The study is based on the assumption that government overregulation is cumbersome to the efficient delivery of services and should be changed. It generates vertical imbalance (fiscal gap) between the revenue raising ability of sub-national spheres and their expenditure responsibilities. Fiscal inequality, alarming trends of horizontal disparities aligned alongside with lack of government revenue equity across provinces and sub-national spheres are some of the direct serious implications of the institution of cooperative government on the fiscal and financial management system in South Africa. All these, coupled with externality effects of municipal expenditure not being included in the equalization formula, fail to provide correct optimal level of public services with proper incentives across sub-national spheres. It is in light of the above that the following assumptions can be postulated:

"Insights into the precise institutional arrangements that guide public policies and processes on revenue equity between and across provinces and sub-national spheres with respect to budgets, expenditures and policies on the delivery of public services will lead toward more effective and efficient cooperative government in the course of economic development in South Africa".

In reference to the above-mentioned assumption, we will attempt to base our analysis on the premises that reinforce the management arrangements in the total institutional system by asserting and maintaining that: "*Sound financial and fiscal management systems are a key that will lead toward more effective and efficient integrated delivery of services within the framework of cooperative government in the City of Cape Town*".

1.5 METHODOLOGICAL FRAMEWORK

The study as outlined in this discussion provides the reader with the analytical framework, the method of data collection and measuring techniques, the structure of the interview as well as the choice of the study locality. The study employs a qualitative methodology and a collection of statistical data referred to as secondary sources. These sources comprise library books, journal articles, policy documents and newspapers and bulletins to be reviewed. Primary sources are interviews with personnel from the Financial and Fiscal Commission (FFC), provincial and local government as well as member of the general public where applicable. Interviews were conducted with different Directorates under Metropolitan Department of Finance and their managers in the City of Cape Town as well as academics where applicable.

1.5.1 SCOPE AND STUDY LOCALITY

The locality of the study is the City of Cape Town in the Province of the Western Cape. The City of Cape Town is urbanized comprising both formal and informal settlements and townships along the periphery. There are two reasons for choosing Cape Town Metropolitan municipality. First, since the local government elections, Cape Town has engaged in developing its Long Term Strategic Framework, which overshadows its Integrated Development Plan and three year budget framework. Secondly, the City of Cape Town has had a long vibrant civic society presence. Civics and ratepayer organizations have long been engaged in protest actions and collective consumption issues against poverty and ill-oriented social service delivery programs; especially in areas that have been disadvantaged by the apartheid past policy regime. They continue to pay a significant stakeholder role in the current activities of the City, as this study will show.

The section provides an introductory outline to the methodology followed during the recording and collection of data, which included theoretical analysis and assessment as well as an empirical study. The empirical component contained observations and experimentation in the real world based on the basic approach to the field of social sciences and techniques by Mouton (2001: 52), Mouton and Marais (1997), De Wet (1998) and Bailey (1996: 174). The study employed theoretical consideration based on conceptual clarification on key issues in the field of cooperative government with a typically South African financial and fiscal framework. Various challenges have been identified with reference to the practices, legislation and policy that suggested synchronization and synergies in the future study of this kind. In addition, a case has been applies and information gathered fed into interpretation for key findings in close substantive empirical correlation and soundness with key area statements and objectives supported most of the theoretical predilections in the handling of data based on this study. In short the study found that the tax price of services, and the design of grants have statistically significant effects on public expenditures, local revenues generation, and the mix of services provided at the sub-national government spheres. For instance, one of the three types of intergovernmental grants analyzed showed positive and significant implications on total sub-national expenditure for HIV/AIDS in health care, Education as well as Social Development cross-sectoral services.

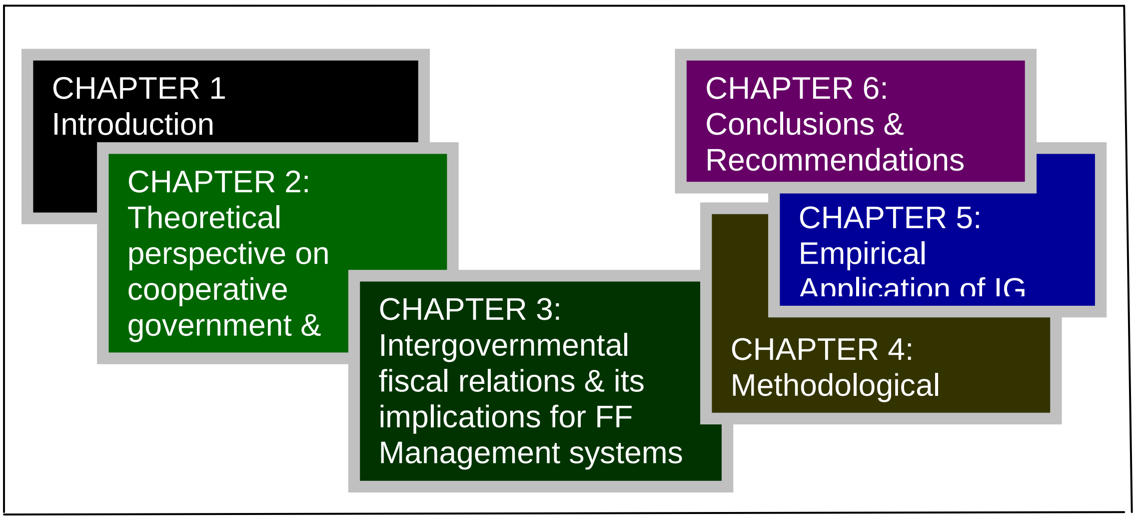
1.5.2 METHODOLOGY LIMITATIONS

However, the study needs extensive research and views of the researcher are that due to the limitation of the methodology used and time constraint in the collection of information, he cannot venture any attempt to generalize the study to the whole South Africa.

1.6 THESIS STRUCTURE AND OUTLINE

The thesis is divided into 6 chapters, Figure 2: below illustrate the structure.

FIGURE 2: SUMMARISED BREAKDOWN OF THE STUDY



The study consists of six chapters. Chapter 1 provides the introduction and background to the study. Chapter 2 provides a discussion of the theoretical perspectives and debates and an overview of the financial and fiscal relations' approach to cooperative government in South Africa. Chapter 3 discusses the intergovernmental fiscal relations system and more specifically the implications for the fiscal and financial management system in South Africa.

Chapter 4 discusses the methodology design and research techniques used to conduct the investigation and analyse the findings. This chapter presented an outline of the study as a whole and the conceptual and methodological framework within which we have attempted to approach the study while striving to present to the reader various components of the topic under study, their interrelation and connectedness. The design of the study attempts to address the problem and aims of the study discussed in section 1.3. In section 1.4 (methodological framework), specific employed methodologies will be discussed.

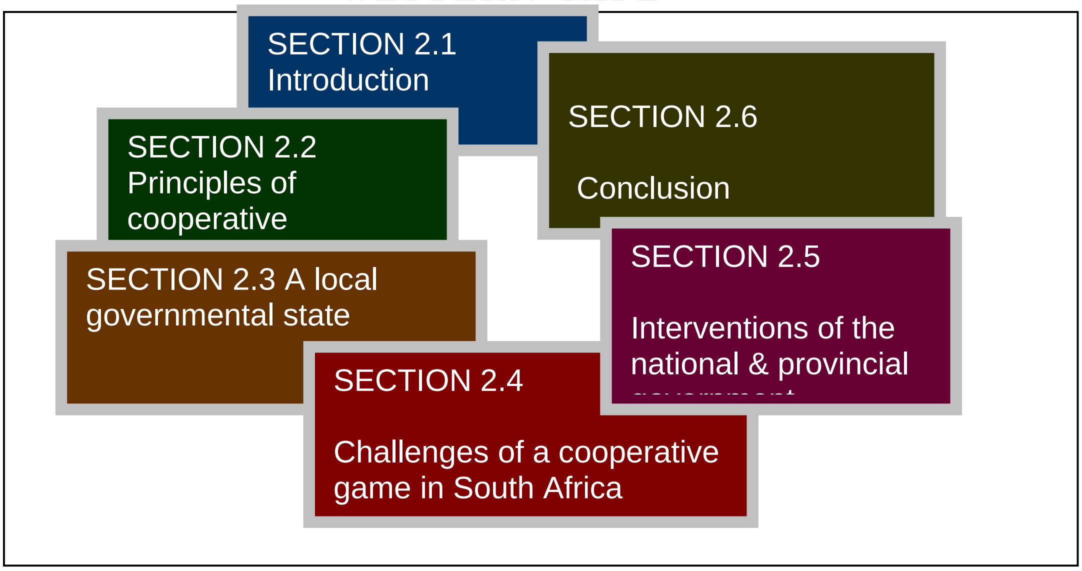
Chapter 5 discusses as the case study the design of the intergovernmental grant system in South Africa. The grant system and the HIV/Aids grants in particular is used to discuss the mechanics and workings of the intergovernmental finance and fiscal relations. And last but not least, in Chapter 6 recommendations are made and concluding remarks provided.

CHAPTER 2: THEORETICAL PERSPECTIVE ON COOPERATIVE GOVERNMENT AND CONSTITUTIONAL AMAENDMENTS IN SOUTH AFRICA

2.1 INTRODUCTION

In the context of the objectives of the study as outlined in the problem statement (section 1.3), the background to the study (section 1.2) as well as the methodological orientation (section 1.4) - this chapter is rooted within the constitutional version that seeks to explore the general framework for intergovernmental relations among the three spheres of government. Nevertheless, difficulties in implementing its provisions as they currently appear have so far suggested amendments to the current constitutional dispensation. The chapter is organized in ten interrelated components as illustrated in Figure 3: below.

FIGURE 3: BREAKDOWN OF CHAPTER 2



It has been remarked that attempted budget reforms and changes in the assignments of functions have resulted in rendering the future of sub-national government difficult and uncertain with far reaching implications for the fiscal relations on the three spheres of government, since IGRs have fundamentally been shaped by the current version of the Constitution (Act 108 of 1996). As already stated earlier, the theoretical framework of the study maintains that government overregulation is cumbersome to the efficient delivery of services and should be changed since it generates a fiscal gap between the revenue raising ability of sub-national spheres and their expenditure responsibilities. A range of experience demonstrates that the National sphere fails to raise revenue efficiently, especially when tax rates are the same across provinces, causing excess dead weights losses in the economy.

In South Africa the Constitution establishes three spheres of government, which are distinctive, interrelated and interdependent. Fiscal relations between tiers of government are determined by the political system and constitutional arrangements between different governments level (Break, 1980). For Musgrave et al (1985) efficient financial arrangements are cornerstones that stimulate service delivery processes in order to ensure that national policy objectives are carried out. They strike at the welfare of citizens through the provision of essential services. Arora (2001: 246) hold that financial matters in intergovernmental relations are the basis of all political structures as no level of government can execute its functions effectively and efficiently without adequate finances. Gildenhuys (1997) concurs with latter view by maintaining that, "…*intergovernmental relations are an important condition for sound financial relations that each government must have sufficient money at its disposal to be able to pay for the costs of the functions being executed by such government level*". A key issue in intergovernmental fiscal relations is the assignment of functions and finances to different levels of government (Fjeldstard, 2001: 144).

This is due to the fact that the right of existence of each government level is justified by rational allocation of functions and revenues (Gildenhuys (1997). Oates (1999) identifies three major functions for the public sector aligning aside with the traditional theory of fiscal federalism, such as macro-economic stabilization, income distribution and resource stabilization. Details of the three major functions have been documented in academic discourse about IGRs and fiscal federalism[6].

Evidence strikes to the fact that grant system (chapter 5, section 5.6) in South Africa, despite improvement in tax collection (chapter 2, section 2.5.2 and chapter 3, section 3.11 and 3.12.3) in the previous financial year and sophisticated budget methods, remains inconsistent and unpredictable. There is no guarantee of how sub-national governments will receive each year. Du Plessis (1971) states that revenue sharing formulas used in intergovernmental system must ensure that funds will be available in the future. For sound financial relations, intergovernmental fiscal arrangements must create a fair amount of security and certainty with regards to the following:

I. Equitable revenue sharing[7] and annual revenue received for such sharing;
II. Allocation of revenue resources by means of which a government own resources for supplying revenue of repetitive nature on a yearly basis is secured;
III. The availability of loans which will secure the supply of capital income for capital formation;

[6] Fiscal federalism is a system whereby fiscal authority that is expenditure and taxation decisions is devolved to subnational governments (provincial and local). This may the result of either constitutional provisions or internal agreements of government.

[7] The Treasury defines the allocation of the national, provincial and local spheres of government as required by the Constitution (National Treasury, 2005: 163). Furthermore, it is the share of funds in the National Revenue Account that sphere of government is entitled to constitutionally. The criteria on which this division is based are listed in Section 214 (2) of the 1996 Constitution. *See Annexure E: Division of Revenue Act.*

IV. The nature and extent of public functions including all legal and other constraints to be considered;

V. The possible intervention of one governmental level in the affairs of another governmental level; and

VI. The prospect for the continued existence of a certain government level or institution (Gildenhuys, 1997).

The financial needs of government vary widely and are always larger than fiscal capacity to pay for them; the need exists to within available means (McKenzie et al, 1985). Allocation of functions to levels of government where they can be best executed must correspond with allocation of revenue sources and most of which, as Mikesell (1995) remarks come with problems. The problems that usually occur with the allocation of revenue sources are the spillover effect, and the vertical and horizontal fiscal inequalities. Those fiscal inequalities are the result of tax system, the presence of externalities as well as vertical and horizontal inequalities (Franzel, 1984). Mikesell (1995) suggests that in order to minimize further problems of fiscal inequalities that result to lack of funds by other levels of government to execute their functions, most government adhere to the two revenue sharing system. Like in South Africa, the two systems of revenue sharing are vertical and horizontal sharing. Horizontal revenue sharing entails the sharing of revenue between governments on the same level, and may be achieved by the redistribution of the tax base amongst various governments at the same level. Vertical revenue sharing[8] on the other hand entails the division of revenue between various government spheres in a country, namely national, provincial or regional and local levels. One level of government, usually central level, imposes taxes and revenue collected for its partial spending by another government level (Gildenhuys, 1997).

[8] Vertical division: The division of revenue between spheres of government.

The assertion by Fjeldstard (2001: 144) holds that "…*a key issue in intergovernmental fiscal relations is the assignment of functions and finances to different levels of government, as a final sum of intergovernmental fiscal relations*.'' The Constitution of South Africa requires the three spheres of government to share nationally collected revenue equally. Provincial and local governments may also receive other allocations called grants from national government either conditionally or unconditionally. In the following section (section 2.2) the principles of cooperative government are highlighted and documented.

2.2 THE PRINCIPLES OF COOPERATIVE GOVERNMENT

Conventional wisdom on decentralization is generally centered on the right balance between the principle of autonomy and supervision in order to create a system of decentralization susceptible to address developmental challenges[9] in the lives of the constituencies and the countries supporting their democratic mandate. In chapter 3 of the Constitution of South Africa, provision is given to the spheres of government to put national interest at the forefront through cooperating with each other and avoidance of unhealthy competition over political and economic resources of the country. The way the principle of cooperative government is spelt out in the Constitution of South Africa gives suspicion on the fact that it is binding on all three spheres of government, including organs of the state in the conduct of their activities. The principles for cooperative government and intergovernmental relations are found in section 41 (1) of the Constitution which states that all spheres of government and all organs of state within each sphere must:

[9] For the purpose of good understanding around the issues at local level, development here is referred to as a mechanism that has three processes: - Satisfaction of material needs, -- Enhancement of choice, - Equitable distribution of wealth, thus putting people at the center of every development planning processes and schemes.

(a) Preserve peace, national unity and indivisibility of the Republic; (b) secure the well-being of the people of South Africa; (c) provide effective, transparent, accountable and coherent government for the republic as a whole; be loyal to the constitution, the Republic and its people; (e) respect the constitutional status, institution, powers and functions of government in the other spheres; (f) not assume any power or function except those conferred on them in terms of the Constitution; exercise their powers and perform their functions in a manner that does not encroach on the geographical, functional or institutional integrity of government in another sphere; and Co-operate with one another in mutual trust and good faith by: - (i) fostering friendly relations; (ii) assisting and supporting one another on matters of common interests; (iii) informing one another and consulting one another on matters of common interests; (iv) coordinating their actions and legislation with one another; (v) adhering to agreed procedure; and (vi) avoiding legal proceedings against one another.

One of the critical and controversial issues contained in the Constitution of South Africa and that seems to have gone beyond the classical quest for balancing autonomy and supervision is the fact that Section 41 (1) is the epitome of themes, provisions and mechanisms that cannot be categorized as 'autonomy' or 'supervision' per se. This is for example seen in section 41 (1) (h) above, where the Constitution entrusts all spheres of government, including local government to cooperate with one another in mutual trust and good faith… by coordinating their actions and legislation with one another. Nevertheless, it is not clear whether this supervision refers to the question of one sphere supervising the other or it is an example of assertion of autonomy (De Visser, 2005: 209).

2.3 A LOCAL DEVELOPMENTAL STATE

The transfer of power and autonomy to local government is a new development in South Africa. The new vision of local government encapsulates far more than its previous role, as a regulator and service provider. The Constitution confers upon local government developmental duties spelling out priority to the basic needs of the community to promote social and economic development. Local government has an encompassing role of promoting civic, political, social and economic justice and the institutionalization of democratic practice. Thus, the performance of local government is therefore, seen as the genesis for promoting regional and national development.

The Constitution (Act No. 108 of 1996: 81), calls for a robust local government system, which can be able to provide, key government priorities, i.e., democratic and accountable government for local people; ensure the provision of services to communities in a sustainable manner; promote social and economic development; promote a safe and healthy living environment; and encourage the involvement of communities and community organizations in the matters of local government. Taking cognisance, as a matter of fact, of the new role of local government as a developmental local government, and referring to the large-scale grassroots linkages and infrastructure investment, Moosa as quoted in the White Paper on Local Government (1997: 1) raises a fundamental question:

> "*Local government is at the heart of development in South Africa. Through its grassroots linkages, infrastructure investment programs, local economic development strategies, partnership with the private sector and integrated development plans; local government is the public service agency best able to have a direct and enduring impact on the lives of its citizens. The Constitution and local government legislation give*

> *municipalities significant powers to meet these challenges, but these powers mean nothing without the capacity and resource to implement them*".

It is obvious that the instrument toward meeting the goals of development local government enshrined in Chapter 2 of the Constitution will be a myth without a strong financial and fiscal management system. This encapsulates a strategic plan on how to raise revenue nationally and the recommendations as on how this revenue might be shared between and across spheres of government, in order to implement these priorities and meet the goals provided in Chapter 2 of the Constitution. It is in this regard that the Constitution requires that an Act of Parliament should prescribe the division of nationally raised revenue between national, provincial and local government. The DORA (as it is referred to), must take into account recommendations from the Financial and Fiscal Commission (FFC)[10], and criteria stipulated in sub-section 214 (2) of the Constitution. Within the framework of these requirements, the Annual Division of Revenue Bill is the outcome of government's policy deliberations on expenditure priorities for the period ahead (National Treasury, 2005: 126). This is discussed in chapter 3 of the study.

2.4 CHALLENGES OF COOPERATIVE GOVERNANCE IN SOUTH AFRICA

The primary aim of this section is to provide an overview of the way, in which cooperation has been incorporated in the South African institutional design as a contributory factor to the formulation of an institutional principle necessary to make a success out of any decentralized form of governance. The second aim underpins the way in which, the principle of cooperative government (as already discussed in section 2.2 above) has been given effect in the South African

[10] An Independent body established by Chapter 9 of the 1996 Constitution to make recommendations to Parliament and Provincial legislatures about financial issues affecting the three spheres of government (Treasury, 2005: 163).

constitutional dispensation within the scope of a decentralized three-tier system of government.

The third aim highlights the challenges and implications of such constitutional amendments to thwart or disrupt the very autonomy in other spheres of government conferred in terms of the Constitution - thus contributing to a great extent with redundant contradictions, a slow pace in delivery causing a death-knell in the distribution of goods and services to the poor. The main question here now, is whether the South African Constitution provides room for an agreed normative framework for Cooperative governance in which mutual respect and recognition are key aspects. Nevertheless, lessons of experience show that the constitutional court has given the certification judgment of merit in terms of the principle guiding intergovernmental relations and cooperative governance in South Africa:

> *"[I]ntergovernmental cooperation is implicit in any system where powers have been allocated concurrently to different levels of government and is consistent with the requirement […] that national unity be organized and promoted*" (In Re: 1996 (10).

In chapter 3 of the Constitution of South Africa, provision has been made for a conceptual framework in terms of 'cooperative government', which underlines the principles of cooperative government and intergovernmental relations. It defines the nature of the three spheres as it is constituted as national, provincial, and local spheres of government which are 'distinctive, interdependent and interrelated' (Republic of South Africa (Act No. 108 of 1996: 25 (1)). In section 40 (2) the Constitution instructs the three spheres of government to adhere to the principles that are provided therein, i.e., the attempt to conduct their activities within the parameters provided in the chapter in terms of the Constitution.

The study of concurrency management between provincial and national government is highlighted as a facilitating benchmark that sets up comprehensive guidelines and conceptual framework that includes local government as one of the three partners of the common good in the public sector. Scholars and academics have interpreted the ‘distinctiveness’ component to refer to the autonomy that each sphere of government enjoys (Steytler, 2002a: 2). The fact that the spheres are ‘interdependent’ means that the exercise of autonomy by any sphere is supervised by the other spheres of government and the degree of ‘interrelatedness’ to the others points to the fact that each sphere should exercise its autonomy to the common good possible of the country as a whole, by cooperating with the other spheres (Steytler, 2002a: op cit).

Section 40 (1) of the Constitution of South Africa states that South Africa is constituted as national, provincial and local spheres of government which are, “…distinctive, interdependent and interrelated”(Murray, 2001: 66). The treatment and powers in the last Constitution is seen to promote or sanction an integrated system of government in which both national and provincial governments are deeply implicated in each others’ functioning (Haysom, 2001: 43). The degree of exclusivity or concurrency (chapter 2, section 2.2) being given precedence over certain matters of national interest rise critical questions about the degree of autonomy to local spheres; whose principles, mechanism, processes and modus operandi are either spelled out or predetermined by legislative framework in terms of the Constitution (White Paper on Local Government, 1998: 6). The sensitivity given in section 41(1), states that “…*all spheres of government and all organs of state within each sphere must preserve peace, national unity and indivisibility of the Republic”*, etc. It should exercise the power without encroaching on the geographical, functional and institutional integrity of government in another sphere; and should co-operate with one another in mutual trust and good faith by fostering friendly relations, assisting and supporting or informing one another on mattes of common interests (Republic of South Africa, Act 108 of 1996: 25). By establishing a tripartite form of government, the Constitution imparts a legal platform of social interaction by stimulating the ethos of intergovernmental relations to take place. These powers, which are allocated to provinces are either exclusive or concurrent and are listed in Schedule 4 & 5 of the Constitution (Act 108 of 1996: 148-151); which include matters that are usually not considered to be of national importance or potential implications (Murray, 2001: 69). South Africa has two types of responsibilities allocated between the three spheres in terms of the Constitution. These are either concurrent or exclusive. Absolute powers underpin absolute responsibilities over those that are assigned to a particular sphere to have absolute control over those that are executed with the sole hope in mind, to achieve public good for all.

The fact that section 44 (2) states that Parliament may legislate on schedule 5 matters "…*when it is necessary (a) to maintain national security; (b) to maintain economic unity; (c) to maintain essential national standards; (d) to establish minimum standards required for the rendering of services; or (e) to prevent unreasonable action taken by a province which is prejudicial to the interests of another province or to the country as a whole*" (Murray, 2001: 69). Schedule 4 is concerned about concurrent responsibilities to refer to share powers between two or more spheres of government. This encapsulates the matters on which both the national and provincial spheres of government make laws. This list includes important matters of basic foundation for reconstruction and development of any country, situated at the bottom of Abraham Maslow's hierarchy of needs, such as education, medical attention, housing as well as social welfare (Murray, op. cit). In order to meet the requirement of a local developmental state, which is based on the idea of service delivery to the people, the government through the Division of Revenue[11] (DORA) entitles funds to different spheres through equitable share

[11] Allocation of funds between the spheres of government, as required by the Constitution.

raised nationally. The Constitution besides gives provisions to sub-national governments of other allocation from national government revenue, either conditionally or unconditionally[12]. The Constitution describes South Africa as "…*a state of law, independent, sovereign, one and indivisible, social and democratic state*" (Act 108 of 1996: S1); and to the heavy concentration of power in the national sphere (Murray, 2001: 68). All law-making power in South Africa is vested in national legislature unless it has been expressly granted to provincial or local government (Act 108 of 1996: S43). This feature leads many scholars and analysts to start questioning the constitutionality of the autonomy given to different spheres of government to whether South Africa is strong-centered unitary system or a semi-federal state or both.

Intergovernmental Relations has become a more technical regulatory instrument that needs a wide range of experience and skills in the delivery process, in light of the Intergovernmental Fiscal Relations Act (Act No. 97 of 1997), which reinforces section 214 of the Constitution. It promotes cooperative government on fiscal, budgetary and financial matters and prescribes the process for the determination of the equitable share and allocation of revenue (chapter 2, section 2.5.2) raised nationally. It establishes the Budget Council and Budget Forum – the consultative intergovernmental forums for the budget and fiscal management process. This is seen in section 9 and 10 (4) of the Act (Act No. 108 of 1996), which sets out the consultation process to be followed with the Financial and Fiscal Commission (FFC), including the process of considering recommendations made with regard to the equitable division of nationally raised revenue (National Treasury, 2005: 225).

[12] The discussion on Equitable share, conditional or unconditional grants, direct or indirect, cash or in kind grants as well as that on municipal financial and fiscal management systems of South Africa will be discussed later on.

Good financial governance in fiscal and financial affairs of municipalities and municipal entities extends the scope that encapsulates sound financial responsibilities in ensuring transparency, accountability and appropriate lines of responsibility in the fiscal and financial affairs of municipalities and municipal entities; the management of their revenues, expenditures, assets and liabilities and the handling of their financial dealings; budgetary and financial planning processes and the co-ordination of those processes with the processes of organs of state in other spheres of government; borrowing; the handling of financial problems in municipalities; other financial matters (Budget Review, 2003: 117).

The above underlined issues are very pertinent to any system of intergovernmental relations operating within the framework of a unitary mechanism of decentralization. In order to understand the pertinence of such issues and actual challenges to cooperative government in South Africa, it is necessary to capture the conditions in which the South African government of national unity acquired its negotiated freedom, the origins of a system of cooperative government and its institutionalization in the Interim Constitution and the cost of such a negotiated freedom. The next section stimulates the discussion along this line.

2.4.1 THE ORIGINS OF COOPERATIVE GOVERNMENT

The Constitution of South Africa recognizes the separation of powers between three spheres in terms of national, provincial and local spheres of government. Section 40 (1) asserts that the three spheres of government are distinctive, interdependent and interrelated. The degree of intergovernmental relations' distinctiveness refers primarily to the constitutional allocation of powers to each sphere on one hand. On the other, however the principle of interconnectedness and interdependence refers to the exercise of the role of supervision for the autonomy exercised by one sphere in order to avoid tensions and is pursued by the common good of the country (White Paper on Local Government, 1998: 7). The principle of autonomy is critical and paramount to every decentralized[13] government since it ensures that local spheres[14] of government fully exploit their potential in order to respond to the challenges felt by the degree of responsiveness to people's needs. This section discusses the origins of cooperative government in South Africa and provides a short illustration on its key principles spelt out in terms of the Constitution.

The final Constitution is constituted in part, of such responsibilities whose inherent features mirror the particular nature to the elaboration of a system of 'cooperative government' (Hayson, 2001: 44). Following the federalist debate that was prevalent at the dawn of South Africa's negotiation in 1990, it was obvious that a broad consensus began to gain momentum on the most difficult issues pertaining to the agenda of the constitutional process. One of the most intractable issues concerned the question of autonomy and the functions to the provincial governments thereof. Many argued that federalism[15] would be a vehicle for the promotion of secessionist and insurrectionary forces (Haysom, 2001: ibid), while others advocated for it in terms of the promotion of accountability and democracy, especially since it allowed the emergence of diversity and difference.

[13] Jaap de Visser for this cause distinguishes three sub-principles of autonomy, namely 'local autonomy, functional powers and financial autonomy.

[14] A developmental local government and the degree of its interrelation with regards to the ethos of decentralization gives rise to the following predicament, i.e., what should those states that are apprehensive about the idea of equipping local governments with the necessary skills and resources in order to achieve development do? In the attempt ton respond to theses questions, three institutional principles emerged from the authors' mind: autonomy, supervision and developmental local government as an institutional design in South Africa in line with the dispensation of decentralization as one of the good factors for development.

[15] During the entire period of constitutional negotiation, February 1990 to March 1994, the country was racked by violence, particularly in KwaZulu Natal where an estimated toll of 10 000 people died in political conflict, chiefly between supporters of ANC, the Congress of South African Trade Union (COSATU), United Democratic Front Alliance on the one hand, and supporters of the Inkata Freedom Party (IFP) on the other. Much of the opposition of the ANC both within ad without the constitutional deliberations took the form of demands for the autonomy of KwaZulu Natal.

African National Congress (ANC) and Pan Africanist Congress of Azania (PAC) on the one hand, were concerned with the transformation of institutions and patterns of privileges and power in South Africa by supporting strongly a unitary state. On the other hand, however National Party (NP) lined up with the Freedom Front (FF), the Democratic Party (DP) and the Inkata Freedom Party (IFP) in favor of a maximum devolution of responsibilities coupled with the greatest degree of autonomy of provincial governments (Hayson, op cit). With the insurrectionary forces and the death toll that took place in KwaZulu Natal, "federalism" became an escape-goat to blame and lodge complaints at the doorsteps of the autochthon province as murderers, as much more as a hindrance than a help. Haysom 92001: 45) adds:

"The first breakthrough in the federal debate began to emerge with a conceptual approach to national and provincial powers which can best be seen in the distinctively South African formulation on 'concurrent' legislative and executive powers. This understanding of concurrent powers finds expression in both the Interim and the Final Constitution of the land".

2.4.2 CONSTITUTIONAL PROVISIONS AND POLITICAL CHANGE

The framers of the new Constitution held a unity of vision for the reconstruction and development of South Africa. For this, Constitutions worldwide have always been seen as a map that spells out procedural and administrative justice in order to achieve substantive equality among the population; or like a torch that illumines the dark curtain of an obscure labyrinth of bewildered and impoverished masses. Cooperative government is an integral and necessary part of all successful systems of government in the world. It is asserted that effective intergovernmental relations are critical to any Constitution having multi-faceted spheres or multi-level system of government, to work properly (Murray, 2001:

66); and South Africa is no exception. This section discusses the constitutional context of cooperative government in South Africa, and its implications for political change.

Section 1 of the Constitution describes South Africa as "…*a state of law, independent, sovereign, one and indivisible, social and democratic state*" (Act No. 108 of 1996: S1); and to the heavy concentration of power in the national sphere (Murray, 2001: 68). It is obvious that all law-making power in South Africa is vested in national legislature unless it has been expressly granted to provincial or local government in terms of the Constitution (Act No. 108 of 1996: S43), bicamerally composed of National Assembly and National Council of Provinces. This is an index that distinguishes South Africa from, for example, the United States of America. With regard to the IGR system of USA, only those powers the states think the federal government should have were conceded at the early stage of the single country formation; and all the remaining power remained within the discretion of autonomous states (Murray, 2001: 68). Canada has separate lists of federal and provincial powers (Murray, op cit).

By identifying and making provision for the other spheres of government as autonomous structures that enjoy their free administration and autonomous management of their economic, human financial and technological resources; the Constitution of South Africa has given a legal framework intended to secure the division of powers or functions among different levels. Two aspects of the system of dividing powers are however, commonly included in a Constitution – first, the determination and actual allocation of different functions and; secondly, processes that determine important aspects of the relationships between the spheres, including the role that sub-national units play in national elections or national law-making. This shows how the paradigm of cooperative government has become a more technical regulatory instrument with a wide range of experience on delivery, in light of the Intergovernmental Fiscal Relations Act (Act No. 97 of 1997), which reinforces section 214 of the Constitution. It promotes cooperative governance on fiscal, budgetary and financial matters and prescribes the process for the determination of the equitable sharing and allocation of revenue raised nationally. It establishes the Budget Council and Budget Forum – the consultative intergovernmental forums for the budget and fiscal management process. This is seen in section S9 and S10 (4) of the Act, which sets out the consultation process to be followed with the Financial and Fiscal Commission (FFC), including the process of considering recommendations made with regard to the equitable division of nationally raised revenue (National Treasury, 2005: 225).

2.4.3 INTERVENTIONS OF THE NATIONAL AND PROVINCIAL GOVERNMENTS

Section 100 of the Constitution provides for the intervention of the national executive in provinces and municipalities in case they are not able to fulfill an obligation in terms of legislation. In this case, section 155 is amended to add subsection 8 to support the provision of section 100. It allows national legislation to provide for the exercise of executive and legislative authority on behalf of the municipal council when the council cannot function or to resolve serious and persistent financial emergencies in the municipality (Department of Provincial and Local government, 2001: 4). In order to fulfill the obligations of the relevant sphere of government, the national executive can issue a directive to the provincial executive or the municipality describing the extent of failure and stating any steps required to meets its obligations. The national executive can assume the responsibility for the relevant obligation in the province or municipality. Section 139 provides for provincial intervention if the municipality fails to fulfill its obligations in terms of legislation or the Constitution (Act No. 108 of 1996:76).

The effect of the two sections is to allow the national executive to intervene directly in municipal affairs if the municipality fails to fulfill its obligations. This calls for coordination between the actions of the provincial and national executives. Subsection 3 (b) of Section 100 requires national legislation that regulates the national executive intervention process to be co-ordinated with its counterpart at the provincial level. This does not provide for any ground in suggesting a direction toward resolving any disputes relate to timing of intervention between the provincial and national executive. The Constitutional Court has made it clear in its First Certification-judgement (para. 264) that this discretion should be exercised in terms of the general principles of intergovernmental and cooperative government, spelled out in section 41 (1) of the Constitution, i.e., all levels of government , among others, "…*should respect the constitutional status, institutions, powers and functions of government in the other spheres of government and exercise their powers and functions in a manner that does not encroach on the geographical, functional or institutional integrity of government in another sphere*" (Department of Provincial and Local Government, 2001:4).

2.5 SUMMARY

In summary, evidence shows that the amendment of the constitutional framework has direct implications to bear on a holistic change and transformation within the whole set up of financial and fiscal management systems in South Africa. Financial and fiscal management systems in South Africa encapsulates this fact, especially with regard to constitutional change in terms of section 100 and 139, i.e., provisions have been provided for intervention by National and Provincial spheres of government in the affairs of sub-national governments. This experience raises highly critical implications for municipalities in case they fail to fulfill their obligations. The failure calls for a point of coordination and alignment between the actions of the provincial and the national executive. As in so many cases, especially with reference to tax cohabitation, the existence of vertical externalities due to tax overlapping and their associated costs suggests that the allocations of tax powers should be based on efficiency grounds rather than on political identity of the various spheres of government. To this end, a range of experience demonstrates the situation where the National sphere fails to raise revenue efficiently, especially when tax rates are the same across provinces without causing excess dead weights losses in the economy. Given this context, the implication of the strategic conclusion from this situation is that revenue sharing arrangements may be efficient ways of raising government's revenue.

It can be expected that the study of cooperative government is deeply rooted within the contextual framework of financial management, fiscal management systems and intergovernmental relations among the three spheres of government. As a corollary, it follows that difficulties in implementing its provisions as they currently appear have so far suggested amendments to the current constitutional dispensation. The discussion on the theory of cooperative government as outlined in this chapter has an abundant and rich background since the advent of the country to democracy in 1994 following the interim intergovernmental fiscal relations between spheres of government, across organs of state and sectoral entities. Attempting to bring all these diversified government bodies within the framework of alignment and coordination in such a way that brings about synergies, efficiency and effectiveness to the financial and fiscal management systems is, in fact a challenge that institutional arrangement within the whole government body will need to capture as a question of interest.

Intergovernmental relations take various forms. These goals amount from the government's effort to equalise the revenue share based on formula (vertical split after top slicing) to horizontal mechanisms of financing sub-national spheres using transfers and grants (section 3 and 5). In so doing, the government is committed to the distribution of income to the people through three main social sectors such as education, health care and social welfare as well as transport in order to alleviate poverty in the country. The difficulty arise due to the fact that certain municipalities, given the fact that they earmarked as focal points for government delivery and implementation, lack or do not have the same fiscal base and capacity to raise the funds compared to others in order to address these issues and reach a certain degree of autonomy, due to divergent geographical conditions as swell as socio-economic orientation. Critics rise on the degree of municipal financial and fiscal autonomy with regard to the interference of government to intervene earlier or latter in the affairs of municipalities through transfers or oversight (De Visser, 2005). For this reason, an Act of Parliament has been enacted to take into account recommendations from the FFC, and criteria stipulated in subsection 214 (2) of the constitution with the view to ensure a sanctioning procedure to the non-appliance in terms of the law.

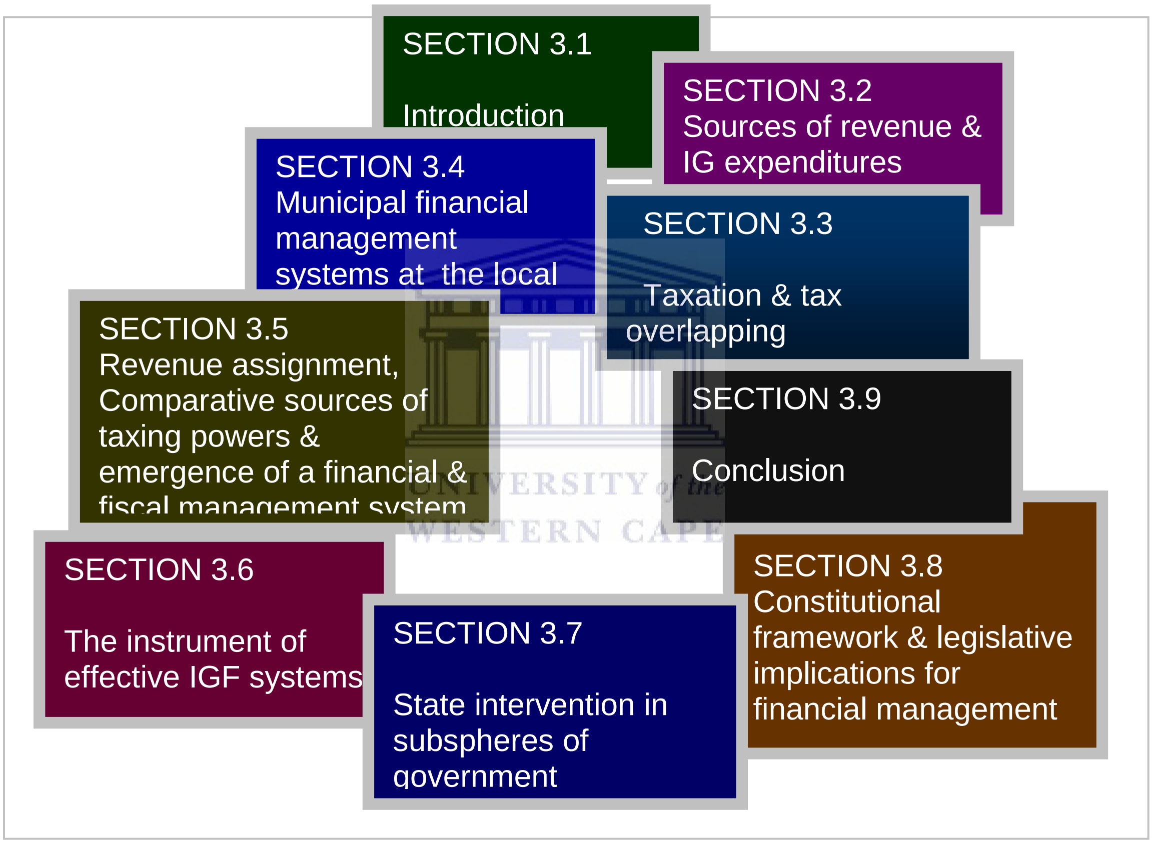
Section 227 (2) of the Constitution states that the revenue sub-national spheres raise cannot e deducted from their share of nationally raised revenue, but evidence show that the national government does deduct other funds local government is receiving from national government, including conditional grants for capital or operating expenditure. Within the framework of financial and fiscal management systems, the MTEF across ministries has been put into place with the view to bring cooperation, enhance financial stability and fiscal feasibility, encourage investment and make the program evaluation of cooperative system easier.

CHAPTER 3: INTERGOVERNMENTAL FISCAL RELATIONS AND THEIR IMPLICATIONS FOR FISCAL AND FINANCIAL MANAGEMENT SYSTEMS IN SOUTH AFRICA

3.1 INTRODUCTION

In the context of the objectives of the study as depicted in the introductory chapter, associated to the study of key selected concepts in the field of financial and fiscal management within the broader context of cooperative government in South Africa, the discussion outlined in this chapter endeavors to establish an overview of conceptual constitutional amendment and its implications for the financial and fiscal relations. Attention will be given to section 77 and 120 of the Constitution that have been amended to provide for the recognition of bills that offer exemptions from any national taxes as money bills. As the paper will show, this recognition has serious implications for financial management and the presentation of budgets across the three spheres of government. Further more it has the meaning that any exemptions from taxes should be reflected as income in the budget of the sphere of government receiving an exemption. By the same token, the sphere of government granting an exemption should consider it as an expense. This chapter is organized in five sections. Section 3.1 gives an introductory outline to the study backed up by an overview highlighting the sources of revenue and intergovernmental expenditures (section 3.2); taxation and tax overlapping (section 3.3) is also explained in light of a fiscal management system within a decentralized dispensation and has been followed by municipal and fiscal management systems at the local level of government (section 3.4). Section 3.5 deals with comparative sources taxing powers and the emergence of a financial and fiscal system in South Africa and underpins the instrument of effective intergovernmental fiscal system (section 3.6). State intervention in subspheres of government (section 3.7) has been highlighted followed by the constitutional framework and legislative implications for financial management (section 3.8). At last, the conclusion to the chapter (section 3.9) has been postulated. This is illustrated in the following Figure, Figure 4. below:

FIGURE 4 : BREAKDOWN OF CHAPTER 3



As with the above discussion on the framework of financial and fiscal management systems where the MTEF across ministries has been put into place with the view to bringing cooperation, enhance financial stability and fiscal feasibility, encourage investment and make the program evaluation of cooperative system easier. In all the spheres of government, there are two important effects that the amendment of the two sections mentioned above have.

First of all, the costs of delivering services to be reflected in full (Lee et al, 1997: 22), and this will allow decision-making and transparency in the public sector. Secondly, the amendment intends to pave a way for the introduction of reverse revenue sharing arrangements, i. e., in case the municipal government grants the property tax exemption to a building that is owned by either the national or the provincial government, such an exemption will be recorded as income on the side of the relevant government. In this way, the amendment makes reverse revenue sharing arrangements a plausible idea in South African fiscal system.

3.2 SOURCES OF REVENUE AND GOVERNMENT EXPENDITURES

It is observed in South Africa that most of the revenue or taxes available to the government is collected by the national government and paid into the National Revenue Fund (Republic of South Africa, Act No. 108 of 1996: S213,) from whence it is allocated equitably to National, Provincial and Local spheres of government (Republic of South Africa, Act No. 108 of 1996: S214 (1) (a, b, c), Act No. 108 of 1996; FFC, 2002: 36). Significant changes to the volumes of the National Revenue Fund are likely to have positive or negative impacts on the factors listed in S214 (2) a-j. In this regard, sections 228 and 229 of the Constitution play a very important role in empowering on one hand, sub-national governments with regard to the revenue collection pattern through the imposition of specific taxes, levies and duties for specific public goods and services (Lee et al, 1977: 38), but prohibit them from imposing Income Taxes, customs duties and Value Added Tax[16] (VAT) (FFC, 2006: 152). The assignment of function on the

[16] Income Taxes, customs duties and Value Added Tax[16] (VAT) are functional areas of exclusive national legislative competence, which account for a large percentage of total revenue collected at national level. . This implies that those functions that are not included in the schedules and that fall under the national government are areas of exclusive national government legislative competence. Examples of those account for defence and the ministry of foreign affairs.

other hand, is outlined in schedule 4[17] and 5[18] of the constitution. Part B of both schedules includes local government matters over which the two spheres of government have legislative competence. By the same token, areas that fall under local government but are not listed in either of the two schedules are areas of exclusive local government legislative competence. Examples of these are functions such as passing municipal budget. Tax structure always has been and always will be a greatly debated topic. The crux of the problems to devise a tax system that is equitable, though equity can only be judged by the values imposed by the beholder. Lee et al (1997: 38) lists two different types of equity principles. For him the first principle is the 'ability to pay that involves matters of horizontal and vertical equity'. Horizontal equity refers to the equal treatment of equals, i.e., persons of identical economic status would pay identical taxes, while vertical equity is the fact of treatment for unequal unequally and this second principle refers to the benefits attempting to relate revenue to expenditures(Lee et al, 1997).

3.2.1 IGFRs AT THE NATIONAL LEVEL OF GOVERNMENT

As already stated above, Income taxes, corporate taxes, taxes on payroll, taxes on property as well as domestic taxes on goods and services, including Value Added Taxes (VAT) constitute the main revenue source for national government. Most of the revenue that government receives is spent as transfers to the provincial sphere of government[19]. This largely finances concurrent functions of the two spheres such as education, social services, housing, public transport and

[17] Schedule 4 contains functional areas of concurrent national and provincial legislative competence.
[18] Schedule 5 outlines functional areas of exclusive provincial legislative competence.
[19] Provincial governments are primarily tasked with social services as well as roads and regional economic planning and development, but education, health and welfare services - the three most expensive items in the country's whole budget are functions shared by the national and provincial government, but their delivery rests with the province. Local governments deliver basic services including water, electricity and refuse collection.

health. While Section 214, Part (1) of the Constitution stipulates that an Act of Parliament must provide for the Division of Revenue (DoR) raised nationally among national, provincial and local spheres of government, the methodology to be used in determining the equitable shares is not mentioned in the Constitution (FFC, 2002: 64). When we look at the number of functions in both schedules and their share of total government expenditure, it is clear to assert that the provincial sphere has been assigned more functions than it has powers to raise revenue, and this is one of the factors that constitutes a challenge within the framework of cooperative government management (Petersen et al, 1993: 156) in South Africa. Section 214 of the Constitution is cognisant of this situation and introduces revenue sharing arrangements between the three spheres of government. This includes both vertical[20] and horizontal division of revenue.

It is important to note that before the vertical split is conducted, the national government conducts a process called 'top slicing', which involves the subtracting of the debt service costs and contingency reserves from total revenue before it is divided across the three spheres of government (Budget Review, 1999: 7). This amount is sliced of the top so that it remains available to all three spheres of government. The top slice goes to pay for four items, i.e., *Debt service cost* – the interests the government pays on its loans; *Contingency reserves* – the pot of money government sets aside for anticipated needs or national emergencies; *Skills development*[21] – the levy collected from private sector employers for a fund for training and skills development for personnel; *Donor-financed spending* – money from foreign donors to specific projects and thus not part of revenue available to be shared. The remainder after top slicing is revenue

[20] Vertical division of revenue is a political process and does not use a formula.
[21] Skills development and donor-financed spending are new additions to the national revenue fund but do not create an increase in the total amount taken off the top slice for debt servicing. The skill development scheme is entirely funded by the private sector, and the donor-financed spending category was created to provide greater information and transparency. This money was previously spent, but not reflected in the budget.

available for division for the three spheres[22] of government. The horizontal division of revenue uses formulae for both provincial and local spheres of government (FFC, 2004: 120). This is shown in the figure below. In many cases, local authorities either lack access to broad-based tax bases or are unable to generate sufficient revenues to meet the costs of providing mandated public services. Section 18 (1) of the Public Finance Management Act (PFMA) requires Provincial Treasuries to promote and reinforce transparency and effective management, including that of the provincial departments as well as provincial public entities (FFC, 2004: 152).

As a matter of conclusion, it is clear to argue that the proposed revenue sharing formula is based on the principle of equity, namely that the comparable jurisdictions within a country should provide comparable levels of goods at similar levels of taxation (Abedian et al, 1997: 65). Funds appropriated to national government priorities as equitable share are used mainly for functions that are exclusive to national government such as Defence and police, prisons, justice, finance, trade and industry, labour and international relations as well as concurrent functions as listed in the schedule 4 of the constitution. As a consequence, there has been many debates over what the equitable share of each sphere of government should be, and a formulaic approach to split available revenue has subsequently been adopted (FFC, 2002: 64). See Figure 2.2 on page 50 for detailed clarifications.

[22] The rationale for unconditional transfers to local governments is based on the principle of attaining vertical and horizontal equity while ensuring that the transfer system is able to cater for interjuridictional externalities as well as correcting for administrative weaknesses. For more information, read the research reports of the Financial and Fiscal Commission for the Division of Revenue 2007/08 by Jaya Josie, Bongani Khumalo and Tania Ajam.

3.2.2 IGFRs AT THE PROVINCIAL LEVEL OF GOVERNMENT

The equitable share for the provinces is another key budgeting principle in the constitution. Sections 214 and 227 state that each province is entitled to an equitable share of revenue raised nationally. The underlying reason for the purpose of the equitable share is to provide provinces with resources to uphold national standards in providing those services that are the concurrent responsibility of national and provincial governments. On paper provinces still retain some independence in setting their own budgets and determining how their equitable share is spent, in practice however, much of the provinces' funds are tied up in fulfilling National Executive mandates or upholding contractual obligations.

The total funds transferred to the provinces from the national government take three forms: the equitable share[23] (unconditional allocation) delivered as a block grant constitutes about 55.8% of total revenue available for division. Conditional grants[24] occupy about 10% of total transfers to the provincial sphere of

[23] Equitable share is the most important intergovernmental transfer that a municipal government is entitled, to be used to assist municipalities in providing basic needs and meet the government mandate as stipulated in the Bills of Rights, chapter 2 of the constitution. Historically, the DPLG provides equitable share through "funding windows", i.e., and different funding purposes using different criteria. This will be discussed later in this chapter.

[24] Grants build down to three distinctions, i.e., they can be conditional or unconditional, direct or indirect, cash or in kind. Conditional grants are used to direct the spending of grants in receiving municipalities. These are allocated according to specific needs such as the availability of academic hospitals, the need to modernize financial management practices, etc. Theses conditional grants are earmarked to be spent to specific functions, these are areas where national government functions are shared by provincial governments, or require cooperation and empowerment of provincial authorities for their delivery. Unconditional grants are allocated under limited conditions relating to the transfer, in this regard only equitable share is unconditional. Direct grants flow directly from transferring departments to the municipality, while unconditional grant flow via intermediary, such as provincial departments. A grant is described to be in kind when the transferring department directly administers it. It is said to be in cash when the money is transferred by the receiving municipality. To illustrate the terminology, by the way of an example the water service operating subsidy is an indirect grant used to fund 300 water schemes. Before the schemes are transferred, this is a grant-in kind since the schemes are under DWAF

government (National Treasury, 2002: 157) and agency payments. In this regard, provinces get more than national government in terms of transfers, and shows out the degree of fiscal inequities that the current intergovernmental fiscal framework has introduced in South Africa. This is highlighted in chapter 5 dealing a case study within the framework of an empirical application of conditional grants in South Africa.

There are nine provinces in the country and the amount of each province's equitable share is computed using an objective, technical formula that aims to take into account the size and demographics of its population, the relative size of its rural communities and the poverty level of the province. The formula relies on the official statistics of Statistics South Africa (formally CSS), but also utilizes data from the department of health and education.

For the time being, the formula has seven components with the following weighing given to each factor:

- Education Share (41%): this component is determined based on both the size of the school-age population between 6 and 17 years in the province and the total number of students enrolled in public schools. School-age children receive twice the weighing as the number simply enrolled.

- Health Share (19%): regarding the fact that all citizens are eligible for public health services, this share is based on the proportion of the population without access to medical aid being given much more attention than the number of people who have private medical aid.

(department of water and forestry) control. After the transfer, the grant will be ultimately be phased into equitable share and treated as unconditional.

- Social security or welfare Share (18%): this share covers social security grants[25] based on the estimated number of people entitled to social security including the elderly, disabled and children weighed by the poverty index from Income and Expenditure Survey.

- *Basic Population weighing (7%):* derived from each province’s share of the total population of the country.

- *Backlog component (3%):* the backlog component is divided between provinces based on the distribution of capital needs as registered in the schools registers of needs, the audit of hospital facilities and the share of the rural population in the country.

- *Economic output component (7%):* this component of the formula recognises that some expenditure are due to the province’s economic activity, and not just the size of the population, such as the maintenance of roads. Currently provinces have different limited taxing power. This part of the formula attempts to compensate wealthier provinces that are disproportionally affected by this limitation.

- *Institutional component (5%):* this amounts the same for each province, regardless of the size of the population. This is because government operations entail overhead costs regardless of the size of population served (FFC, 2006:122).

[25] For example, the number of children under age six in the province would determine the childcare component of the welfare share. The number is then adjusted by an income factor for that province. This is done because the income level of recipients of old age pensions and children support grants are taken into account in determining eligibility.

FIGURE 5: VERTICAL DIVISION OF NATIONAL REVENUE

R million	1999/00	2000/01	2001/02
Total revenue raised nationally	216,780	230, 722	247,250
Top slice	50,072	55,070	55,359
Debt service	48,222	49, 820	52,609
Contingency reserves	1,100	3, 500	8,000
Skills development	1,000	1,000	2,000
Donor-financed spending	750	750	750
National Equitable Share	78,733	81,100	84,489
Conditional grants to Provinces and Local Governments	8,761	8,361	8,257
As percentage of National Equitable share	11.1%	10.3%	9.8%
Retained for national Departments	69,972	72,739	76,232
As percentage of National Equitable Share	88.9%	89.7%	90.2%
Provincial Equitable Share	86,302	92,071	96,822
Local Government Equitable share	1,673	2,480	2,580
Total revenue available to be shared	166,708	175,652	183,891
National equitable share as Percent	47.2%	46.2%	45.9%
Provincial equitable share as Percent	51.18%	52.4%	52.7%
Local equitable government Share as percent	1.0%	1.4%	1.4%
Addendum[26]	96,736	102,912	107,659
Provincial allocations Including conditional grants	94,420	100,432	105,079
Local government share	2,316	2,480	2,580

Source: Budget Review (1999: 6) Provincial and Local Government Finances. Also see Annex E, page. 8.

This section discussed sources of provincial revenue, intergovernmental sources and own sources and the recommendations of the Financial and Fiscal Commission, using seven components of the formula. It is clear that he findings

[26] The Addendum refers to appropriations made in the Supplementary Estimate of Expenditures.

outlined in this section have concluded that conditional grants[27] occupy about 10% of total transfers to the provincial sphere of government and agency payments. In this regard, provinces get more than national government in terms of transfers. Nevertheless, a large percentage of the money received by provinces goes spent on the three biggest functions decentralized to provinces against the capacity the provinces have to contract borrowing mechanisms or generate own income. Of the total expenditure of provinces, almost 38.6% go to education, 23.4% to health, while 18.9% goes to welfare (see chapter 5). On the whole, social services occupy over 80 of total provincial expenditure and the remainder goes to non-social services and amounts to 19.1% of total expenditure.

3.3 TAXATION AND TAX OVERLAPPING

It has been mentioned earlier that section 228 of the Constitution has been amended to remove the provision that the provinces can impose surcharges on the 'tax base'[28] and replace it with the provision that provincial governments can impose surcharges on any tax. The word 'tax bases' have a definite meaning as it differs from a tax. In this way it has been observed in fiscal cycles that the deletion of 'base' contributes to further complication of the meaning of section 228. A tax can be divided into a number of components, namely tax base, tax rate and tax yield or revenue (Gravelle, 1999: 256). These three terms, although interrelated, do not bear the same meaning. In the first place a tax base referred to in the current version of the Constitution actual means an object on which the

[27] Treasury sees Conditional grants as allocation of money from one sphere of government to another, conditional on certain services being delivered or on compliance with specified requirements (National Treasury, 2005: 160).
[28] The size and number of sources that government can tax. In this case the explanatory memorandum provides reasons for the omission of 'base' It says that the reference to tax bases is deleted as the words have no definite meaning in the context they appear in the section. That the reference to tax bases was irrelevant for the purposes of interpreting the intention of that particular provision.

tax rate is applied (Gravelle, 1999: ibid). For instance in the case of Income Tax, a tax base would be income of an individuation or company (Mikesell, 1995: 358). In the case of fuel levies, the base would be consumption petrol or diesel. The tax rate on the other hand is a percentage that is imposed on the base of a tax. The meaning of this is that if the national government charges 10% of a particular base, for instance, the provincial government can add two percentage points on this rate that will accrue to itself.

Tax yield means the total revenue that is generated as a product of a particular tax rate and tax base (Mikesell, 1995). In this case a province can be entitled for instance, to 10% of the total revenue generated from that particular tax. This latter arrangement is what is commonly known as revenue sharing arrangement. It is important to note that 'surcharges' as outlined in the constitution implies an additional levy on a given tax base or, more specifically, an incremental rate on a given tax rate. This means that the national government does not expect to share revenue from any tax base with any individual province. In fact the constitutional provision presumes that a surcharge on a national tax would result in additional revenue for the province concerned without adversely affecting the revenue yield of the national government. In effect, the incidence of such an additional tax would fall on the final consumer. It is assumed that one of the reasons why the Constitution was amended was perhaps to delete the 'base' since bases are sometimes mobile across provincial boundaries. In this situation, it follows that reference to a tax base would effectively mean an immobile base, except where surcharges are very much like lump sum taxes on the same base in all provinces in the country. Reference to 'any tax' of national government has a whole range of meaning. This can mean that revenue from a given base, in which case the arrangement would be the equivalent to revenue sharing that is currently in existence, perhaps adjusted for each province's potential to generate revenue sharing in a literal sense.

The national and provincial government can be trapped in the classical situation of the common revenue pool problem. Although the Constitution does not intend introducing revenue sharing in the form of a surcharge, the latter has problems if it is not capped. The imposition of taxes by different spheres of government on the same base may result in a situation where the combined tax rates are higher than would otherwise be the case if there were single occupation of tax bases (Sobel, 1997). There is, however, another point that is worth mentioning in this case. The existence of vertical externalities due to tax overlapping as outlined by Keen (1998), and their associated costs suggest that the allocation of tax powers should be based on efficiency grounds rather than on political identity of the various spheres of government. To this end, Sobel (1997) demonstrates a situation where the national sphere of government fails to raise revenue efficiently when tax rates are the same across provinces, i.e., without causing excess dead weight losses in he economy. The implication of the conclusion from this situation is that reverse revenue sharing arrangements may be an efficient way of raising government revenue.

3.3.1 PERSONAL INCOME TAX SURCHARGE

The Katz Commissions Seventh Interim Report considers the practicability of imposing a surcharge on Personal Income tax (PIT). The Commission’s interest in this issue was trigged by the exclusion of PIT in the list of those taxes that provinces cannot levy according to section 228 (1) (b) of the Constitution. The Commission has carefully considered the implications of the surcharge on the administrative capacity of the South African Revenue Services. It has thus, recommended against the surcharge on the ground of the fact that SARS does not have administrative capacity to administer this tax. This is against the FFC’S view that SARS has capacity to administer the surcharge.

Secondly, the Katz Commission contradicts the FFC's recommendations about introducing a system of rebates. Instead, it proposes a system of abatements arguing that the FFC's recommendations amount to a tax' on national tax rates', which is unconstitutional. Nevertheless, as noted earlier, the relevant section of the constitution has now been amended to remove the words 'tax base'. It is clear that this amendment have an impact on the Katz Commission's recommendations on the subject. A notable feature of the Katz Commission recommendations is the absence of explicit reference to the effect on total revenue of two spheres of government co-habiting the same tax base. Paragraph 2.15 of the recommendation attempts to relate to this particular situation, but concludes that surcharges more than the tax room creates an impression that higher tax rtes are always accompanied by correspondingly high tax yield.

3.3.2 PROVINCIAL GOVERNMENTS' TAXES

Provinces are entitled to an equitable share of national revenues. This is a requirement that is found in both the interim and the new constitution. As already explained in the sections above, in addition to government grants, a province or a municipality is allowed to raise loans in order to meet the requirement of capital or current expenditure in accordance with reasonable conditions determined by national legislation (Department of Finance, 1997: 4). The Borrowing Powers of Provincial Government Act (1996) requires that during the fiscal year, loans for current expenditure may be raised only with the view of bridging purposes and should be repaid within twelve months of the same fiscal year. One of the body which is at the heart of the new national-provincial budget process within the decision-making financial framework of cooperative government is the Budget Council, that consists of the nine MECs Finance, the Minister and Deputy Minister of Finance, and officials from the Department of Finance and State

Expenditure, and the provincial Treasuries (Department of Finance, 1997: ibid. The FFC attends as an observer, and during this process the Budget Council recommends to Cabinet the shares that each province should receive after the national priorities coupled with the recommendations of FFC have been taken into account and set aside.

Subsection 1 (b) of Section 228 allows the provincial legislature to impose flat rate surcharges on the tax base[29] of any tax, levy or duty that is imposed by national legislation, other than the tax base of corporate income tax, Value Added Tax, rate on properties or custom duties. This aforementioned section is amended and the sentences ‘the tax base of’, since these words do not have a ‘definite meaning in the context they appear in the section’. It moreover attempts to raise a number of issues regarding the sharing of taxes from a particular tax base as well as harmonisation of such taxes to take account of the Laffer curve effect.[30]Tax bases fall into four categories, that is, income taxes, consumption taxes, wages and wealth, and according to Gravelle as cited in Meyers (1999: 255) all taxes have arguably one or more of these bases. For example, a capital gains tax is commonly thought of as a tax on income, but it is imposed only if a transaction (a sale) occurs. In the same token, an inheritance or estate tax is commonly thought of as a tax on wealth, but it is imposed only if wealth is transferred.

3.4 MUNICIPAL FINANCIAL AND FISCAL MANAGEMENT SYSTEMS

In this section the researcher will attempt to discuss first of all, the key themes in light of the South African municipal finance, sources of municipal revenue,

[29] Tax base is the aggregate value of income, sales or transactions on which particular taxes are levied.

[30] A curve that shows the relationship between tax rates and total revenue raised.

intergovernmental sources and own sources; and examine how these issues connect to IDPs. In the second position, he will highlight the requirements and legislation behind the MFMA as well as municipal borrowing. A key issue that we need to understand is financial problems such as municipal interventions and how it is geared toward meeting people's needs. This will guide the discussion toward considering key issues in South African municipal finance, such as the source of funding (section 2.4.4 and chapter 2 of the study) and the regulation of municipal finance; municipal spending; financial problems and related consequences. The various local governments are not simply subunits of their respective provincial governments, nor are the provinces subunits of the national government. Evidence shows that each government has substantial authority to decide what services will be provided, how it will be provided, and how and what amounts revenues will be raised (Lee et al, 1997: 282). Unlike the apartheid system of centralized government in which policies were set by the national government and their administration delegated to provinces which in turn delegated responsibilities to local tiers of government.

The way South Africa raises funds and distributes it to the three spheres of government needs to be understood in the first place. It has been stated that one cannot discuss municipal finance in isolation as if it were a watertight compartment of the municipal machine; in that every single aspect of municipal administration of necessity has financial implications, and those who are bestowed responsibilities to provide service to the people should be given authority on how to create new revenues to supplement over their expenditure (Cloete, 2003: 57). The key provision for municipal revenue is found in Section 227 of the constitution of the Republic, which sets out the main structure of South Africa's fiscal system. This section states that local government has an entitlement to an equitable share (of the revenue raised nationally to enable it provides basics services and perform the functions allocated to it (Act no. 108 of the Republic of South Africa, Act of 1996: S227). May receive other allocation from national government revenue; and can raise additional income itself, which may not be deducted from its share of national government revenue.

The national raised revenue is raised nationally and efficiently to the South African revenue service, but this money does not belong to the national sphere of government (Abedian et al, 1997). This encapsulates the reason behind the fact that all the three levels of government have entitlement to an equitable share of the national raised revenue. The Constitution sets up the principles so that the equitable share is allocated between these three spheres of government from national level to local level via either a department such as the DWAF or the DPLG. Fiscal capacity can generally be defined as the ability of a jurisdiction to generate taxes and other revenues from own sources. Local government needs financial resources to carry out their functions. To make any financial policy decision – whether the decision entails potential new bond issues, new operating programmes, or operating programmes, a key step in the decision-making process is an assessment of existing fiscal capacity available to support that decision (Petersen, 1993; 177).

To understand the tax revenue from which a community's fiscal capacity derives the economic context in which this base exists must be understood. First, the built environment values and other property values reflect local economic conditions. Second, other components of the tax and revenue base, especially those coming from income and sales taxes are sensitive to economic cycle. Finally, the ability of residents to pay any tax or user charges largely depends on their assets and income (Petersen, 1993: 179). Municipalities, in a financial literature, are expected to be mostly self-sufficient and generate most of their total revenues from own taxes. Metropolitan municipalities collect 97% of total revenue from own sources. Non metros with budgets of over R 300 millions generate 92% while those with budgets less than R 300 million generate 65%. The main sources of revenue are utility fees (32%), property taxes (21%), RSC levies (7%), transfers (8%), and other local sources of taxes and levies (32%) (Lee et al, 1997: 282). However, critics rise on the degree of municipal financial autonomy since higher spheres of government intervene earlier or in the middle of the process of the affairs of municipalities through transfers and oversight.

It is in this regard that the Constitution requires that an Act of Parliament should prescribe the division of nationally raised revenue between national, provincial and local government. The DORA must take into account recommendations from the Financial and Fiscal Commission (FFC), and criteria stipulated in sub-section 214 (2) of the Constitution, and ensure that non-compliance to its provisions is sanctioned in terms of the law. Within the framework of these requirements, the Annual Division of Revenue Bill is the outcome of government's policy deliberations on expenditure priorities for the period ahead (National Treasury, 2005: 126). The requirement for acting DORA is set in Section 214 of the Constitution. An enacting DORA requires consultation with provincial governments, SALGA and the FFC - takes into account any recommendations of the FFC before DORA is enacted. In addition to these requirements, the parliament considers certain factors, which are set out in Act 214 before enacting DORA, by requesting the parliament to allocate the national revenue equitably. One of the important features of DORA is that it provides municipalities with three own allocations, i.e., allocation for the existing year; allocation for the next two coming years with the intention reflected in the Constitution of providing predictability in order to improve the municipal planning. As with provinces, section 227 (2) of the Constitution states that the revenue local governments raise cannot be deducted from their share of nationally raised revenue (Act No. 108 of 1996: 131). In fact, when it comes to the determination of local government equitable share, the Finance Ministry does consider what other funds local government is also receiving from national government – including conditional grants for capital or operating expenditure. It is important to note that this amount constitutes 3.6% of total revenue available for sharing. Conditional grants are provides to sub-national governments to promote norms and standards, facilitate transition, address backlogs, and to address national priorities. According to the new system of intergovernmental transfers for local government, the equitable share formula for municipalities is composed of four components:

The municipal institutional grant: this supports administrative capacities of municipalities, i.e., funds for operating and maintaining basic facilities for local government so that local authorities lacking infrastructure or administrative capacity to raise taxes can at least operate at a minimum level. *The municipal basic services transfer:* supports the provision of basic services to low-income households. This is intended to ensure that all South African residents have access to basic municipal services. The amount of the grant is computed by multiplying the number of people in poverty by the cost per person of providing services this sum is then multiplied by the fraction of that need which will be covered by the municipal basic services grant. Actually there are about 284 local municipalities rationalised down to from 771. Among these, there are 42 District Councils, 6 category A metropolitan Councils plus 24 substructures (Municipal Demarcation: Act 27 of 1998). The FFC recommendation formula for 2004 (FFC, 2006: 123) was used to allocate revenue among the 231 municipalities:

$$\boxed{LES = S + B + I + T + m}$$

Where the total local government equitable share (LES) allocation is divided among municipalities by means of a formula comprising five major elements and weighing:

I. **S** is a basic service grant to support municipalities in their delivery of basic services
II. **B** a basic component to fulfill other constitutional and legislative responsibilities
III. **I** an institutional support component to aid municipalities in financing core administrative functions
IV. **T** a tax capacity equalization grant to encourage municipalities to take responsibility for raising own revenue; and
V. **m** a spillover grant to provide finance for services with inter-municipal spillover[31] effects (Financial & Fiscal Commission, 2006: 122).

Equalization transfers: are used between substructures within the same metropolitan council jurisdiction in order to equalise the tax base with the purpose to rectify the uneven development in metropolitan areas where households, capital investment, and labour are not spread smoothly throughout an area, leaving some local authorities with a weaker tax base than others. Municipal expenditure is organised in such a way that about 30% of expenditure is allocated to bulk services, 31% to salaries, 8% to repairs and maintenance, 13% to capital charges, 4% to funds contributions and 14% to general expenses.

3.4.1 MUNICIPAL FISCAL POWERS

In terms of Section 229 of the Constitution a municipality may impose rates on property and surcharges on fees for service provided by or on behalf of the municipality; and if authorized other taxes, levies and duties but no municipality

[31] Some services create important benefits for residents outside of the local authority in which they are undertaken. When programmes benefit people other than those incurring costs for them, they are said to create spillover. These transfer payment support the essential infrastructure for those programmes with positive economic spillover.

may impose income tax, value-added tax, general sales tax or customs duty as these are the kind of taxes used in order to raise national revenue. Besides, private sector is a final source of revenue for municipalities for municipal infrastructure. Municipalities are exploring different ways of raising finance for municipal infrastructure. This is just particularly because capital projects have the ability to generate revenue. With this in mind municipalities are turning to PPPs, and Borrowing (loans and bonds). Funding for Capex and Opex are also considered in this line as well. This is discussed in the subsection below. We should bear in mind that chapter 2 of MFMA establishes National Treasury with a wide range of functions and powers to coordinate macro-economic policy and coordinate integrated financial and fiscal relations, managing the budget preparation process, implementing DORA and enforcing effective management of revenue, expenditure, assets liabilities. Other three key players in the affairs of the municipalities are SALGA, DPLG and FFC.

3.4.2 BORROWING FRAMEWORK

Borrowing for both provincial and local government is largely regulated by section 230 of the Constitution as well as the Provincial Borrowing Powers Act of 1996, but this section does not prescribe the borrowing framework for the national sphere of government. For the municipalities (chapter 4, section 4.7), the Municipal Finance Management Bill (2001) dedicates a chapter on municipal borrowing. In this way, it is clear that most of the borrowing is undertaken at the national sphere of government. Moreover, borrowing is undertaken on behalf of sub-national governments, in the same way the proceeds are made available for the vertical split.

Further clarification of some of the above selective constitutional amendments and the assumption of the municipal legislative authority is important to understand in light of the study. As mentioned earlier, the Constitution is attempting to create an arrangement which both national and provincial spheres of government can assume legislative obligations of a municipality. In this case one would expect that in so far that the province can assume responsibility for a municipal obligation, then it follows that the obligation in question effectively becomes a provincial obligation, at least temporary. Section 100 (1) (a) (b) of the Constitution says that “the national executive may intervene when a province does not fulfill an obligation in terms of legislation or the Constitution, excluding an obligation to pass legislation in the case of province” (Act No.108 of 1996: 59). However, in the case of legislative obligation the situation would be slightly different, especially if the assumed obligation becomes a provincial obligation, in that it would not matter whether the province in turn fails to resolve the problem or not. Under certain conditions, the province may for instance assume responsibility to pass a municipal budget but fails to pass that budget, as was the case with the municipality; in this case the national executive would not be able to intervene, due to a number of reasons. One of these is the fact that this is a legislative authority and it is, in light of section 100(1) of the Constitution as amended and mentioned above, ‘an obligation to pass legislation in the case of a province’. This particular provision creates a lock-in effect against the national executive in circumstances like the one described above. This legislative implication on the internal functioning of cooperative government boils down to the problem of timing, consultation and overriding interventions.

Notwithstanding the fact that section 100 (3) of the Constitution provides a room for legislation that coordinates the intervention processes of both section 100 and 139 (a) (b) (c) of the Constitution, it is not however, clear whether this particular issue will be dealt with in that legislation. In conclusion, this section suggests that the Constitution foresee problems with coordination of intervention activities and processes. Until this problem is solved and clarified, this particular amendment will be self-defeating and will further complicate intergovernmental fiscal relations.

3.5 REVENUE AND, COMPARATIVE SOURCES OF TAXING POWERS

Assignment of functions is a major step toward an Intergovernmental Fiscal Relations system. This together with revenues sources and taxing powers among different levels of government play a key role in the determination of the economic efficiency of a country. The aspect should be driven by the principle that 'assignment of expenditure responsibilities to different levels of government must be matched with the assignment of revenue responsibility'. This is because expenditure needs of each level of government must be established before the issue of revenue is handled, in that the economic efficiency of revenue can only be attained after having clear knowledge of expenditure needs (Cloete et al, 2003). Generally local government are assigned revenue bases that are relatively immobile and do not lead to serious inequalities in the country. These bases are in many cases low yielding and difficult to administer because of their local nature. The assigned local sources of revenues to local governments never provide adequate yields to meet local expenditure requirements.

On the other hand the center usually collects relatively more revenue compared to their assigned expenditures (Division of Revenue, 2003). This implies that central government grants to local governments must be part of the system of intergovernmental fiscal relations. In a cooperative government system, it is often stated that if decentralization is to be a reality, sub-national government must control their own sources of revenue (Cloete et al, 2003: op cit). The assignment of taxes to different levels of government is, in fact quite a complex political exercise. This raises a critical question that must be put in mind – which revenue source should be assigned to sub-national spheres and which measures should be put into place to effect these assignments?

In the attempt to respond to the above question, some key principles are necessary to guide our discussion on the following issues, that is: Sub-national governments should not be assigned the functions of macroeconomic stabilization and redistribution of income. As a corollary, it follows that taxes that influence stabilization such as corporate income tax and progressive individual tax will be exclusive aligned with the central government. Each level of government should be assigned taxes that are related to the benefits of its spending. In this way, the central government should be responsible for expenditures having externalities benefits or that are characterized by economies of scale not realized at the national level.

The collection of the revenue for sub-national spheres should be protected by the Constitution or legal framework. In some countries, like the Democratic Republic of the Congo, where evidence witnesses huge reserves of minerals, the question should be to know whether the central or local area should be responsible in the taxing of natural resources where these are located. It might be loyal that where revenues from natural resources are substantial and concentrated geographically, sub-national taxes of such resources would involve issues of vertical imbalance between the central government and the sub-national government, and horizontal fiscal disparities among sub-national governments. It should be advisable that this section be considered in concomitance with subsection 5.6.2 of the study on vertical fiscal imbalances and subsection 5.6.3 discussing horizontal fiscal disparities.

3.6 AN EFFECTIVE INTERGOVERNMENTAL FISCAL SYSTEM

Financial relations exist within the framework of an intergovernmental system as one of its political environment. In order for it to survive as an instrument of coordination and alignment of policy between the three spheres of government, the institution of intergovernmental relations should prove to be financially sustainable, viable, sound and effective in its financial, political and administrative pursuit of the well-being within the ambit of the public sector. Further more; it should endeavor to promote efficiency, accountability and economic growth[32], at the same token address the developmental mandate and needs as well as institutional arrangement mechanisms at different levels of the government[33].

[32] Any increase in the total amount of output, income and spending in the economy is refereed to as Economic Growth. The United Nations Development Program (UNDP) and many economists, including Paul Stiglitz (the chief economist for the World Bank) are now beginning to see that '*growth is good*' approach to economic development, but the way that growth is achieved and the conditions that satisfied it are now being questioned. In the UK, for instance, up till 1954, national goals were set to meet the needs of the people, i.e.; building 300,000 houses a year, or establishing a national health service. Curiously enough, in 1954 the head of the British Ministry of Finance introduced the idea of measuring the prosperity of a nation by its annual economic growth rate. He then, focused on achieving a 3% annual growth rate, and this in fact doubled the national income per person over a 20-year period (Esset & Fair Shair, 2000: 5). The main goal shifted from the attention from social policy and people's actual needs of increasing the size of the economic cake to achieving economic growth; and more accumulation of money rather than more services became the government big concern. It is argued that in 1989, an Irish economist Douthwaite as cited in Esset & Fair Shair (2000: 5) attempted to produce on a list the benefits of doubling Britain's per capita income and found that almost every social indicator was worse over the last 33 years. This was coupled by chronic disease has increased, crime went up eight-fold, unemployment soared and many more marriages ended in divorce: "*I looked for gains to set against these losses, which in most cases I felt had to be blamed on growth…; the unquestioning quest for growth has been an unmitigated social and environment disaster. Almost all of the extra resources the process has created have been used to keep the system functioning in an increasingly inefficient way. The new wealth has been used to produce non-returnable bottles, supertankers, heavy lorries, plastic which can never be recycled…It has at the same time enabled banks, insurance companies, stock-brokers and accountant to expand from 493, 000 to 2,475,000 employees. At the same time, over three million people have been unemployed. Very little was left for more positive achievement after everyone had taken their share*".

[33] Development connotes steady progress toward improvement in the human condition (increase in the standard of living through the enhancement of the purchasing capacity of the people rather than maximization of elite profit); reduction and eventual elimination of poverty, ignorance (through education), and disease' and expansion of well-being (health care) and opportunity for

The effectiveness and efficacy effort in terms of the operation of the system should be canalized toward delivery of goods and services that could provide autonomy to the sub-national government in order to be able to alleviate poverty to the poor. This refers to the assignment of powers and functions between spheres of government in relation to financial matters according to specified criteria in terms of the Constitution.

3.6.1 STATE INTERVENTION IN SUBSPHERES OF GOVERNMENT

According to De Visser (2005:186) if the exercise of the monitoring provisions, discussed in terms of section 100 and 139 of the South African Constitution, provisions have been provided for intervention by the provincial government into the affairs of that municipality on a two-fold outlook. While the first component of the provision seeks to allow national government to intervene in both provincial and local government, section 139 of the Constitution however, states that only provinces can intervene in the municipality if it does not fulfill its executive obligations. This will remove the impression created by the current version of the constitution that the three spheres of government are hierarchically related to. This means that national government can only intervene in provinces when the later fails to fulfill its executive obligation.

The second point about the constitutional provision is that they allow national and provincial spheres of government to intervene in local government when it fails to fulfill its obligations in terms of legislation or the constitution. The crucial point raised in this particular amendment points to the fact that the two spheres, i.e.,

all (employment, increased salary margin…). It entails rapid change, but change alone is insufficient; it should be directed to specific ends. Development involves societal transformation – political, social and cultural as well as economic; it implies modernization – secularization, industrialization; and urbanization but not necessarily westernization. It is multi-dimensional, with scholars and practitioners disagreeing, however, on relative emphasis priority and timing. See Esman, MJ. (1991) Management dimensions of development. Perspectives and Strategies. Kumarian press, Connecticut (p.5).

the national and the provincial government can both intervene when the municipality fails to fulfill both its executive and legislative obligations. According to De Visser (2005: 185), a ‘veto’ power to intervene in the affairs of sub-national spheres seems to contradict potentially the principle of autonomy that was identified as being crucial to decentralized development. De Visser supports his argument by quoting Article 356 of the Indian Constitution making the institution of the president’s Rule that “…*the President, on the advice of the state governor or suo moto, can dissolve a state legislature and take over the government of the state*”. This provision has been used on 111 occasions since 1950 merely on the ground of egoistic reasons and undermined intergovernmental relationship in India and De Visser, like Frank Fanon[34] owns that the same abuse is not impossible in South Africa. Nevertheless, the amendment makes it clear that the national sphere of government cannot intervene in provinces when they fail to fulfill a legislative obligation. Petersen (1991: 10) on the appropriate role for government had this to say:

> “*The legislative objective of government is to do for a community of people whatever they need to have done, but cannot do at all, or cannot so well do, for themselves – in their separate and individual capacities. In all that the people can individually as well for themselves, government ought not to interfere*”.

3.6.2 HIERARCHICAL RELATIONS IN FINANCIAL MANAGEMENT

Financial management levels of hierarchy were introduced when the Constitution allowed other spheres of government to intervene and assume responsibility for other sub-national spheres of government. The Constitution of South Africa recognises municipalities to have legislative obligation and powers to pass by-laws (Department of Finance, 1997: 4.7) such as municipal budget - also recognized as one of the by-laws that municipalities pass. Section 215 (2)

[34] Things fall apart.

indicates that legislation must prescribe the form and structure of municipal budgets, their sources of revenue and the way in which proposed expenditure should comply with national legislation (Department of Finance, 1996: 4.8). However, the provision implies that national and provincial spheres are authorized to pass the budget of a municipality in the case of intervention. This illustrates the content of section 19 of the Municipal Finance Management Bill that allows the municipality to spend an average of 8% per month of its previously approved budget for current expenditure. This provision makes it clear that there is no need for other spheres of government to assume this legislative responsibility in case the municipality cannot pass its budget. This amendment constitutes a constitutional confusion that results in disruption and tension between the spheres of government, since provisions of individual pieces of legislation are not in synergies and synchronization with one another. This leads to the situation where, in case the failure to pass a municipal budget persists for an extended period of time, the assumption of this responsibility by another sphere of government will stand to be reasonable. However it would be important to define the length of time that is reasonable before the other sphere can intervene, since a growing body of knowledge suggests that the application of an intervention provision should be premised on a balance between the principle of autonomy and the need for effective oversight by senior governments (De Visser, 2005: 185).

3.6.3 DILEMMA IN THE COORDINATION OF INTERVENTIONS

In terms of the above observation, the emphasis and effect of the two sections intend to allow the national executive to intervene in municipal affairs in case of failure or lack of appropriate skills in the fulfillment of its obligations. This failure calls for a point of coordination and alignment between the actions of the provincial and the national executives. Subsection 3 (b) of section 100, requires national legislation that regulates the national executive intervention process to be co-ordinated with its counterparts at the provincial level. However, it is not clear from the side of the constitutional provisions, which sphere of government gains precedence in intervening in the affairs of the municipality, when the latter fails to fulfill an obligation.

The arrangement introduced by the current constitutional amendments might discourage a provincial sphere of government, for instance, from intervening into the affairs of government if it expects the national government to override its directives. The national government might expect the provincial government to intervene in certain matters, and this timing problem can lead to a delay in intervention that can, in turn, compromise service delivery effectiveness. The same situation applies to the appropriateness or effectiveness of directives issued to a municipality or assumption of municipal authority by either sphere of government. Is it possible for national government to override an intervention of the provincial government in terms of Section 139 of the Constitution?

Recent changes in the manner of intervening have attempted to include two types of intervention in terms of section 139 against the backdrop for balancing the degree of autonomy and supervision, i.e., financial intervention and regular intervention.

3.7 CONSTITUTIONAL FRAMEWORK AND LEGISLATIVE IMPLICATIONS FOR FINANCIAL MANAGEMENT

In South Africa, the Municipal Structures Act (Act 117 of 1998, section 34 (3) (b) provides for the dissolution of the municipal council in case an intervention in terms of section 139 of the Constitution has not resulted in the council being able to fulfill its obligations in terms of legislation. It is not in fact clear, how the amendment to section 100 of the Constitution would fit into this. In principle, one would expect the national executive to intervene if provincial executive intervention has resulted in a situation described by Section 34 (3) (b) of the Municipal Structures Act. This would be before the council dissolves, as there is always a possibility of improvement after the national executive has intervened (De Visser, 2005). As it becomes more and more clear on the discussion on the implications for the constitutional provisions on Intergovernmental Fiscal Relations (Tapscott, 1998: 9), section 159 of the Constitution appears to have been amended in order to prevent immediate dissolution of council without giving it an explicit constitutional basis. This is in response to the provisions of the Municipal Systems Act pertaining to the dissolution of the council. Section 155 (8) (b) of the Constitution was introduced as a direct result of provisions of chapter 11 of the Municipal Finance Management Bill (MFMB).

The two aforementioned sections constitute good examples of a situation where the Constitution is put in a reactive position in relation to other pieces of legislation. In as far as the purpose of the Constitution is to provide a normal framework for national legislation, its status is compromised. This may lead to a situation where the entire intergovernmental fiscal relations framework as outlined in the Constitution is guided by the provisions of individual pieces of legislation that are usually sector specific, rather than by what is good[35] for the country as a whole.

3.8 SUMMARY

Section 228 and 229 of the Constitution provides that sub-national government's tax may not be exercised in a way that materially and unreasonably prejudices

[35] Goods and services that would not be provided in a pure free-market system (e.g. defense, police and security), and largely provided by government (National Treasury, 2005:167).

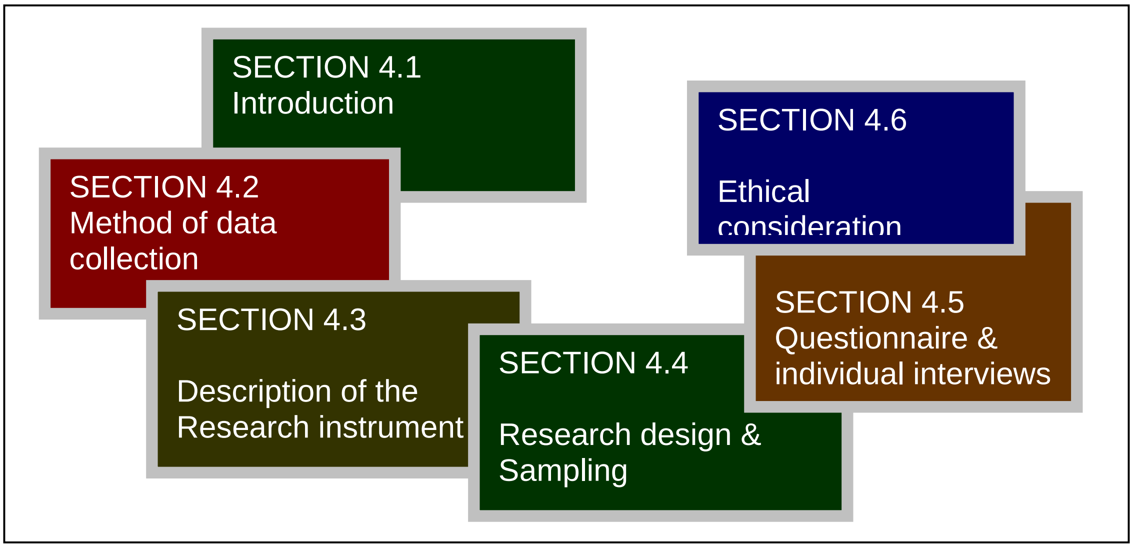
national economic policies, economic activities across boundaries, or national mobility of goods, services, capital or labour. This statement implies that provincial taxes are required to be neutral as far as practical. Since a surcharge on the other hand implicitly means that governments should not end on the wrong side of the Laffer curve, the provision of the two section introduces an additional constraint, i.e., that of neutrality. Tax neutrality would mean that such taxes should generally be imposed on those resources that relatively immobile across boundaries (Sobel, 1997: op cit). An option in the case of provinces would be to impose surcharges that mimic Pigovian taxes. In this case, once a surcharge has been identified for one of the national government tax base, a fixed surcharge compatible with the Loffer curve criterion would be imposed at the margin for all the provinces. This would ensure that there are no inter-provincial differences in levels of taxes applied to a particular base. This, in effect neutralises any incentives to move tax bases from one province to another. Since the Constitution does not allow regulation of sub-national taxes, this could be a practical alternative.

CHAPTER 4: METHODOLOGICAL ORIENTATION

4.1 INTRODUCTION

Further to the methodological perspective employed in this study order to meet the objectives discussed in section 1.2, this section deals with the methodology followed during the recording of information and collection of data. The methodology employed includes theoretical analysis and assessment as well as an empirical study. The empirical component contains observations and experimentation (a discussion on the intergovernmental transfers design). The methodology used is based on the basic approaches to the field of social sciences research and techniques by Mouton and Marais (1997), De Wet et al (1998) and Bailey (1982). Besides, this study employs qualitative method of data collection referred to as secondary sources and, which comprise library books, journal articles, policy documents and newspapers as well as bulletins to be reviewed in the formulation and operationalisation of the themes under study. The breakdown of chapter 6 is illustrated below:

FIGURE 6: BREAKDOWN OF CHAPTER FOUR



4.2 METHOD OF DATA COLLECTION

This study is empirical in nature. It uses qualitative forms of data collection method using statistical data in the form of unstructured and structured interview schedule formats. A number of unstructured interviews has been undertaken with experts on the subject matter. Discussions were held with Directors and technocrats falling under the Division of Finance at the Metropolitan City of Cape Town as well as academics and researchers. The rationale of this method was aimed at gaining first hand information on various aspects of financial and fiscal management mechanisms within the system of cooperative government, using the City of Cape Town as a case study. The theory employed and the background information gathered from my field research informed both the consolidation of findings and enlightened the researcher on the shaping of a balanced opinion based on empirical data and evidence. Creswell (1994: 21) provides an appropriate justification for the use of qualitative research approaches in studies that are exploratory in nature. As a matter of fact, growing evidence and various lessons of experience maintain that this type of design is appropriate in instances in which not much has been written about the subject under investigation as is the case with this study. Ragin (1994: 91-93) provides a further understanding of the use of qualitative methods of data collection by eloquently concluding the following statement:

> "*Qualitative methods of data collection are often identified with participant observation, in-depth interviewing, fieldwork and ethnographic study; and they are data enhances as in-depth knowledge is yielded, correcting any misrepresentations or new representations about the subjects in the study*".

4.3 DESCRIPTION OF THE RESEARCH INSTRUMENT

Research methodology necessitates a reflection on planning, structuring and execution of the research in order to comply with the demand of truth, objectivity and validity. Hence, research methodology focuses on the process of research and the decisions that the researcher has to execute the research project. In the human sciences, two basic methodologies can be distinguished: qualitative and quantitative methodological models. Although types of research and research methods are often associated with the field or academic discipline in which the research is conducted, these two mentioned above are of importance in all scientific investigation. The next section below is an attempt on the elaboration of such methods.

4.4 RESEARCH DESIGN AND SAMPLING

Primary sources account for interviews with personnel from the Financial Department of the Metropolitan City of Cape Town to which the researcher was exposed for a period of four months. In order to obtain the different perceptions, the sample size consisted of both practitioners and theoreticians. During his interview time table, the researcher contacted quite a large number of people, however due the time constraint of such high-rank officials he only got hold of a total number of ten Directorates and the staff under each of them as well as academics and practitioners came to a total number of thirty people. For more information, see Appendix B on page 145 of this research. These people have been chosen based on a methodology called 'sampling through rational choice', which consisted of identifying respondents who, according to the judgment of the researcher witness an acquisition of knowledge or experience in the area concerned by the study in order to meet the requirements of the methodological design. Besides, it used random purposeful sampling technique. Leedy, 1997 and Patton (1990) highlight the intricacies of random purposeful sampling in instances where the unit of analysis is based a still small sample size. In their explanation, they emphasize the fact to which this type of methodological design "*adds credibility to sample, especially when potential purposeful sample is larger than one can handle by reducing judgment within a purposeful category*".

This methodology was selected and applied to this kind of study because the research was based on a small sample size and allowed to save time, money and effort (convenience sampling). The weakness of this type of methodology is that judicious extrapolations cannot be attempted to the whole rest of South Africa. As stated earlier, the qualitative research approach generally employs observation in the pursuit for data collection requiring the impact of people and institutions in order to illustrate and substantiate certain key concepts needed to add a rich tonus to the research under study. Such observational techniques are always used to determine how individuals or groups of persons react under specific circumstances, either natural or artificial (De Wet et al, 1981: 163-165). In this view, "…*every recording made should be a true reflection of what was observed at the precise moment, and not of what was anticipated or predicted*". The researcher was in the position to subject one group of thirty people (ten Directors[36] and their related managers, occupying different functions under the Department of Finance in the City of Cape Town, seven personnel assistants and three falling in the category of other) to a particular political situation which changed from time to time, while the situation remained unchanged for the other group, then compared the behaviour of the two groups and drew conclusions based on empirical evidence.

The qualitative method of data collection is indispensable due to its commitment to seeing the world from the point of view of the actor or participant, and owing to this commitment to see through the eyes of one's subjects, close involvement is advocated (Brynard et al, 1984: 78). The fundamental theme of study under qualitative research is a phenomenological one, where the actor's perspective was the empirical point of departure - it was a focus upon a real life experience of people. It is worth citing Brynard and Hanekom at length on the question of qualitative methodology as they substantiate on the fact that this type of

[36] See Appendix B at the end of this research for an understanding of their roles and positions.

methodology allowed the researcher to know people personally and to see them as they are; to experience their daily struggles when confronted with real-life situations in their work setting. This enabled the researcher to interpret and describe the actions of people.

4.4.1 SAMPLING TECHNIQUE

A small group was selected by the researcher from the population size for study purpose as a representative of a large population (Bryman et al, 1984). There are so many reasons why the researcher chooses a sample as a miniature representation of a big reality, and some of these reasons account for the simplification of the research, since it was easier to study a representative sample of a population[37] rather than studying the entire world; for time economization, because studying a large geographical area was embarrassing and time consuming or cost-cutting, since the interviews, observations and questionnaires used for data collection from the sample size was cross-cutting, and the institution of cooperative government is scattered over a proportionally large geographical area such that it was costly and difficult to handle.

4.4.2 SAMPLE GROUP

The population group for this study is based on appointed government Directors and senior Managers and planners under the Department of Finance of the Metropolitan City of Cape Town where cooperative government institution is challenged by lack of efficiency. One public sector institution and a number of respondents from independent bodies were selected for the purpose of this

[37] For the purpose of sampling, population does not refer to the population of a country but to objects, subjects, phenomena, cases, events or activities which the researcher chooses to research in order to establish new knowledge. See Bryman and Hanekom, 1984:43.

study. In each institution a number of people were selected for interview in order to sustain the validity of variables[38] on the topic under study.

Under the City of Cape Town, the Department of Finance provided access to confidential information, such as financial statements and reports, government legislation, Acts of Parliament, human resource statistics, etc. As a public sector[39] institution the City of Cape Town has all the necessary organizational systems, infrastructures, policies, strategy and culture in place and possesses leaders who have the essential technical skills to perform their responsibilities effectively. This criterion was important in the study since it allowed the researcher to control both internal validity and assist in controlling the threats of maturation. Since this study uses a qualitative approach, it employed the following data collecting methods that will be dealt with in the following section.

4.5 QUESTIONNAIRE AND INDIVIDUAL INTERVIEWS

4.5.1 CLOSED AND OPEN-ENDED QUESTIONNAIRE

The questionnaire intended to measure the challenges of cooperative government and how this, as a matter of fact, had direct implications on the financial and fiscal management system in South Africa. It tested the validity of whether insight into the institutional arrangement of cooperative government from

[38] A variable can be defined as an empirical factor or property which is capable of employing two or more values. As pointed out earlier, a research problem is generally expressed as a general question about the relations between two or more variables. The most important type of variables is the dependent and independent variables. A dependent variable is that factor which is observed and measured to determine the effect it has on an independent variable. The dependent variable varies with the introduction or removal or manipulation of the independent variable. An independent variable is that factor which is deliberately varied, manipulated or selected by the researcher in order to determine its relationship to an observed phenomenon which constitutes the dependent variable. For more information concerning dependent and independent variables, see Brynard et al, 1984.

[39] Public sector is referred to as national government, provincial government, local government, extra-budgetary institutions, social security funds and non-financial public enterprises (Treasury (2005:167).

which a sound and efficient financial and fiscal management system depends, in the course of economic development is a key factor both for eradication of misadministration in the public sector and a strong pillar for good financial governance and efficient intergovernmental fiscal design.

4.5.2 QUESTIONNAIRE / INTERVIEW SCHEDULE

This research questionnaire only contained basic questions and both the questionnaire in question and interview schedule (Appendix A) were used as a framework for both respondents that completed the questionnaire in their own time as well as for discussion with interviewees in an interview situation. With regard to ethical principles outlined in this paper the identity of interviewees will be protected and individual statements will not be used in the report. Respondents will be consolidated and research findings will be presented in aggregated fashion.

4.5.3 IN-DEPTH INTERVIEWS

The main reasons for conducting the in-depth semi-structured and unstructured interviews were to be found in the examination of key emerging trends and themes emanating from the questionnaires and further, to explore the perceived reasons for the challenges of intergovernmental fiscal relations on the improvement of revenue sources at sub-national levels and its enhancement for service delivery implying on improvement of conditions of life in the long run. Four sets of interview schedule were prepared and all four broad categories of research questions were, as stipulated above, made of a mixture of open and closed-ended questions. The content of each category of research questions is almost identical for both groups of respondents with the exception of a few variations. These are tabulated on the appendix A at the end of the study and highlight similarities and differences in the construction of the interview schedule.

4.6 SUMMARY

This chapter discussed the methodological framework followed during the recording of information and collection of data. The methodology employed included the theoretical analysis, assessment as well as empirical study. Empirical because it used a qualitative form of data collection method in the form of structured and unstructured in-depth interview schedule format. The main reasons for conducting the in-depth semi-structured and unstructured interviews were to be found in the examination of key emerging trends and themes emanating from the questionnaires and further, to explore the perceived reasons for the challenges of intergovernmental fiscal relations on the improvement of revenue sources at sub-national levels and its enhancement for service delivery implying on improvement of conditions of life in the long run. Four sets of interview schedule were prepared and all four broad categories of research questions were made of a mixture of open and closed-ended questions. The content of each category of research questions were almost identical for both groups of respondents with the exception of a few variations.

The rationale of this method was aimed at gaining first hand information on various aspects of financial and fiscal management mechanisms within the system of cooperative government, using the City of Cape Town as a case study. A sample size of thirty experts was chosen, using a methodology called 'sampling through rational choice, purposive sampling and convenience sampling'. It consisted of identifying respondents both practitioners and theoreticians who, according to the researcher witnessed an acquisition of knowledge and experience in the area concerned by the study in order to meet the requirements of the methodological design.

The theory employed and the background information gathered from field research informed both the consolidation of findings and enlightened the researcher on the shaping of balanced opinion based on empirical data and evidence. Although This study used convenience and purposive sampling design as appropriate methods of data collection and analysis due the fact that this type of design saves time, money and effort, the researcher is reserved to generalize the findings to the whole South Africa since such a small size of the sample cannot be representative of all the 284 municipalities and six Metropolitan Cities in under the challenges of cooperative government in South Africa.

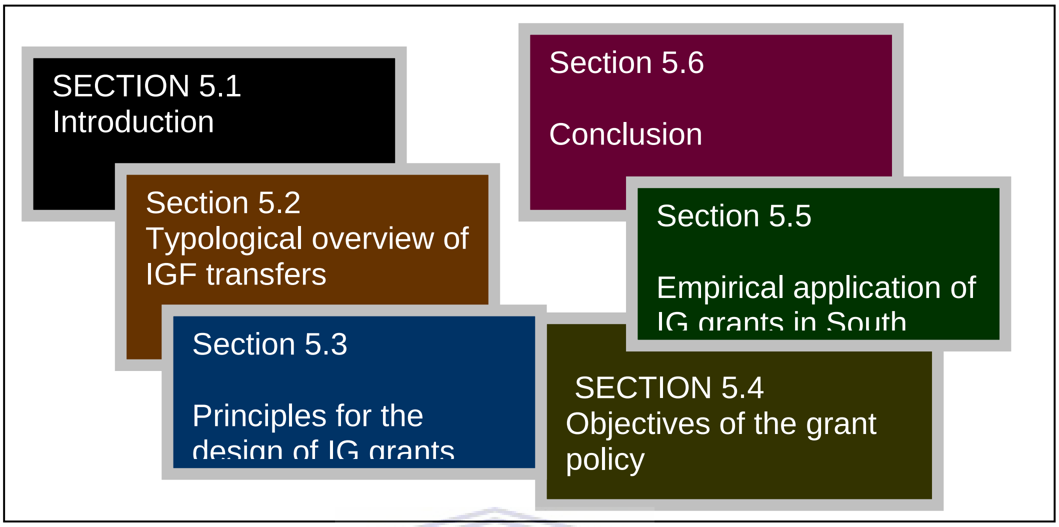
CHAPTER 5: THE DESIGN OF INTERGOVERNMENTAL GRANT IN SOUTH AFRICA AND PRESENTATION OF FIELDWORK STUDY

5.1 INTRODUCTION

Intergovernmental transfers have become a buzzword in the study of cooperative government in developing countries in the last century and this has been accounted for a number of reasons. Some of these reasons point to the decentralization dispensation and the shrinking of the state social autonomy in countries under democratization phase. Other reasons, as is the case in South Africa, underpin the political mandate of national government to fulfill the obligations of a local developmental state with a number of sources of revenue and functional political responsibilities devolved to the sub-national governments. In the light of this effort, the institution of cooperative government in South Africa endeavors to manage the constitutional design of several types of transfers in order to attain a certain degree of efficiency and equity at the local sphere level in the provision of services.

The objective of this chapter is to review the literature on intergovernmental grants, including grant objectives, and alternative grant design. In this case the researcher will develop theoretical clarification on intergovernmental transfers at the sub-national spheres. Surprisingly, in line with this purpose and the objective outlined in this study, evidence shows that there is no research literature on grants administration in South Africa to compliment the extensive international literature on grant design (Winkler, 1994: 65). This will be identified and discussed together with the rationale for such transfers and their implications for a grant design thereof. Below is a diagramed representation of chapter 5.

FIGURE 7: BREAKDOWN OF CHAPTER 5.



Intergovernmental transfers build up into two broad categories: non-matching and selective matching grants. The clarification as well as definitions of these two types of grants is explained in the subsequent subsections below:

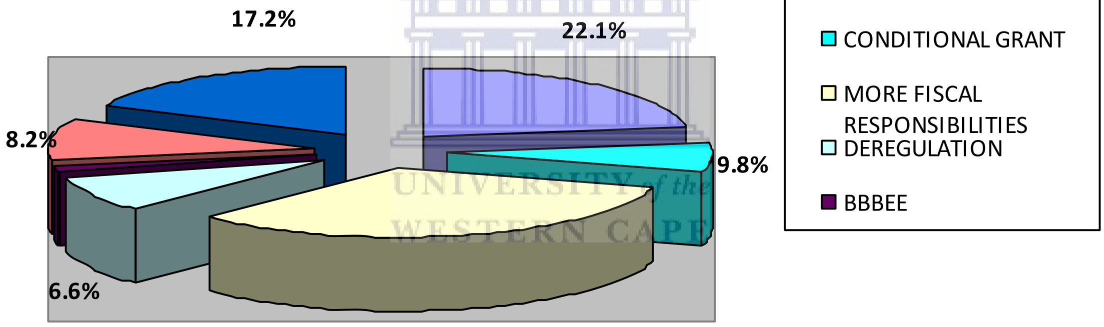
5.2.1 TYPOLOGICAL OVERVIEW OF IGF TRANSFERS

This section has the specific objective of defining key concepts used on the subject relating to intergovernmental fiscal transfers in South Africa. In line with the key words, it is already apparent from the discussion of the study thus far that key concepts used include inter alia, conditional grants, unconditional transfers, equalization, vertical fiscal imbalance as well as horizontal fiscal disparities. These concepts, together with related terminology, will receive particular attention in the section which follows. The section should be read in conjunction with the discussion on conceptual clarifications on taxation and tax overlapping (section 3.4), and the discussion pertaining to conclusions and policy recommendations (section 3.5).

5.2.2 NON-MATCHING TRANSFERS

Non-matching transfers[40] may be either selective (conditional) or general (unconditional). The rationale for unconditional transfers, also called equitable share of government's vertical split of revenue to sub-national spheres of government unconditionally s based on the principle of attaining vertical and horizontal equity while ensuring that the transfer system is able to cater to interjuridictional externalities as well as correcting for administrative weaknesses.

FIGURE 8: REFLECTION OF INTERVIEW RESULTS ON NON-MATCHING TRANSFERS



In South Africa, evidence shows that unconditional transfers are the most used through a formula as that has already been mentioned in this section above, and discussed in section 2.2.2 of chapter 2. Nevertheless, results of conducted interviews show a very weak depiction (8.2%) of two respondents preferring this type of intergovernmental intervention, while 9.8% (three respondents) preferred the adoption of BIG under the pretext of helping the poor families in South Africa. In as much as a stronger proportion of ten respondents (32.1%), especially those in Metropolitan City of Cape speculated around the option of the central government rewarding successful municipalities that demonstrate fiscal and

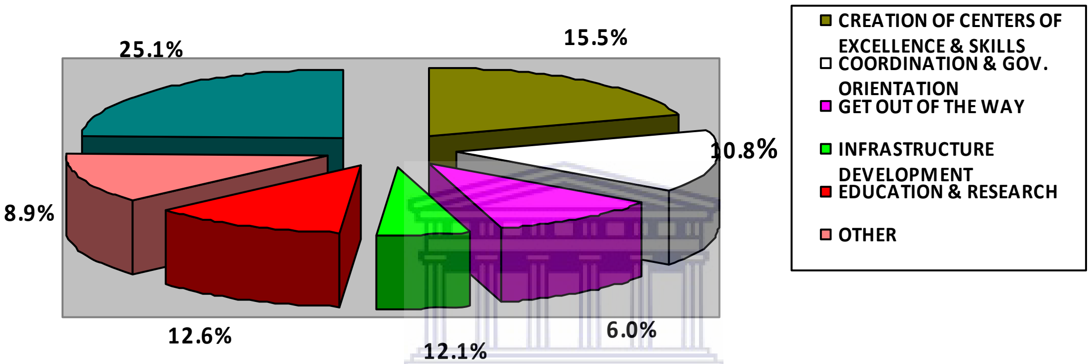
[40] Refer to intergovernmental Financial and Fiscal Relations on page 2.2.

financial administrative maturity in raising revenue as well as utilizing their financial scare resources with caution in opposition to those municipalities that mismanage or outsource their services. Surprising enough, observations have been made on the fact that nine respondents or 22.1% (a higher statistical score) of the sample size pointed that the government should provide more funding to lower spheres with the view that sub-national spheres of government are the focal points of policy alignment and delivery of basic services and whereby people's needs are the most felt. The following Figure 8 is a reflection of this situation.

5.2.3 SELECTIVE NON-MATCHING TRANSFERS

Selective non-matching transfers offer a given amount of funds without local matching, provided they are spent for a particular purpose 9see section 5.7). Such conditionality ensures that the recipient government's spending on the specific category is at least equal to the amount of transfer monies. If the sub-national recipient government is already spending a certain amount that is equal to grant funds, some or all of the grant funds may be diverted to other uses. The theory on the study of intergovernmental transfers shows that increase in expenditures on a specified category would, to a certain extent, be equal to grant funds. Evidence has proven that the lumpiness of investments in areas such as infrastructure may result in increases in expenditures exceeding grants. In this regard, higher spheres of government should play an important role in order to facilitate a smooth implementation of services by lower spheres, especially those that have been earmarked as infrastructure backlog areas and whose implementation of such infrastructure services would require huge amounts of funds exceeding the scope of allocated grants. In this reference the intervention of macroeconomic type, for instance from central government ten respondents (25.1%) is one example that would lead to the creation of conducive legislative, administrative and fiscal environment to the delivery of such services in lower spheres as well as infrastructure development by ensuring among local municipalities the uniform financing and maintenance of infrastructure involving more central government responsibilities. Refer to Figure 9 below for substantive clarity.

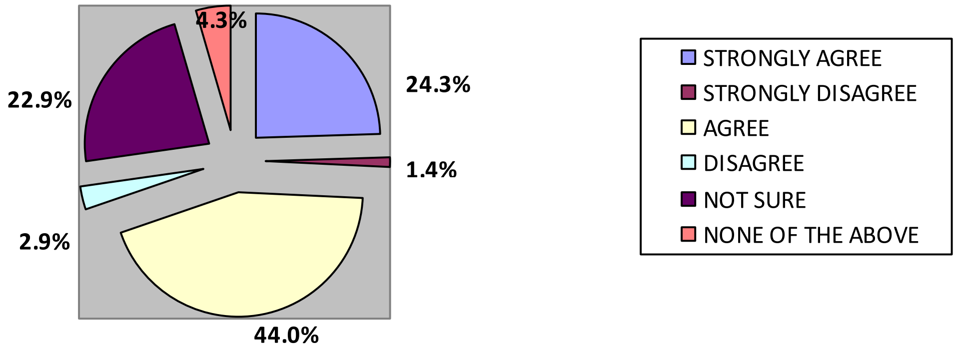
FIGURE 9: REFLECTION OF INTERVIEW RESULTS ON SELECTIVE NON-MATCHING TRANSFERS



5.2.4 GENERAL NON-MATCHING TRANSFERS

The non-matching general or unconditional grant is a transfer made by the government to be spent unconditionally without any minimum expenditure expectation in any given area. This type of grant is a stimulant for local spending in that it does not necessarily bind the municipality, and can be spent on a combination of public goods or services in order to provide tax relief to the local communities without modifying relative prices. In some empirical studies, observations have been made on the portion of these grants as it retains greater local spending tending to exceed local government's own revenue relative to residents' income. The implication of this type of grant is that for political, technical and bureaucratic reasons, grants to local governments tend to result in more local spending than if the very grants were made directly to local communities.

FIGURE 10: REFLECTION OF INTERVIEW RESULTS ON SELECTIVE NON-MATCHING TRANSFERS

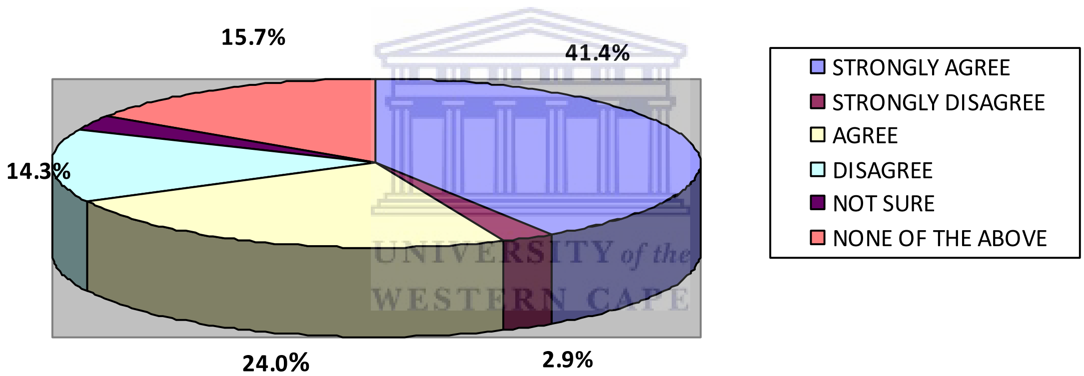


This provision is an effort toward central government’s responsibility to address equalization of revenue and use of horizontal mechanisms of transfers and grants in order to address fiscal inequality and inefficiency of revenue nationwide to obtain a certain degree of sub-national equality and fiscal autonomy. The result of interviews conducted depict fourteen respondents (44.0%) of the total sample size finding this type of transfer a good attempt towards fiscal equalization and eight respondents (24.3%) strongly agreeing that government should not fail in its endeavour to address revenue equalization through transfer mechanisms as well as financial grants. The following figure, Figure 10 is shown on above page as a reflection of the views of respondents on this issue.

5.2.4 SELECTIVE (CONDITIONAL) MATCHING TRANSFERS

Cost-sharing program or selective matching transfers require that funds be spent for specific purposes and that the recipient government matches the fund to some degree. This type of subsidy has two implications; - the income implication and the price or substitution implication. In the former the subsidy provides the community with more resources, some of which may make acquisitions on more assisted services. In the latter, however, the local communities concerned acquire more for a given budget, since the subsidy reduces the relative price of assisted services. In this way, both implications are said to stimulate expenditures on the assisted category. It has been observed that matching transfers distort local priorities (point of view of thirteen respondents constituting 39.7% of total sample size agreeing on this issue), in this way they are regarded as inequitable in that big and richer metropolitan areas can raise matching funds more easily than smaller, poor ones (fourteen respondents or 44.4%).

FIGURE 11: REFLECTION OF INTERVIEW RESULTS ON SELECTIVE (CONDITIONAL) MATCHING TRANSFERS



The former implication may be offset if the desired consequence when the transfer is intended to internalize effects or achieve overriding national policy objectives, the latter eliminated by varying matching rates with metropolitan or jurisdictional wealth (refer to Figure 11 above).

5.2.5 RATIONALE FOR GRANTS AND THE IMPLICATIONS FOR THE TRANSFERS DESIGN

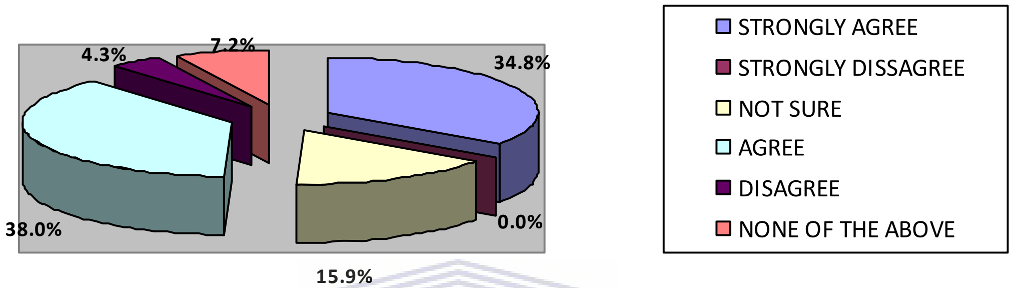
As is the case with definitions (discussions above, section 4.3), we need, in this section to highlight the economic rationale for transfers and group them into five broad economic arguments for unitary-state transfers in South Africa, each of which is based on either efficiency or equity and each of which may apply to varying degrees in actual economies.

5.2.6 THE FISCAL GAP

For the purpose of this study, we will attempt to understand the concept of fiscal gap as an imbalance between the revenue-raising ability of sub-national governments and their expenditure responsibilities. In fiscal management terminology, this is referred to as “vertical imbalance”. The vertical imbalances are accounted for two reasons (this section can be read in conjunction with section 3.4 on taxation and tax overlap). The first is due to inappropriate assignment by national government of the taxing and spending responsibilities such that expenditure needs of sub-national governments exceed their revenue means (see Schedule 4 of the Constitution of the Republic of South Africa, part A compared to Part B, and Schedule 5 Part B as contrasted to part A). The second reason accounts to the fact that many taxes are more efficiently collected at the central government level responsibilities to avoid tax competition and intergovernmental tax distortions. In this way, transfers are necessary to enable local level to carry out their expenditure responsibilities.

Empirical evidence (twelve respondents or 38.0%) of agree and thirteen or 34.8% of strongly agree) which account for twenty five respondents constituting 73.3% of the total sample size, feel that applicable legislation on fiscal and functional responsibilities imparted to different spheres of governments is an epitome of fiscal gap and should be changed. It creates an unnecessary and cumbersome hindrance not beneficial for fiscal autonomy and service delivery at lower spheres of government. Other respondents under abstention feel that many taxes are more efficiently collected at the central government level competence than the lower one (five respondents or 15.9%) to avoid tax competition and intergovernmental tax distortion. In this way, transfers are necessary to enable local level to carry out their expenditure responsibilities. Refer to Figure 12 below for more information.

FIGURE 12: REFLECTION OF INTERVIEW RESULTS ON THE FISCAL GAP



5.2.7 FISCAL INEQUALITY

In order to correct the fiscal inequality that arises naturally in a country of a decentralized system, the government should value horizontal equity. Horizontal equity thus, is the equal treatment of all citizens nationwide irrespective of caste, religion, ethnic group, language, race or political affiliation. Sub-national governments have their own expenditure level and taxation responsibilities in order to provide their communities with a minimum level of services for the same fiscal effort due to their differing fiscal capacities. If the transfers to each local state depended on its tax capacity relative to others and upon relative need for and cost of providing public services, these differences may be reduced.

5.2.8 FISCAL INEFFICIENCY

The theory on intergovernmental fiscal relations maintain that the same differentials which, under certain circumstances give rise to fiscal inequity also cause fiscal inefficiency.

5.2.9 INTERGOVERNMENTAL EXTERNALITIES

The traditional argument maintains that sub-national governments do not have the proper incentive to provide the correct levels of services which yield externalities across sub-national spheres. A system of matching transfers based on the expenditures giving rise to the effects will provide the incentive to increase expenditures (De Visser, 2005: 206). In this way, the extent of externalities will practically be difficult to measure, and the correct matching rate to use will be somewhat arbitrary. This is due to the fact that the 'externalities 'effect of municipal infrastructure have not been included in the equalization formula. This should indeed, be given serious consideration. Many publicly provided services are characterized by 'spillovers', costs and benefits that are not experienced within the jurisdiction providing the services. These are often called external costs and benefits or simply 'externalities'. It is expected that sub-national government will not always provide an optimal level of public services if significant externalities exist. They will choose the types and levels of services that are best for their local constituencies, ignoring costs and benefits experienced by others. Thus can lead to under provision of goods that have regional or national benefits, and overprovision of goods that impose costs on surrounding jurisdictions or on the nation. Lengthy examples can be cited in this regard, too little investment in education, inadequate pollution control, underinvestment in regional hospitals, and so on.

Where externalities would be pervasive if a service were to be provided by sub-national governments, provision by the central government is appropriate. In less extreme cases, the central government may provide grants intended to induce sub-national government to provide more of the services characterized by external benefits. Provisions of services characterized by external benefits are sometimes mandated by higher levels of government. As noted earlier, it is not appropriate to mandate the provision of services without providing the required funding. It has been noted that externalities are very difficult to measure, as a corollary; it is not easy to design such grants. Grants that targeted very specifically but inaccurately may yield unintended and undesirable consequences.

5.2.10 FISCAL HARMONISATION

The goal for a developmental state is found in its national commitment to distribute equitably revenues to sub-national spheres in order to allow them provide basic public services and redress the imbalances and infrastructure backlog in the society. The aim of national and provincial governments is to ensure that all efforts are channeled towards the achievement of common goods for all. In this regard, local government is seen as a terrain where different stakeholders, agencies, parastatatals, community groups as well as national and provincial departments join their efforts in order to meet the basic needs and enhance the prestige of those who have been previously disadvantaged in the society. Integrated Development Planning (IDP) is one of the most important instruments for attaining harmonization and coordination between national, provincial and local government. Service delivery by all spheres of government comes together in a focal point of coordination and alignment at local government level. This ethos has been clearly highlighted by the government through the White Paper on Local Government as follow:

"*Local government is a sphere of government in its own right, and not a function of national or provincial government…; it is increasingly being seen as a point of integration and co-ordination for the programs of other spheres of governmen*t" (White Paper, 1998: x-xi).

However, if service delivery alignment and coordination can be best achieved through IDP, it is clear that one of the way to accomplish expenditure harmonization in a decentralized system of cooperative government is the use of non-matching or conditional transfers, provided the conditions reflect national efficiency and equity parameters and ensure that every failure in delivery of programs should be financially penalized under certain conditions. Such policies may encourage uniformity, i.e., the free flow of goods and factors and decentralization which may encourage innovation, efficiency and accountability. It has been attested that good intergovernmental transfer prorgammes have key generic peculiarities in common (refer to section 2.2). Transfers[41] are determined as objectively and openly as possible, ideally by some established formula. They not subject to hidden political negotiation. In fact, the transfer system may be decided by the central government alone, by a quasi-independent expert body, such as the grant commission, as that is the case in South Africa by FFC, or by some formal system of centralized committees. A system that achieves this dual objective is to set the total level of transfers as fixed proportion of total central revenues, subject to renegotiation periodically (every 2-5 years). In case there is more than one grant, the formula or formulae are transparent, based on credible factors, and as simple as possible. If several objectives discussed earlier are applicable, say some degree of equalization is desirable while at the same time the national policy objectives with respect to the provision of minimal standards of education are obvious or variable degrees of national support for certain local infrastructure activities, it might assist both clarity and effectiveness if separate transfers are targeted at each objective.

[41] They are relatively stable from year to year. The rationale is to allow rational subnational budgeting, at the same token by using the measures of sufficiency and flexibility; they ensure that national stabilization objectives are not disturbed by subnational finances.

5.3 PRINCIPLES FOR THE DESIGN OF INTERGOVERNMENTAL FISCAL ARRANGEMENTS

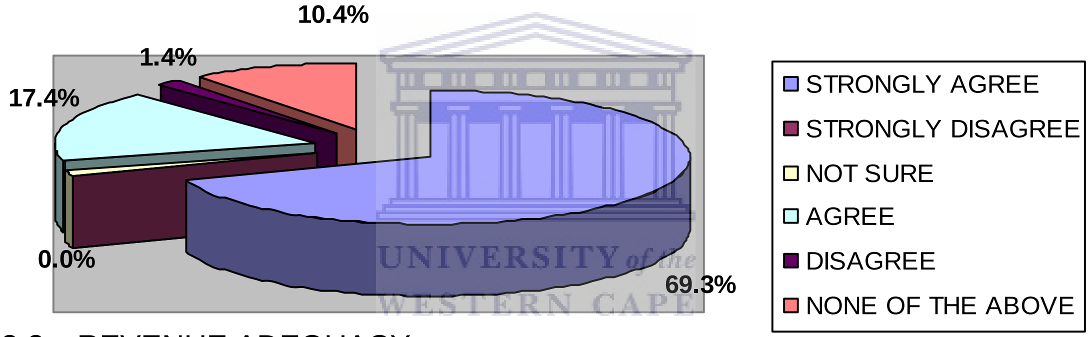
5.3.1 AUTONOMY

Intergovernmental grant have three principle objectives, ie. correct fiscal gap between revenues and expenditures of sub-national governments; ensure fulfillment of national policy objectives; at last compensate for interjurisdictional spillovers resulting from services provided by sub-national governments (Winkler, 1994: 31).

The Constitution of South Africa provides a mandate to sub-national governments that have been labeled in terms of 'developmental local states', and equips them with a constitutionally protected status amongst the three other spheres of government. So far, the constitution affords local governments with enumerable legislative and executive powers. This means that their revenue generating authority giving them access to generate more than 90% of their income is protected in the constitution as well as their entitlement to a share of nationally raised revenue (De Visser, 2005: 258).

In line with this principle, it is clear that sub-national government should have complete independence and flexibility in setting priorities, and categorical structure of programs and uncertainty that always surround decision making at the central level should not constrain and bind them from generating these revenues and delivering these services. The institutional framework affords sub-national spheres real decision-making powers. Other spheres are under a constitutional instruction not to interfere unduly (De Visser, 2005: 259) in the affairs of the municipalities. In line with the discussion above, we clearly see that the tax base sharing is an instrument allowing sub-national governments to introduce their own tax rates on central bases, and the South African formula-based revenue sharing, or block grants is consistent with this objective. A very strong body of evidence 69.3% of strongly agree and 17.4% of agree accounting of 86.7% of the whole sample size witnesses that fiscal autonomy and functional status of sub-national spheres of government is never respected, since government in other spheres always encroach on geographical and functional responsibilities of sub-national government entities in other spheres. The following interview results below are a reflection of this evidence by respondents.

FIGURE 13: REFLECTION OF INTERVIEW RESULTS ON FISCAL AUTONOMY AND FUNCTIONAL RESPONSIBILITIES



5.3.2 REVENUE ADEQUACY

In section 5.3, on the terminology and definition of Intergovernmental Fiscal Transfers, as summarized above, it was contended that the South African Intergovernmental Transfer design has highlighted two types of transfers. It was said that non-matching transfers may be either selective (conditional) or general (unconditional) and selective matching transfers. With regard to the spillover effects on intergovernmental conditional transfers (subsection 5.4.4) and its relation to fiscal gap (subsection 5.4.1), fiscal inequality (subsection 5.4.2), and fiscal inefficiency (subsection 5.4.3), the institutional design for intergovernmental transfers might suggest a *normative framework* for intergovernmental relations (De Visser, 2005: 262). Secondly, it should provide a legal framework that enables local government to participate, as an equal partner, in the vertical integration of policies of the various levels of government. It should also provide mechanisms for decentralized entities that operate at the same institutional level to integrate and align their policies. Third, the legal framework should provide a degree of *institutionalization of intergovernmental instruments* in order to ensure participation of stakeholders. It was remarked that, in order to do all these, sub-national governments should have adequate revenues to discharge designated responsibilities.

5.3.2 REVENUE EQUITY

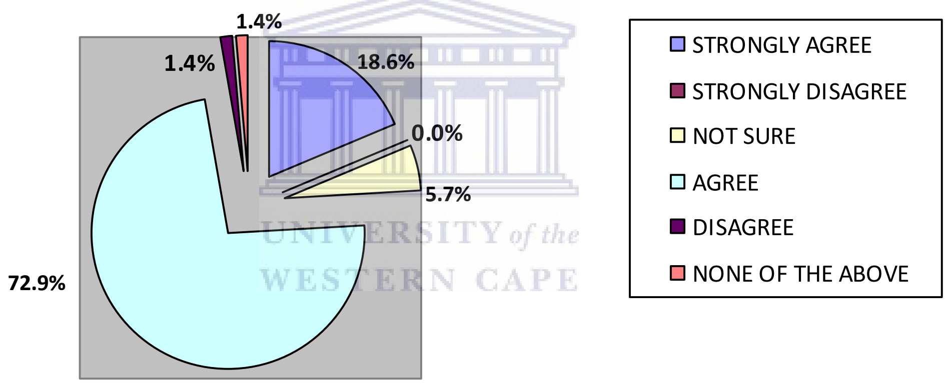
Organized local government is recognized in the constitution as a legitimate voice for local government, and is represented in parliament by non-voting members and may nominate members to the Financial and Fiscal Commission (FFC). It has been remarked with bitterness that the promising recognition in the Constitution of organized local government as a mature negotiating partner has not resulted in a strong local government message voice by the South African Local government Association (SALGA) due to a number of reasons (De Visser, 2005: 264). The meeting of provincial and national finance ministers with local governments in the Budget Forum is not cooperative in nature but driven by the National Treasury agenda. Allocated funds to sub-national governments should vary directly with fiscal need factors and inversely with the taxable capacity of each province. This is only possible if the status of government in other spheres were respected on the equal level (section 1.2) and not violated[42].

Evidenced opinion of theoreticians is unanimous on this issue than that of government's experts (18.6%) and theoreticians. Academics who are engaged

[42] See section 41 of the Constitution of South Africa on the principles of cooperative government and intergovernmental relations.

on this statement (72.9%) give more support to the proposition. Organized local government has lost the constitutional protection of its influence over the imposition of FFC. According to De visser (2005), in conjunction to state intervention in spheres of government (section 3.2) and the constitutional framework and legislative implications for financial management (section 3.3), it has been made clearer that "…*the proposals for the statutory nomination procedure keep the influence of organized local government intact, but the constitutional amendment has damaged local government's institutional status*".

FIGURE 14: REFLECTION OF INTERVIEW RESULTS WITH REFERENCE TO THE PRINCIPLE OF REVENUE EQUIT

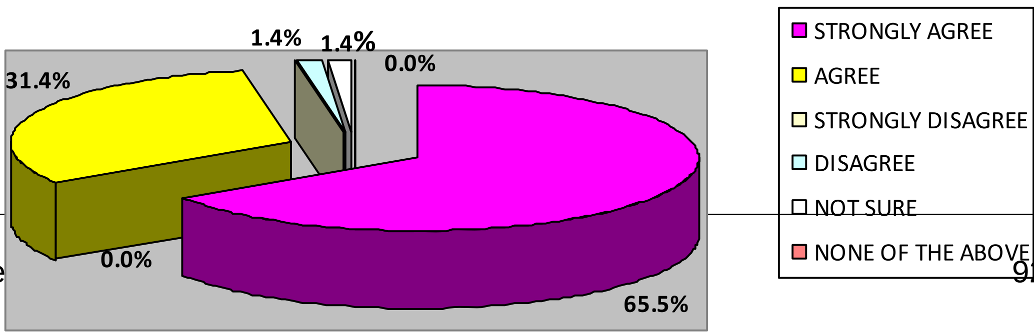


A system of weighed representation would be worth considering as it would enhance the legitimacy of sub-national governments, "…*SALGA's functioning in Parliament is hampered by a lack of capacity, unfortunate nomination process and Parliamentary rules that leaves much to be desired,…this would distort the balance of democratically generated power at central level and renders SALGA an ordinary political actor*" (De visser, 2005: 264).

5.3.3 PREDICTABILITY, EFFICIENCY AND SIMPLICITY

In the field of policy studies (policy analysis, policy process and institutional arrangement), development and management studies, Leonard et al (1995: 9) when attempting to define policy as a set of acceptable societal values followed in dealing with a problem or matter of concern, state that any policy has a predictability component on the state of affairs which would prevail when that purpose has been achieved. Following the coherence of ideas as discussed by the two scholars above, and with reference to intergovernmental fiscal relation as a matter of concern, we might say that any government's transfer mechanism should be able to ensure predictability of sub-national governments' share by publishing five-year projections of funding available. Growing experience suggests that improvements in the efficiency or in the quality of public policy choices with which services are run are to be found in the neutrality of intergovernmental transfers' design of allocation to different sectors or different types of activity at sub-national level (Shah, 2005: 171). The sub-national government's allocation should be based on objective factors over which individual units have little control. The formula suggested by the Financial and Fiscal Commission (FFC) should not be complex but easy to understand in such a way that all the constitutive components of it are realistic with the socio-political and environmental as well as demographic features in the country.

FIGURE 15: REFLECTION OF INTERVIEW RESULTS WITH REFERENCE TO THE PRINCIPLE OF REVENUE EFFICIENCY

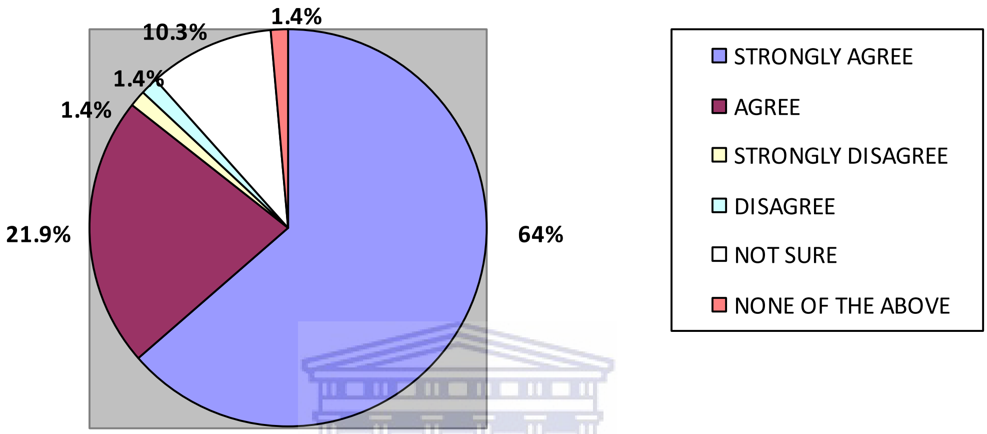


5.3.4 MARGINAL INCENTIVE

The proposed intergovernmental transfer design should provide incentives for sound fiscal management and discourage inefficient practices. In this way, it would be advisable to discourage specific transfers to finance the deficits of sub-national governments. Grants intended to reflect external benefits of public services or to encourage tax effort should affect the “tax cost” of sub-national public expenditures. It is appropriate that a grant be designed to reduce the tax cost paid by residents of a local government by one fourth to induce to provide more of the service than if they considered only the local benefits. To encourage tax effort, the central government might provide a grant that matched, not necessarily on a one-for-one basis, local government revenues from own sources, perhaps subject to upper limit.

Grants should be designed in a way that does not affect the ‘tax cost’ of a sub-national sphere’s spending capacity. In order to accomplish this, it would be necessary that the size of grants not be affected by the amount of revenue a local government raises from own sources. In practice, grants should not be reduced if local taxes are increased as this is the case in South Africa by the minister of finance. If this is achieved, grants will not affect marginal decisions on the level of public appending. Interview result depict a consolidated proportion of 95.5% for respondents complaining about the fact that in practice, central government in South Africa through the Minister of Finance generally reduce the scope of sub-national grants when local taxes are increased (see Figure 15 above).

FIGURE 16: REFLECTION OF INTERVIEW RESULTS WITH REFERENCE TO MARGINAL INCENTIVE



5.4 OBJECTIVES OF TRANSFER POLICY

This section has the specific objective of clarifying the objectives of intergovernmental transfer following the discussion above, together with the definition of the word policy. This will give a clear understanding on the key components needed in the compilation of the next chapter where we will attempt to analyze the Municipal Infrastructure Grant (MIG) within the framework of service delivery and municipal spending.

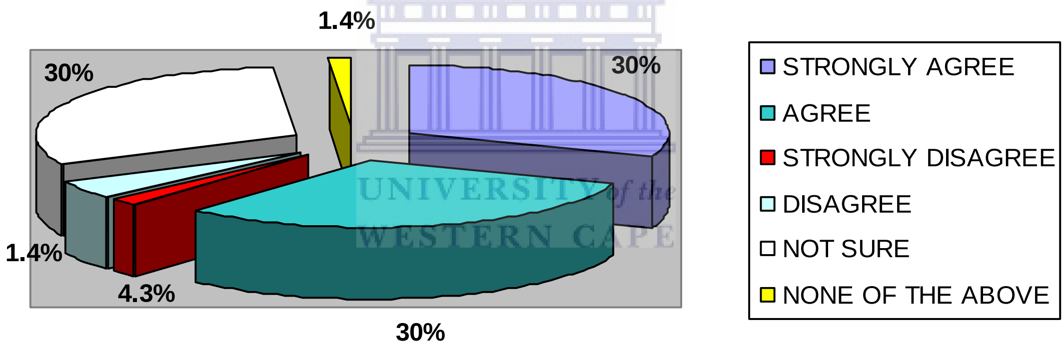
5.4.1 DEFINITION OF THE CONCEPT ‘POLICY’

According to De Coning (2005: 139), “…*policy is a statement of intent*”. For Easton (1953: 129) “…*policy is the authoritative allocation through the political process, of values to groups or individuals in the society*”. Hanekom (1987: 9) defines policy making as "…*an activity preceding the publication of a goal, while the policy statement is the formal articulation, the declaration of intent or the publication of goal to be pursued*". There is no universally accepted definition for the word policy. In fact, the author agrees with the definition of Easton, implying that any policy in determining transfers, with regard to intergovernmental fiscal relations is an authoritative allocation and includes a political process. This entails values and is done by group or individuals or government's institutions at a given level of government. The author so far, puts his head together with Hanekom, that policy making is the activity preceding the publication of an objective regarding intergovernmental grants. Given the word policy definition as a statement of intent as discussed by various scholars above, a wide array of evidence suggests several possible targets to grant policy. Though this study will not attempt to discuss in length all of the grants and their objectives at the disposition of the central government to sub-national spheres, it will suggest that attention focus on reducing vertical fiscal imbalance and horizontal fiscal disparities and avoid unintended marginal incentives.

5.4.2 VERTICAL FISCAL IMBALANCE

One of the objectives of transfer's policy is to redress the mismatch between the expenditure responsibilities assigned to a given level of sub-national government and the revenue capacity allocated to it, in case such exists. Vertical imbalance poses a serious problem in South Africa as much as it is quite common throughout the world, as central government ordinarily has greater fiscal capacity than sub-national governments, for the reasons specified in chapter 1, on the principles of cooperative government and the assignment of responsibilities thereof, as stipulated in Schedule 4 and 5 of the South African Constitution. In order to reduce this fiscal mismatch between national government and sub-national spheres under certain circumstances, grants system have been introduced in the study of financial and fiscal management in decentralized dispensation, in order to overcome vertical imbalance through the canalization of funds from the central government to lower-level governments. In order to reduce the fiscal mismatch between national government and sub-national spheres under certain circumstances, grants system have been introduced un the study of financial and fiscal management in decentralized dispensation (Winkler, 1994) in order to overcome vertical imbalance through the canalization of funds from the central government to lower-level governments.

FIGURE 17: REFLECTION OF INTERVIEW RESULTS WITH REFERENCE TO VERTICAL FISCAL IMBALANCE



However, referring to the Municipal Systems Act, a senior cluster of expert respondents interviewed (60%) complained that central government assigns greater responsibilities to sub-national spheres of government who are close to the people with only 10% of transfers devolved to them. On the other hand, it does allocate 90% of the total amounts of transfer to the provincial government with or without bigger social responsibilities to deliver in terms of the constitutional mandate. See Figure 17 above.

5.4.3 HORIZONTAL FISCAL DISPARITIES

A second objective of grants is to reduce horizontal fiscal disparities, i.e., difference among sub-national spheres of government in the relationship between the capacity to raise own revenues and expenditure needs, by redistributing fiscal resources among sub-national levels of government. A system with no horizontal fiscal disparities would allow each sub-national sphere of government to provide the same level of public services with a given set of tax rates. Horizontal fiscal disparities may exist whether or not there is vertical fiscal imbalance.

While equalization of fiscal capacity is desirable from the view point of short-term equity, it can be questioned on the grounds of economic efficiency. Equalization may allow people to remain in locations where the provision of public services is expensive or opportunities for private economic activities are limited. Thus, there may be a conflict between equity and efficiency (section 5.5). From a long-term perspective, failure to equalize fiscal capacity may contribute to migration that enhances productivity and reduces poverty.

In South Africa grants are often made to guarantee the provision of minimum levels of certain services as education, health and nutrition for children and for lactating mothers. This can be explained as a necessary step to overcome particular forms of externalities (section 4.4), i.e., the concern for the well-being of the constituencies, juvenile delinquency, drug addiction, as well as crime in the society. Earlier (footnote referencing 19), we explained that grants can be conditional, unconditional (section 4.3) or can be seen as a form of redistribution in kind[43]. In practice, use of funds provided to finance the satisfaction of minimum standards is commonly restricted to provision of the services in question.

5.5 EMPIRICAL APPLICATION OF GRANTS FOR HIV/AIDS, EDUCATION AND SOCIAL DEVELOPMENT IN SOUTH AFRICA

In this section, our first intention is to review the principles of intergovernmental grants, including grant objectives and administrative discretion in determining grants allocations. The rationale of our review intends to set the context for a future detailed analysis of conditional grants in South Africa. Second, we will review and value South Africa's experience with three innovative sector-specific grant designs, from which we can derive lessons of experience for the country regarding grant design and administration.

As stated above, it is more common to refer to these transfers as non-matching selective or conditional grants (section 5.3). These are called so when permitted uses of sector-specific transfers are relatively restricted, in this way the transfers are labeled categorical or conditional grants[44]. In the following sections, we analyze the three categorical grants: selective grant for the finance of HIV/AIDS (health sector), the finance of basic education associated with HIV/AIDS in the education sector and the categorical grant for social development sector.

5.5.1 INTERGOVERNMENTAL ALLOCATION OF FUNDS: A BACKROUND

The National Integrated Plan for HIV/AIDS (NIP) is a joint venture that began in the year 2000 and 2001and was driven by the department of health, education

[43] Provision of food or education directly to the person or recipient concerned.
[44] Conditional grants (CGs) are funds transferred to provincial departments by an administering national department conditional on the delivery of certain services or interventions as defined by national.

and social development with three programs, namely voluntary counseling and testing (VCT), Life skills education as well as community and home-based care and support (CHBCS). It was obvious that the total pool of funds set aside for the NIP was initially split between these three basic programs. In alignment with the above, three CGs were put into place in order to finance implementation of the three programs mentioned above, which were also split between those funds to be spent directly by the national department and those that had to be disbursed to provincial departments as CGs (Hickey et al, 2003: 22). Life skills program was taken by the department of education, whereas the VCT program rested within the responsibility of the department of health. As far as the CHBCS program was concerned, both the department of Health and that of Social Development shared together its responsibility, with the hope that the department of Health had a mandate to implement home/community- based care for chronically ill patients, while the department of Social Development was given the mandate of implementing a coherent response for orphans and vulnerable children. There are three CGs for HIV/AIDS interventions:

5.2.2 LIFE SKILL CONDITIONAL GRANTS

This type of grant is administered by the Department of Education and is divided horizontally between the different provinces using the education component of the equitable share formula (section 2.2). Evidence shows that the total figure of the grant amounted to R 120.47 million in 2003/4 and, as stated above (subsection 5.7.2), the broad objective of the Department of Education's HIV/AIDS strategy is channeled toward guaranteeing access to an appropriate and effective integrated system of prevention, care and support for children infected by HIV/AIDS; and to deliver curriculum-based life skills and HIV/AIDS education in primary and secondary schools (Hickey et al, 2003: ibid).

The HIV/AIDS conditional grant is the smallest of the three CGs totaling R62 million in 2003/4. This conditional grant is financed by the Department of Social and Development, based on the aspects of CHBCS[45] program susceptible to provide support to orphans and vulnerable children.

This type of grant is the biggest of all three. It amounts to R314 million in Budget 2003/4, and in the same year 2003/4 Budget the total allocation for the health HIV/AIDS jumped by 50% in real terms and, in addition to providing for rapid roll-out of the PMTCT and continuation of programme previously covered by CG, the expanded allocation intended to finance at least two new components: Provincial prorgammes to provide post-exposure prophylactic (PEP) drug treatment to women who may have been exposed to the virus due to rape. Centers of excellence in AIDS care, to be established in each province attached either to a medical school in the province or in a neighboring province.

5.5.3 POLICIES FOR PROVINCIAL ALLOCATION

Two basic allocations or budgeting decisions have been used in order to provide evidence of the own spending on the program. Firstly, the determination of the global amount of R 120 million for the Life skill prevention programme for 2003/4 was obtained by splitting the initial budget between the three NIP programme for 2001/2 to 2003/4 based on the decision of the National Steering Committee of the NIP, consisting of Dr Simela, Chief Director HIV and AIDS; Mr. Edcent Williams, chief Director: Curriculum – Department of Education and Dr Maria Mabetoa – Director: HIV, Department of Social Development, based on the views of the National treasury (Hickey, 2003: 24). Second, the decision was made in

[45] It should be born in mind that funding from CHBCS is complex. The provincial welfare departments receive CHBCS funds from the Department of Social Development, while at the same time the health HIV/AIDS CG also makes funds available to provincial health departments for the health related aspects of the CHBCS programme.

terms of the criteria or rationale and also, with reference to the personality of those involved in making the decision. This is due to the fact that resource allocation decisions in the public sector need to balance ability to spend with need, by prioritizing those provinces that seem to have the highest prevalence rates while, on the other hand trying to consider the costs of prorgammes, norms and standards, the target population for particular interventions[46], etc (Winkler, 1994: 33).

Bedsides (refer to section 5.7.6), the above allocations for 2001 to 2003/4 the departmental allocations for health and HIV and AIDS seems to have grown at an annual rate of 16.8%, i.e., from R9.9 billion in 2005/6 to R15.9 billion in 2008/9. While the budget growth has been earmarked at 7.6% in 2009/10 to R17.1 billion, an average annual rate of 9.6% over the MTEF period will however, reach R20.9 billion by 2011/12. This, according to economists (Mukotsanjera et al. (2009: 4) amounts to real growth of R5.3 billion over six years. The graph below sows the rates of growth for health, HIV and AIDS and total national budget for the period 2005/06 to 2009/10. The rates of growth follow the same trends over the years but the total national budget decreased at a higher rate from 2007/08 to 2008/09.

5.5.4 EXPENDITURE RECORDS ON HIV/AIDS CONDITIONAL GRANTS

Central government has an important continuing role to play in a decentralized system that requires a restructuring of central government ministries towards improved capacity in these areas and away from direct service provision. However, one additional role of central government would be ensuring the efficient and equitable provision of decentralized public services that can be pursued either through mandates and regulations on sub-national governments

[46] The target population for HIV/AIDS prevention prorgammes is all people, not only those already infected by the disease.

or through intergovernmental grants, which combine incentives and grant conditionality. Winkler (1994: 2) warns that neither the mandate nor incentives-based grants will function well if the finance and provision assignments across governments of specific services are not well-defined; if the information system does not generate timely reports of specific services on financial and output performance of jurisdictions and if there is no mechanism by which this performance can be systematically reviewed and penalties assessed in the case of deficient performance or rewards given for exceptional performance.

The functioning of sector-specific intergovernmental grants is spent and evaluated for primary HIV/AIDS health care, primary education and social development. Winkler (1994: op cit) cites three reasons for selecting or directing expenditure on these specific services. The first reason is that such services are among those mostly frequently being decentralized to sub-national governments in current decentralization efforts. The second is that when education and health are decentralized to sub-national governments, they often represent over half the total sub-national government budget; and the third reason being that these services continue to attract the attention of central government's objectives even after decentralization.

Examples of innovative sector-specific grant designs are identified for each of these three sectors, and the expenditure of these designs analyzed. The lessons learned from this review should be of general applicability to the provinces in South Africa. Conditional grants make up approximately 10% of provincial revenue, with the bulk of provincial budgets sourced from the equitable share (86.5%) and provincial own revenue (3.5%). By ring-fencing the funds, central government ensures that national priorities will be sufficiently resourced in provincial budgets and that provinces will implement these programs; however, the financial and program regulations attached to CG funds create bureaucratic problems and delays in transferring and spending funds, as a matter of fact, spending on conditional grants in South Africa is typically quite low, i.e., between 70.1% and 84.6% as this paper will show (National Treasury, 2001: 16).

5.5.5 IMPROVEMENT ON CONDITIONAL GRANTS

Provinces have been guaranteed to run the HIV/AIDS CGs interventions and have been warned not to apply the funds for other purposes. However, regardless of this restriction, HIV/AIDS grant schemes witness under-spending and low-spending due to accounting structures of government that did not allow for spending on CGs to be calculated separately in the first place. Nevertheless, massive improvements in spending over the next two years suggest that the problem did not concern the CGs alone, but was also due to administrative as well as financial management challenges (Hickey, 2003: 31).

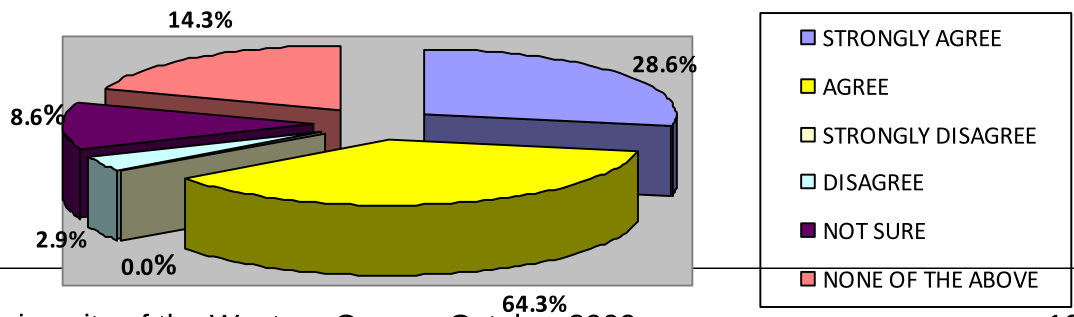
“Getting the NIP programs up and running required setting up management structures and employing co-coordinators in the provinces, developing financial transfer and monitoring systems, and establishing program standards, plans and materials. This implies that HIV/AIDS provincial managers have succeeded in overcoming the bureaucratic hurdles inherent in the CG mechanism itself – which line managers regularly confront when spending other CGs”.

Figure 18: below shows the aggregate provincial spending records on the three HIV/AIDS CGs and provide evidence of extensive improvement. Although the figures do not include expenditure on funds rolled-over from previous years, they reflect, as a matter of fact, provincial spending on the current year’s CG allocation. We should bear in mind that almost 85% of HIV/AIDS CG funds were spent in 2001/2 and 2002/3.Evidednce shows that in early 2001/2 aggregate spending on HIV/AIDS CGs matched or exceeded average expenditure on CGs,

as a corollary the usual difficulties experienced with CG spending have proved to be surmounted due to progressive improvement in HIV/AIDS programme structures and spending procedures (Hickey, 2003: 32). Evidence shows that in early 2002/2 aggregate spending on HIV/AIDS CGS matched or exceeded average expenditure on CGs, as a corollary the usual difficulties experienced with CG spending have proved to be surmounted due to progressive improvement in HIV/AIDS programme structures and spending procedures (Hickey, 2003: 32).

Nevertheless, one of major challenges experienced in the Department of Social Development and the Department of Education concerns lack of institutional arrangements with regard to financial and project management, since it is maintained that provincial health departments have been able to use provincial management funds for their internal staffing (Hickey, 2003). It is evident that the issue of technical skills and its related institutional arrangement has witnessed divided opinions among the respondents with a large proportion of respondents (64.3%) agreeing with the need of this mechanism to be put in place. This suggests that institutionalization of financial and project management capacity building is one of those instruments that need to be institutionalized within the framework of intergovernmental conditional grants in order to achieve a certain degree of finality.

FIGURE 18: REFLECTION OF INTERVIEW RESULTS WITH REFERENCE TO THE PRINCIPLE OF REVENUE EQUITY



According to the 2002 Division of Revenue Bill, all Budgets were transferred to provinces in 2000/1. The report witnessed an under spending of almost 30%. The reasons for the above-mentioned financial loophole accounted for slow pace in the disbursement of funds to provinces; this is worsened by a mediocre administrative capacity of those provinces, recipients of the funds (Division of Revenue, 2002: 75).

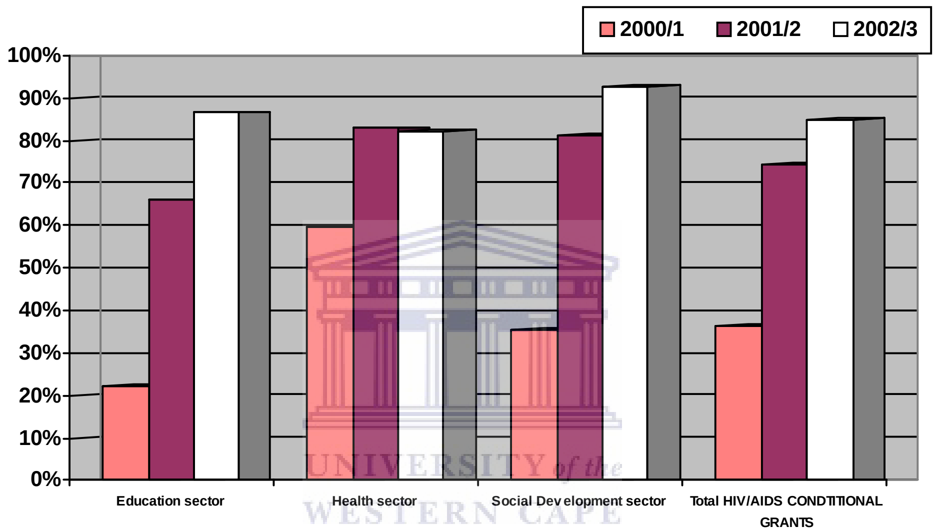
According to Hickey et al (2003), provinces spent 59.5% of the R 16.8 million in health HIV/AIDS CGs in 2000/1. The problem of under spending for the Department of Health was taken seriously by National Treasury in 2001/2 and effort in research toward this problem has been under way and counter measures developed (Division of Revenue, 2002: op cit). One of the serious problem posed by research on HIV/AIDS CGs is that, first there is not extensive literature and research on South Africa, and the second challenge is due to lack of available information on whether provinces' unspent funds were rolled-over from one year to the next. Most information found is either distorted or conflicting with that provided by the National Treasury when compared to that given by pectoral provincial Directors'. To illustrate this in clear terms, we would like to refer to an example using National Treasury figure of R 46 million actual spending for 2001/2. From this, one sees that unspent health CG funds for HIV/AIDS in 2001/2 amounted to R 8 million[47].

The 2002 Adjusted Estimates maintain that none of these funds were rolled-over into the next budget year; nevertheless, CG expenditure as reported by National

[47] Adjusted Estimate of National Expenditure, 2002: viii.

Treasury statements far exceeds 100% in a number of cases. This can be observed in the case of Eastern Cape's report of R 11. 395 million actual expenditure for 2001/2 to National Treasury, with a total allocation for that year amounting to R 6.281 million.

FIGURE 19: IMPROVED SPENDING RECORDS OF HIV/AIDS CONDITIONAL GRANTS, BY SECTOR



Source: 2001 Intergovernmental Fiscal Review and 2001 Budget Review. Statements of the National and Provincial Governments' Revenue and Expenditure as well as National Borrowing as at 31 March 2002, and as at 31 March 2003. More data come from information obtained from interviews[48] with: Deputy Director for HIV/AIDS, Department of Social Development; and HIV/AIDS managers and provincial education, health and social development/welfare departments.

This is very likely true that in certain circumstances funds to provinces were rolled-over. While Figure 19 above is an illustration of roll-over funds from previous year and spending on present year's CG allocation - attempting to

[48] Such interviews have been conducted by Alison and Hickey, Nhalanhla Ndlovu and Teresa Guthrie from IDASA in 2003.

compare expenditure in 2001/2 to the budget allocation for 2001/2, Figure 5.16 likely compares expenditure in 2001/2 to the budget allocation for 2002/3. this situation is due to the fact that, at the beginning of 2003 the Department of Health made flexible the restriction on provincial CG spending on HIV/AIDS by identifying a list of intervention and leaving provinces to exercise their discretionary choice to allocate resources to activities of their own prioritization.

This condition has been accompanied by growing pressures from HIV/AIDS CG mangers to spend increased CG amounts to R 333.556 million as compared to 210.209 million allocations from previous year[49].

FIGURE 20: ACTUAL EXPENDITURE ON HEALTH HIV/AIDS CONDITIONAL GRANTS, BY PROVINCE FOR 2001/2 AND 2002/3, INCLUDING EXPENDITURE OF FUNDS ROLLED-OVER FROM PREVIOUS YEAR

R million	Unaudited provincial actual spending 2001/2	Provincial actual spending 2002/3	Percent increase in actual expenditure
Eastern Cape	11.395	24.758	117%
Free State	3.767	16.884	348%
Gauteng	4.409	16.113	265%
KwaZulu-Natal	14.240	80.857	468%
Mpumalanga	1.528	7.946	420%
North West	2.254	21.245	843%
Northern Cape	4.665	5.727	23%
Limpopo	4.701	18.517	294%
Western Cape	3.566	11.519	223%
National Total	50.525	203.566	303%

[49] 2001 Intergovernmental Fiscal Review and 2001 Budget Review. Statements of the National and Provincial Governments' Revenue and Expenditure.

This situation suggested that provinces would need to spend over 60% of their HIV/AIDS CG allocated budget in 2003/4 than they could in 2002/3 in order to maximize their expenditure as prescribed by the Department of Health policy on HIV/AIDS CG. Aggregate actual expenditure for health HIV/AIDS CG has increased from 59.5% in the first year to 82.2% in 2002/3.

Official budget documents maintain that achievements on this grant are 2000/1: Spending was 23 % of allocated funds, with the appointment of 11 HIV/AIDS provincial co-coordinators and computers being obtained, including the appointment of nine more financial administrators (Division of Revenue Bill: 2003: 82); 2001/2: Contracts of Lifeskills coordinators being extended, and HIV/AIDS booklets printed and distributed in each province (Division of Revenue Bill: 2003: ibid); 2002/3: 46.5% spent up to end of December 2002, and HIV/AIDS provincial coordinators being re-appointed and vacancies filled as they arise. National coordinator has been appointed and has enhanced project management capacity, effectiveness and efficiency (Division of Revenue Bill: 2003: ibid). Figure 20 are illustrations of actual expenditure of Lifeskills CG funds, including expenditure of funds rolled-over from previous year, though details on roll-over amounts were not available.

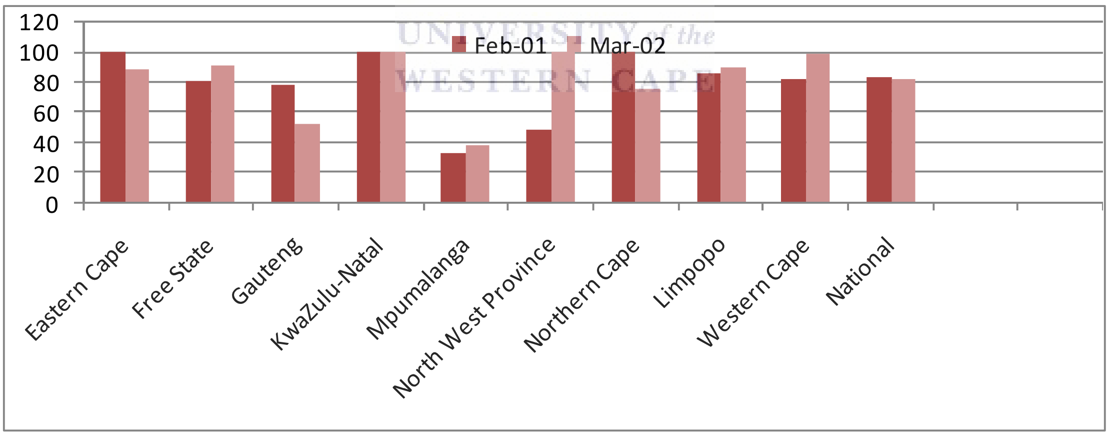
Gauteng spent zero in 2001/2 according to National Treasury statement as at 31 March 2002, in fact the national Lifeskills coordinator in the Department of Education reported that Gauteng's expenditure was actually 81.06% that year.[50] In other circumstances, actual expenditure figures reported to National Treasury for 2002/3 exceeded the CG allocation for that year in six provinces, namely Free State, Mpumalanga, Northern Cape, Limpopo, Western Cape and Gauteng.

[50] According to personal correspondence of Hickey et al with Brennand Smith, National Lifeskills Coordinator, National Department of Education.

From the above explanation, it is obvious that spending over 100% of CG funds is out of question. The only understanding is that provinces are reporting expenditure on funds rolled-over from the previous year, or erroneously include expenditure of departmental funds in their CG reporting to National Treasury.

The following figure, Figure 5.19 depicts actual expenditure as a percent of the current year's allocation, based on National Treasury expenditure statements and adjustments, but does not take into account the roll-over expenditure. It is a reflection of provinces efforts in the improvement of their spending records from 66% in 2001/2 to 87% in 2002/3 despite rampant increase in allocation plus growing pressure from unspent funds rollover.

FIGURE 21: PERCENT SPENT OF 2001/2 AND 2002/3 HEALTH HIV/AIDS CONDITIONAL GRANT ALLOCATION, BY PROVINCE – NOT INCLUDING EXPENDITURE ON ROLLED OVER FUNDS



Provinces	Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Mpumalanga	North West	Northern Cape	Limpopo	Western Cape	National
2001/2	100%	80%	78%	100%	33%	49%	100%	85%	82%	83%
2002/3	88%	91%	52%	100%	38%	100%	75%	90%	98%	82%

Source: Figures are taken from Statements of the National and Provincial Governments' Revenue. Expenditure and National Borrowing as at 31 March 2003 except in the cases of Free State, Northern Cape and KwaZulu-Natal. In a case of provinces reporting to National Treasury of the spending exceeding their CG allocation, or report expenditure of departmental funds in addition to CG funds or report on expenditure of funds roll-over from previous year. In such cases adjustments have been made to the figures in the following cases of Eastern Cape 2001/2 National Treasury Statement and KwaZulu-Natal 2002/3 (see table 3 above).

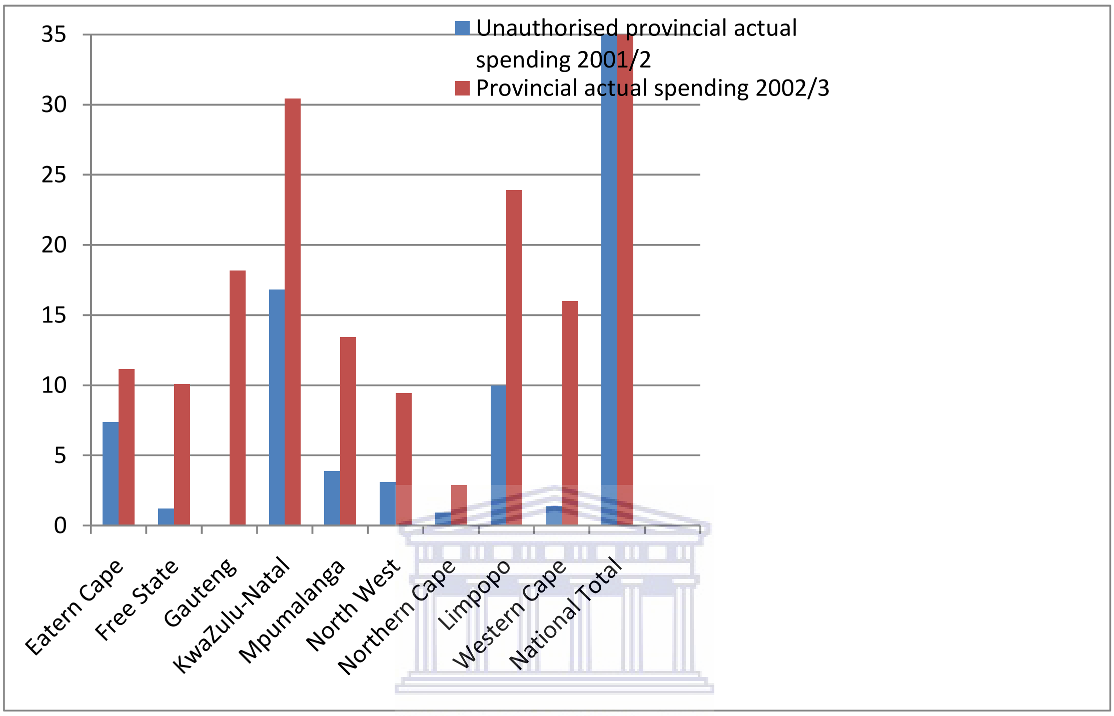
FIGURE 22: ACTUAL EXPENDITURE ON LIFE SKILLS EDUCATION HIV/AIDS CONDITIONAL GRANTS, BY PROVINCE, INCLUDING EXPENDITURE ON ROLLED OVER FUNDS

R million	Unaudited provincial actual spending 2001/2	Provincial actual spending 2002/3	Percent increase in actual expenditure
Eastern Cape	7.377	11.163	51%
Free State	1.232	10.083	718%
Gauteng	0	18.154	-
KwaZulu-Natal	16.8	30.403	81%
Mpumalanga	3.895	13.449	245%
North West	3.115	9.452	203%
Northern Cape	0.944	2.859	203%
Limpopo	9.969	23.906	140%
Western Cape	1.391	16.005	1051%
National Total	44.723	135.474	203%

Source: Statement of the National and Provincial Government's Revenue and Expenditure and National Borrowing as at 31 March 2002, and as at 31 March 2003.

Sufficient information on roll-over funds is unavailable for the Life skills conditional grant, as with the health CG due to the fact that not all funds being rolled-over went unspent into the next financial year. The National Treasury provides proof of R 19 million being unspent for 2002/3 financial year. Evidence gives an account of R 605 thousand being rolled-over by the Department of Education in 2002/3 with regard to Life skills CG funds owing to outstanding claims for the printing of HIV/AIDS materials – which clearly indicate that only 3.2% of unspent HIV/AIDS Life skills CG funds from 2001/2 were rolled-over into 2002/3.

FIGURE 23: ACTUAL EXPENDITURE OF LIFE SKILLS CONDITIONAL GRANT FUNDS, INCLUDING ROLLOVERS BY PROVINCE



Source: Statement of the National and Provincial Governments' Revenue and Expenditure and National Borrowing as at 31 March 2002, and as at 31 March 2003.

National Treasury and the Department of Social Development have both provides a depiction of a breakthrough on this type of conditional grant such as – the establishment of 49 sites, bringing the total number of sites to 55[51]; approximately 50 000 children have been reached under this scheme; rapid appraisal of home/community based care identified 466 projects of which 136 received government funding (Hickey, 2003: 40); practice guidelines were developed and made available to NGOs, CBOs as well as government officials in

[51] The total number of these sites increases when we take into account the sites funded via the Poverty Relief Programme to amount to 185 sites.

order to assist in rendering services of prime necessity to children within the basic scope of children's rights and legislation.

FIGURE 24: PERCENT SPENT OF 2001/2 AND 2002/3 LIFESKILLS CONDITIONAL GRANT ALLOCATION, BY PROVINCE, NOT INCLUDING EXPENDITURE ROLLED-OVER FUNDS

Provinces	2001/2	2002/3
Eastern Cape	63%	41%
Free State	31%	100%
Gauteng	0%	100%
KwaZulu-Natal	100%	96%
Mpumalanga	84%	100%
North West	61%	82%
Northern Cape	78%	100%
Limpopo	100%	106%
Western Cape	28%	100%
National Total	66%	87%

Source: Data in this Table are taken from Statements of the National and Provincial Government Revenue. Expenditure and National Borrowing as at 31 March 2002, and as at 31 March 2003.Provinces reported spending to the National Treasury which exceeded their CG allocation, in many cases, but to avoid bias on aggregate spending records, adjustments have been made with regard to KwaZulu-Natal (2001/2 of R 16.8 m), Mpumalanga (R 13.449 m), Northern Cape (R 2.859 m), Western Cape (R 16.00 m), Gauteng (R18.154 m).

The report of National Treasury on this grant was that aggregate spending amounted to R2 million in 2000/1 of the total of R5.62 million allocated. On these funds, Free State spent 100% of it allocation and Limpopo spent 87% of its budget and the rest of provinces had a constraint in spending their attributed budgets in the first year – Northern Cape spending nothing and rolling-over the entire R1 million budgets into 2001/2 and Northern reporting only R68.000 expenditure and requiring the rolling-over of a balance of R1 million budget allocation.

In 2001/2, almost all provinces did better on spending their CG budget allocation. This includes Northern Cape, North West and Limpopo, managing to spend all their unspent funds from the previous year, in addition to a big proportion of their current 2001/2 CG budget. Expenditure in 2000/1 was only 35.6%, however aggregate provinces spent 81.3% of the total CG budget for 2001/2. Figure 5.20 shows that this percent raises to 92.7% in 2002/3, while Figure 5.21 depicts actual expenditure of both current budget and rolled-over funds, by comparing across years to show the rapid increase in spending. The whole scenario is a success story showing how provincial HIVAIDS managers were able to rapidly increase their absorption capacity from one year to the next.

FIGURE 25: ACTUAL EXPENDITURE OF SOCIAL DEVELOPMENT/WELFARE HIV/AIDS CONDITIONAL FUNDS BY PROVINCE, INCLUDING EXPENDITURE OF FUNDS ROLLED OVER FROM PREVIOUS YEAR

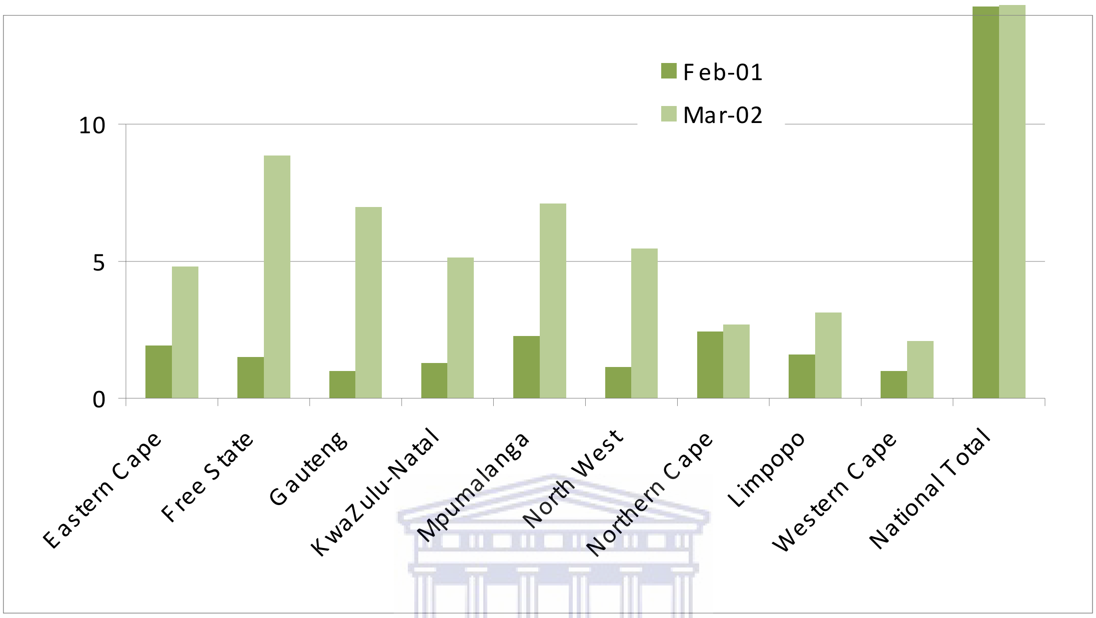
R million	2001/2	2002/3	Percent increase in actual expenditure
Eastern Cape	1.921	4.798	150%
Free State	1.500	8.858	491%
Gauteng	1.000	6.983	491%
KwaZulu-Natal	1.285	5.144	300%

Mpumalanga	2.272	7.102	213%
North West	1.135	5.463	381%
Northern Cape	2.432	2.706	11%
Limpopo	1.601	3.135	96%
Western Cape	0.983	2.084	112%
National Total	14.129	46.273	227%

Source: Statement of National and Provincial Government's Revenue and Expenditure and National Borrowing as at 31 March 2002, and as at 31 March 2003. Figures are corrected against information obtained from Ms. De Beer, Deputy Director: KIV/AIDS at the Department of Social Development[52].

[52] **Eastern Cape:** according to J. De Beer, expenditure was only R750.000 with R761.000 under-spent and requested as rolled-over. National Treasury statement give R1.921 m figure as actual spent. The entire unspent funds of R950.000 have been assumed to have been rolled-over from 2000/2 to become part of the 2001/2 expenditure. **KZN**: National Treasury gives figure of R1.499, but according to J. De Beer, expenditure is R1.285 m. **Mpumalanga**: The unspent amount from 2000/1 of R960.000 was rolled-over in 2001/2, and the total spent in 2001/2 was R 2.446 m according to J. De Beer. National Treasury gave the figure of R2.272 m. **North West**: Total expenditure during 2001/2 was R1.135486 m according to J. De Beer, including expenditure of R1 million rolled-over from the previous year. National Treasury statement give a figure of R1.155m actual spent for 2001/2. **Northern Cape**: R932.000 was rolled-over from 2001/2 and 2000/1, according to J. De Beer. Total expenditure reported in National Treasury of R2.432m is complete spending of 2000/1 and 2001/2 allocations. Limpopo: Total expenditure listed in National Treasury of R1.60 m is complete spending of both 2001/2 allocation and R 121.000 rolled-over from 2000/1, according to J. De Beer.

FIGURE 26: ACTUAL EXPENDITURE OF SOCIAL DEVELOPMENT HIV/AIDS CONDITIONAL GRANT FUNDS IN 2001/2 AND 2002/3, INCLUDING ROLLOVERS



Source: Statement of National and Provincial Government's Revenue and Expenditure and National Borrowing as at 31 March 2002, and as at 31 March 2003. Personal correspondence with J. De Beer – Deputy Director for HIV/AIDS at National Department of Social Development[53].

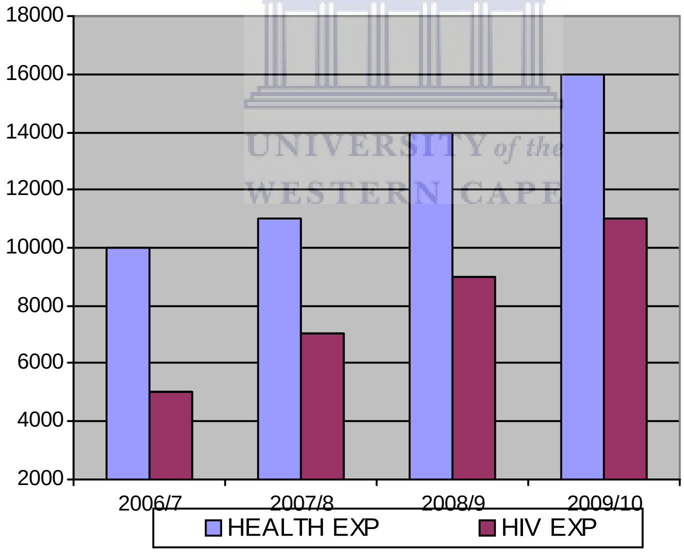
5.5.6 HIV AND AIDS IN 2009/10 BUDGET

According to (UNAIDS, 2008), HIV prevalence in South Africa is 18.1%, and the total allocation for HIV and AIDS for 2009/10 fiscal year are R11.4 billion. This amount includes the allocation to the Department of Education (DOE) and the Department of Social Development (DSD) for provinces and municipalities. This shows that allocations for HIV AIDS are increasing in real terms after the adjustments of inflation, with has growth from R1.5 billion in 2005/06 to R4.6

[53] Refer to information provided on page 42 of "Budgeting for HIV/AIDS in South Africa – A Report on intergovernmental funding flows for an integrated response in the social sector" by Alison and Hickey, Nhalanhla Ndlovu and Teresa Guthrie from IDASA (2003).

billion in 2011/12. Addition HIV AIDS categorical grants of R200 million, R325 million and R407 million was allocated to roll out the new dual therapy[54] and expand antiretroviral treatment coverage for the MTEF period. Additional resources have been allocated for tuberculosis and HIV and AIDS, and also to extend screening of pregnant mothers coming into the public health system and to phase in an improved drug regime in order to prevent mother-to-child HIV transmission. In 2009/10, Treasury has allocated R11.3 billion for HIV and AIDS through the Department of Health, Education and Social Development in order to surpass the financing requirements of the National Strategic Plan from 2007-2011.

FIGURE 27: HEALTH VS HIV REAL EXPENDITURE



5.6 SUMMARY

[54] The prevention of mother to child transmission program received particular attention in 2009 budget for rolling out treatment coverage and implementing the improved dual therapy.

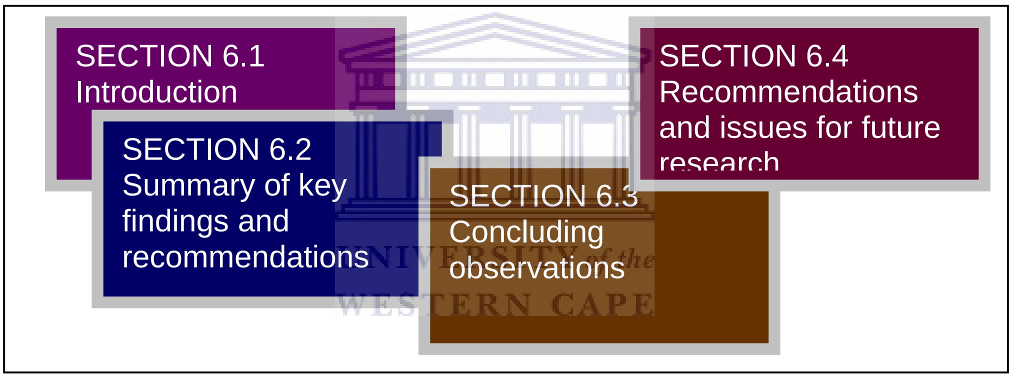
In conclusion, as evidence has shown a large proportion of respondents (more than 75%) find that applicable legislation is cumbersome to the efficiency and effectiveness of a sound fiscal and financial management system in South Africa, and should be abolished since it is not beneficial in speeding up the process of service delivery. If this does not necessarily mean reinventing sound intergovernmental mechanisms in their improvement of financial and fiscal management system in decision making, respondents (experts and theoreticians) gave their balanced view points on various issues that the government of the day needs to take into account. It is the contention of the researcher that all these will receive a close attention in section 6.2 and section 6.3 of the last chapter dealing with findings and recommendations of the study.

CHAPTER SIX: CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

The objective in this chapter is to present the conclusion of the study. In this way, the core findings and conclusions will first be presented in section 6.2.1 and will be followed by a set of key findings and conclusions for each problem statement as demonstrated in chapter 1.

FIGURE 28: BREAKDOWN OF CHAPTER 6.



The present discussion focuses on conclusions based on strategic landscape of the study (section 6.6.2), the theoretical consideration for a financial and fiscal relations approach to cooperative government in South Africa (section 6.2.3 and chapter 2), the background to the study, dwelling on constitutional amendments framework and its implications on intergovernmental fiscal and financial relations (section 6.2.4, section 1.2 and chapter 3); methodological orientation on cooperative government (section 6.2.6 and chapter 4); the empirical application of intergovernmental grants and its rationale in South Africa (section 6.2.5 and chapter 5). The concluding observation will be made in the following discussion (section 6.2.7) and conclusions and issues for future studies consideration and recommendation (section 6.2.8) will be postulated in the last section. The scope and outline of the chapter is presented below as follows:

6.2 SUMMARY OF KEY FINDINGS AND CONCLUSIONS

6.2.1 CORE FINDINGS AND CONCLUSIONS OF THE STUDY

The core problem statement of this study, as depicted in section 1.2 of chapter 1, gravitates around the need for an improved and efficient financial and fiscal management system against the backdrop of constitutional framework and amendments. This need is paramount to the improvement in the conditions of being and way of targeted planning at all levels of government. However, although the White Paper provides an intergovernmental fiscal relations support for the institutional arrangement to cooperative government, evidence from findings show that its relevance and practicability is relatively very weak or almost inexistent. As a corollary, it follows that any attempt to improve financial and fiscal management system pertaining to revenue creation and the ability to collect debt management of indigents or senior citizens at local government level (and their willingness to pay) is thwarted either by lack of appropriate legislation or over-regulation[55]. Pertinent mechanism is needed in order to allow their alignment of policy along IDP priorities between government departments and across government spheres.

Conducted interviews reflect this institutional and legislative loopholes and point to it as one of the key factors that might lead to an inefficient fiscal management and ineffective financial system in the City of Cape Town. This study concludes that the support for an efficient financial and fiscal management system can be

[55] Interview conducted on 30th of April 2009 with Trevor Blake, Director of Revenue in the Metropolitan City of Cape Town

much improved by better increasing the need for institutional arrangement. Policy measures should be introduced to assist in the improvement of conditions of life to the poor[56]. Further, general interviews stress on the fact that practical frameworks should be available to facilitate cooperation and policy alignment between spheres of government. Furthermore, the central sphere of government should intervene only in assisting provincial and local government spheres with skilled and experienced staff that can be able to perform their functions where these spheres are clearly dysfunctional and not otherwise.

It is the contention of the researcher that institutional arrangements pertinent to the framework of financial and project management is a critical tool that should guide decision-making processes between the three spheres of government and across sectors. These mechanisms needs to be put into place in order to strengthen the quality of fiscal and financial management system in South Africa. In light with this need, specific findings and conclusions will be highlighted in the subsequent discussion

6.2.2 CONCLUSIONS: STRATEGIC LANDSCAPE

The formulation of key problem area one (see section1.3) was informed by the identification of the need to develop a strategic landscape on the challenges of cooperative government in South African context. This was formulated with the view in mind that this should bring to the attention of government elected officials, experts and practitioners of independent bodies alike, the potential contribution that cooperative government management and financial management systems are the foundation of a sound government response to the wellbeing of people. It is therefore clear that an improved understanding, especially in the form of

[56] Interview conducted on 30th of April 2009 with Trevor Blake, Director of Revenue, and Metropolitan City of Cape Town.

legislation and sectoral policies must develop and feed into fiscal and financial issues within the framework of cooperative government in order to sustain government actions to achieve its anticipated goals. In this way section 3.2.1 and section 3.2.2 of chapter 3 in line with key findings on the strategic landscape of cooperative government in South Africa, the following concluding remarks have been postulated.

This underlies the idea that massive constitutional[57] and political change in South Africa has fundamentally affected the way political activity is organized in different spheres of the same state. However, the over-regulation and high political interventions on sub-national spheres from the top to the local level. The cultures of divergent political parties have also acted as a cumbersome scenario in policy alignment and delivery processes, especially in the areas where the dispensation of certain political parties is seen to be a worship to the false gods that no one in the country should be able to question and violated or overridden by opponents. In this light a senior Director of the City of Cape Town made the following observations:

“Applicable legislation needs to be changed as it is very cumbersome and not beneficial for service delivery. It is seen as a hindrance rather than assisting in speeding up the process of service delivery”.

[57] A local sphere in South Africa is overregulated. For instance in chapter 3 of the Constitution of South Africa, provision has been made for a conceptual framework in terms of cooperative government, which underlies principles of cooperative government and intergovernmental relations. Section 40 (2) and section 41 (1) of the same Constitution respectively instructs the three spheres of government to adhere to principles that are provided therein, with the view to conduct their activities without encroaching on geographical or functional areas of the government in other spheres. Interviews conducted, however show that the officials of higher spheres of government encroach on them either directly or indirectly or tacitly through cross-implication as the study will show. For more information on this, refer to De visser and Tapscott (2005:186; Tapscott, 1998: 9) and section 3.2.1 of this study. Amendment of section 100 of the Constitution and section 34 (3) (b) of the Municipal Structures Act as well as section 155 (8) (b) of the Constitution was introduced as a direct result of provisions of chapter 11 of the Municipal Finance Management Bill.

The involvement of provincial government in the redirection of development planning[58]processes at the local spheres so that it could be brought in line with the IDP. Nevertheless, it appears that not only provincial senior government officials are not willing to come down for alignment effort, but experience from the research findings show that "…*they do not have the balanced understanding and experience on how local municipalities operate, how they struggle to raise their own revenue in alignment with IDP in the effort to deliver basic services to the poor. Most local spheres raise 90% of revenue themselves and only 10% are assigned to them to account for unconditional transfers*". This gap needs to receive attention in the whole politico-administrative set up of the new government in reference to the goal of cooperative government as well as that of a sound financial and fiscal management system.

There is a lack of macro-institutional policy framework guiding the leadership of political parties around the same goals as a nation under one government. With reference to the City of Cape Town for instance, the fact that the big proportion of the City Council is under DA and not ANC total control raises tensions and critical questions in the overall management set up of the City. This also might suggest that the strategic planning is aligned along 5-year political plan, which is a political term period of mandate rather than a longer term plan that might be projected beyond the short-sighted political scope. A cross-cutting experience of government requires the capacity and skills to govern and make sound political and financial decisions and government should prioritize capacity-building aligned alongside those local skilled and experienced staff that can perform their functions where these spheres are dysfunctional.

[58] Interviews conducted on 5th of May with Mike Richardson, Chief Financial Officer of the metropolitan City of Cape Town.

In conclusion, it is clear from the strategic landscape that cooperative government in South Africa is more important and that this process requires coordination, consultation, financial alignment and participation in which direct representation and institutional capacity, especially that pertaining to financial and project management to be mainstreamed to empower and foster active decision-making processes. It should, furthermore encourage the exchange of good practices, financing administration in cooperation, create centers of excellence and skills as well as grand government orientations through a National Commission by devoting power to provinces and local municipalities within a specific focused framework of fiscal and financial management system, leaving them with the choice of means of revenue sources.

6.2.3 CONCLUSIONS ON THE THEORETICAL PERSPECTIV ON COOPERAIVE GOVERNMENT AND CONSTITUTIONAL AMENDMENTS IN SOUTH AFRICA

The need for improved understanding of theoretical approaches to financial and fiscal relations paramount to the study of cooperative government is highlighted as a priority issue (see key problem area two; section 1.5/objective 4). In reference to the large variety of intergovernmental fiscal relations in South Africa, up to date conceptual clarifications and definitions that are used in academic debates have been reviewed, examined and considered. Furthermore, the relationship between sources of revenue and government expenditure and borrowing in the study of financial and fiscal management has received full attention. At the same time, it was also useful to address the IGFRs equitable share formula for the provinces as another budgeting principle and right in terms of section 214 and 227 of the Constitution (Act No.108 of 1996). The following are some of the key findings corroborated by the theoretical perspective on cooperative government dealt with in chapter two of this study:

A large literature, especially that pertaining to the field of financial and fiscal management within the framework of cooperative government exists in South African Universities. In line with this, municipalities are expected to generate most revenues from own sources. Evidence, both from theory and field experience show that Metropolitan Municipalities collect 90% of total revenue from own sources. Non-Metros with budgets of over R 300 million generate 65%. Is this a justification of what one of the Directors of the Department of Finance of the Municipality of Cape Town mentioned earlier as '…discriminatory practices that continue to characterize central government in the allocation of transfers to local spheres?' In this way, his argument has been supported by official correspondence addressed to one of the senior management, and this confirms the following:

"We need urgent queries with National Treasury over the DORA on Equitable Share: Nelson Mandela received R 456 million; Ekurhuleni R 1099 million; Johannesburg R 1234 million; Tshwane R512 m; eThekweni R 1095 m and Cape Town R 609 million…this is grossly inequitable for Cape Town. If it is not a mistake, we need to obtain urgent legal opinion on what intervention we can bring"[59].

Interviews conducted with the City of Cape Town shows that in reality, the Metropolitan City of Cape Town has an operating budget of R18 billion for 2009/2010 financial year; out of which only R609 million came as an unconditional transfer from central government. One billion have arguably been set aside to subsidize three basic services for the indigent population. Critics, however rise on the degree of municipal financial autonomy since higher spheres

[59] Correspondence of the Department of Finance/Mayoral Committee member for Finance with Economic and Social Development and Tourism 2009.

of government intervene earlier or in the middle of the process of the affairs of municipalities through transfers and oversight. In this regard, the Constitution requires that an Act of Parliament should prescribe the Division of National Raised Revenue (DoR) between national, provincial and local government based on the recommendations from FFC as stipulated in subsection 214 (2) of the Constitution.

In conclusion, the above discussion in chapter 2 confirms the strong ties between revenue and expenditure and conclusively stipulates that funds should follow functions and that central government should redistribute funds to where it is needed most in order to speed up service delivery process. Moreover, government should set an example by paying the municipalities for services rendered.

Central government should strive to align the financial year of all three spheres of government through the creation, within the office of the President at the highest policy level possible a Commission on policy alignment and planning. Lack of financial alignment between all three spheres suggests a socio-administrative gap, which is one of the weaknesses in financial terminology that translates into financial inefficiency and administrative bottle-neck. The creation of the national Planning Commission (NPC) by the new government administration led by Jacob Zuma shows a positive endeavour toward addressing this policy and institutional weakness. When reflecting on best practices on key issues that needed to receive attention in intergovernmental fiscal relation at the operational level, it appeared that a strong proportion of respondents, essentially 65.7% (19 respondents) put in priority efficiency and effectiveness; in fact 31.4% (almost 9 respondents) agreed with fiscal autonomy and harrmonisation, 1.45% (one respondent) with fiscal equality ad fiscal federalism and 1.4% (one respondent) was not sure. This corroborates, as a matter of fact, the need for a serious relationship over financial and policy alignment between and across sectoral and three spheres of government.

6.2.4 CONCLUSIONS ON THE INTERGOVERNMENTAL FISCAL RELATIONS AND THEIR IMPLICATIONS FOR FISCAL AND FINANCIAL MANAGEMENT IN SOUTH AFRICA

The discussion in chapter 3 has shown that the proposed constitutional amendments have trigged a new set of problems or questions regarding fiscal relations between the three spheres of government in South Africa. In fact, it has been noted that such amendments have also solved some of the problems that were introduced by the current version of the Constitution. It is thus clear that no version of the Constitution would constitute a panacea to all the problems that exist in a given fiscal system. Hence, regulations and guidelines are important in perfecting the intentions of the Constitution. The discussion in this section focuses on conclusion of the chapter and policy proposals, in view of the potential problems that the amendments to the Constitution have introduced.

With regard to intervention related to section 100 and 139 in this paper, we have spent a number of times discussing that the intervention powers of the Constitution given to both national and provincial spheres of governments undermine the status of the local sphere of government by allowing them to assume responsibilities for both exclusive and legislative obligations. It was concluded that this treats local government as an inferior sphere of government – a tier in the old apartheid Constitution rather than a sphere in the new democratic dispensation as opposed to other two counterparts. Regardless of the constitutional or developmental mandate it carries to deliver services (refer to chapter 2), implement government programmes and priorities and change the lives of local people, the local sphere has remained as a terrain of truncated and atrophied policy formality, appoint of policy reformism to be added as a necessary appendix for justification in legislature. In addition to that, there are certain problems associated with the design of the intervention of key findings that include the following:

The Constitution foresees a reactive rather than a proactive intervention role of the national executive to both the provincial and the local spheres of government. Section 100 (1) (a) of the Constitution argues that "…*when a province or municipality cannot or does not fulfill an obligation in terms of legislation or the Constitution*", section 139 (1) (a) of the Constitution provides the same for the province in relation to a municipality. This suggests that the national and provincial governments only intervene when the relevant spheres of government have already failed to meet their obligations in terms of legislation or the Constitution. This provision is supported by subsection (a) which says that the national or provincial executive may intervene by taking any appropriate steps to ensure fulfillment of that obligation, including "…*issuing a directive to the provincial executive or the municipality, describing the extent of the failure to fulfill its obligations and stating any steps required to meet its obligations*" (Republic of South Africa, Act No. 108 of 1996: 76).

It is important to note that there is a range of factors that can lead to a sphere of government not fulfilling its obligations. This may include, inter alia, but not limited to, factors such as inefficient managerial or political actions such as unfunded mandates, abusing borrowing powers or inefficient tax collection techniques. It was the contention of one of the interviewed senior management Director that "…*until the alignment funds with functions and their elimination of unfunded mandates have been achieved, delivery will remain at unacceptable levels…this should be prioritized and receive attention from the side of national government, together with the simplification of some legislative procedures such* *as the forging of suitable partnership or the acceptance of unsolicited bids that would address service delivery".*[60]

Other factors contributing to failure to fulfill obligations might originate from external conditions in which the municipality or province has minimal or no control at all. By disregarding the possible causes of failure and reactive actions, the Constitution thus authorizes the national and provincial government to take worst intervention steps at a later stage[61]. Although regulations and guidelines are common practice in the public service, the Constitution however, does not regard them as one of the mechanisms of intervention where the performance of a certain sphere of government is deteriorating. Giving advice would be necessary, especially in the case where the national or provincial executive or the oversight agency has reason to believe to failure to fulfill executive or legislative obligations[62].

Section 155 of the Constitution is amended by the addition of subsection 8, which requires national legislation to provide for the exercise of authority on behalf of the municipal council to solve a serious and persistent financial emergency in the municipality. As mentioned earlier, it is clear that this amendment was trigged by the provisions of chapter 11 of the Municipal Finance Management Bill (2000). This further more, makes it clear that the agency has been established to take a reactive rather than a proactive role to financial emergencies in the municipality.

[60] Interviews conducted with Christopher Gavor - Director of Valuation, Metropolitan City of Cape Town.

[61] There is a set of factors that the national and provincial government can take to prevent failure to fulfill obligations. This includes the national or provincial executive or even an independent oversight body giving advice to the relevant province or municipality about how to go about doing certain things. It can also involve putting into place regulations or guidelines relevant to certain areas of management in the province or municipality.

[62] Chapter 11 of the Municipal Finance Management Bill (2000) establishes a Municipal Finance Emergency Authority, as a juristic person outside the public service but within the public administration as envisaged in section 195 of the Constitution. Its main function is "…overseeing the administration of municipalities declared to be in a financial emergency with a view to normalizing their financial affairs."

The principles outlined in this paper show that the intervention powers of the provincial and national spheres of government have complicated the current constitutional amendment so far. In the first instance, the provincial and national spheres of government have their intervention powers extended to include assumption of municipalities' legislative in addition to executive obligations[63]. It could be argued, especially in line with this that the constitutional amendment has introduced the hierarchical arrangement with respect to the local and other spheres of government. Secondly, the Constitution does not put in place guidelines for timing of municipal interventions between the provincial and national sphere of government. It, to the contrary, introduces direct intergovernmental fiscal relations between the three spheres of government. It could have been better if the Constitution provided for a pre-intervention process of consultation not only with the sphere of government concerned, but also with the other sphere that also has the authority to intervene[64]. This could resolve the problem of timing and stimulate the quality of interventions within the context of financial and fiscal cooperative government system.

It was clear from the discussion above that the introduction of section 100 (3) (b) of the Constitution crated a lock-in effect regarding the assumption of municipal legislative authority by the national executive. This is more likely to be the case if the provincial executive pre-empts and intervenes to assume a legislative responsibility of any municipality. It was asserted earlier that, the assumed municipal legislative obligation becomes a provincial obligation. According to section 100 (1) the national executive cannot assume and exercise this particular

[63] The amendment in itself presupposes that failure to fulfill an obligation on the side of the municipality signals incompetence and is, therefore, equivalent to inferiority
[64] Intervention in this case, would be a result of a consultation process between all the relevant stakeholders, as this would avoid arbitrary interjections or intervention overrides that are likely to happen in the current arrangement

responsibility, even if the province fails to fulfill it. The result of this could be compromise of service delivery effectiveness.

The problem with bridging finance results from mismatches between service delivery needs and revenue inflows. This means hat those departments whose revenue inflows and expenditure needs coincide have no need to resort to bridging finance. Instead, those departments whose revenue inflows in a given month are more than expenditure requirements have an option to invest the funds in the markets so that they could earn positive interest rates[65]. The difference between the two would be the costs for borrowing. If at any point in time the departments with surpluses and others with deficits, an internal borrowing market could be created for the whole of government. In this case, those departments with surpluses would be required to make the funds available in a specially designed bridging finance pool. This pool would then be made available to finance mismatches in revenue and expenditures in other departments during the course of the financial year[66]. Thus subnational government can borrow bridging finance funds from this pool at very low or even zero interests' rates. This would then be repaid during the same financial year without costs of borrowing attached. The ultimate effect of this pool would be to channel revenue to where it is needed most at any point in time during the financial year, i.e., those departments that under spend during certain months of the year lend money to those that overspend[67].

[65] Those whose revenue inflow is less tan expenditure are forced to go to the market to borrow. However, borrowing should be repaid with interest, thus for a given estimate of revenue for a financial year, departments that face deficits from one month to another will necessarily deliver less than similar departments whose revenue and expenditure are perfectly matched.
[66] The 12 months according to which companies and organizations budget and account. In the private sector, this varies from company to company.

[67] The arrangement outlined above would make more sense in the case of provinces since most of their revenue comes from the transfers. It would require that transfers to provinces are made on a monthly or even weekly basis at amounts equal t expenditure obligations for that particular period.

In conclusion, it might be fair to stress here that for those municipalities that collect more own revenue than is needed; they would be required to deposit the surplus with the fund. Departments would still have to be required to borrow in accordance with realistic and expected inflow of revenue during the financial year. The ultimate effect of this arrangement would be to centralize the cash management activities of all the spheres of government thereby promoting an efficient allocation of funds in government. This would prevent departments from adjusting service delivery levels because of the costs of borrowing and eliminate any need to go to the private sector when funds are still available in-house.

6.2.5 CONCLUSIONS ON METHODOLOGICAL ORIENTATION ON COOPERATIVE GOVERNMENT

Considering the scope, composition and delineation of the study (section 1.5); on methodological orientation (chapter 4) the content in this section is based on the following general conclusions. This could postulate the following arguments that sound and efficient cooperative government has a strong positive impact on the financial and fiscal management system in South Africa. As a corollary, it follows that highly trained government officials can improve the efficiency of institution operating in many different contexts, i.e., public, development and lead to more responsible decision-making processes with regards to fiscal policy framework, intergovernmental transfers design and delivery of goods and services.

The theory employed and the background information gathered from my field research informed the consolidation of findings and enlightened the researcher on the shaping of a balanced opinion based on empirical data. Evidence and lessons from experience maintain that qualitative research approaches are appropriate in instances in which not much has been written about the subject under investigation. Qualitative methods of data collection are often identified with participant observation, in-depth interviewing, fieldwork and ethnographic study; and data enhances as in-depth knowledge is yielded, correcting any misrepresentations or new representations about the subjects in the study. In this study a convenience sampling methodology was chosen through rational choice. It consisted of identifying respondents who, according to the judgment of the researcher, witnessed an acquisition of knowledge, experience and expertise in the areas concerned by the study in order to meet the requirements of the methodological design.

The fundamental theme under this research was a phenomenological one, where the actor's perspective is the empirical point of departure – it is this focus upon a real life experience of people that made this type of methodology for the researcher to know people personally and to see them as they are, to experience their daily struggle when confronted with real life situation in order to interpret and describe the actions of people. The researcher drew a sample of 30 people from which a total number of 21 respondents (almost 70%) of selected interviewees responded to questions.

In conclusion, the main dimensions of the research methodological framework of the general purposes of this study covered four dimensions, i.e. the attempt to measure as stipulated above, the challenges of cooperative government from a constitutional or legislative point of view in the hope to find out how this would, as a matter of fact, have implications on the intergovernmental relations for the sub-national spheres of government in South Africa; test the validity of whether insight into institutional arrangement for intergovernmental fiscal relations is a key factor, leading both to the eradication of maladministration and inefficiency in the public sector; have an inquiry from academics and experts in the field into the nature of key theoretical factors and principles constituting a strong and sound financial and fiscal management system in a decentralized political dispensation.

Besides, it strove to find out whether the present intergovernmental fiscal system in South Africa, is based on sound practices in terms of efficiency, effectiveness and equity, and whether it might be able to change the lives of the poor for the better. Although the convenience and purposive sampling are very efficient methodological techniques in the research pertinent to social sciences; especially when it comes to handling data with a small sample size as is the case in this study, such a technique has its limitations in that the researcher feels reserved to generalize the results to the whole South Africa, as a corollary the findings based on the City of Cape Town postulated in this study are not representative of the whole public sector in South Africa and much research is still needed in this regard.

6.2.6 CONCLUSIONS: EMPIRICAL APPLICATION OF INTERGOVERNMENTAL GRANT IN SOUTH AFRICA

The study of intergovernmental grant design (chapter 5, key problem area 5) is presented to illustrate the applicability of how conditional transfers are administered across sectoral departments and how planning for HIVB/AIDS in the departments of Health, Education and Social Development is aligned to achieve efficiency and effectiveness with regard to the financial management system under study. Some specific findings included the following:

As far as literature has demonstrated on conditional grant and unconditional grants including HIV/AIDS CG, Education grant and Social Development grant; central government's objectives on conditional grants are often conflicting and as a corollary, the determination of the single best grant formula requires that priorities be set on those objectives. In addition, the paper provides evidence in support of several other conclusions, i.e. a simple grant design can often attain central government objectives as well as a complex design. The price incentives, especially in the form of variable matching grants, can work as well as mandates in raising expenditures and contributions by grant recipients[68].

In the absence of appropriate incentives, regulations in the form of either minimum expenditure mandates or maintenance of expenditure effort requirements are needed to prevent grant recipients from reducing their own financial efforts. In this case, a central government can best leverage the effect of its transfers on total expenditures by including some measures of the local jurisdiction’s ability to finance, or fiscal capacity in the grant formula. As the paper has shown, the administration of central government grants requires the capacity to design the grant for efficiency and equity, to set transparent implementing regulations, to monitor and review financial flows and related grant conditionality, to provide operational control and review of grant-funded programs and to evaluate the distribution and implications of grants on performance. This falls under the sectoral departments and some could be contracted if appropriate capacity does not exist.

The key element in ensuring financial accountability to the central government lies outside the sectoral departments and provides a serious challenge to both appropriate grant design and to cooperative government. Strong public financial management is a key for decentralized and centralized systems of government[69]. Steps which should include sub-national governments’ capacity should include revised public administration laws to require modern financial accounting and

[68] When using price incentives, the average matching rate has to be significant to realistically attain spending and finance objectives.
[69] Subnational governments receiving the grants also have administrative responsibilities, chiefly in preparing proposals and keeping accurate and timely financial accounts that provide information required for review and audit.

auditing, earmarked portions of grant funds to cover grant-funded programs, creation of central government financed centers to administer the accounts of several small jurisdictions and the establishment of effective incentives for the provision of timely information.

In conclusion to the above, the design of grants has a significant effect on public expenditures, local revenue generation, and the mix of services provided at the sub-national government spheres. Most of the theoretical predictions were supported. For instance, one of the three types of intergovernmental categorical grants reviewed showed significant implications on total sub-national expenditures for HIV/AIDS in health care, Education as well as Social Development cross-sectoral services. Moreover, information was provided on several controversial questions. Examples used demonstrate statistical evidence suggesting that general (lump sum type) grants (subsection 5.7.5) had improving implications on these services, but this also hampered the local areas autonomy and self-control or confidence to generate own revenue for HIV/AIDS in health care, Education as well as Social Development cross-sectoral public services.

Intergovernmental grants generally have a positive effect on local expenditure for these services at sub-national level. Nevertheless, the findings from this analysis have so far suggested that the type of intergovernmental grants matters and even under well-controlled situations local areas can use certain types of grand funds for tax relief rather than merely maximizing local services. As already mentioned above, future research needs to address the importance of monitoring in determining the effect of different types of grants, and to examine output and outcome in terms of natural units (i.e., number of hospitalizations and people under total relief) rather than focusing on expenditures alone.

The researcher concludes that the provision of HIV/AIDS in public health care services is increasingly shifting from central government to sub-national areas. Yet central government continues to bear financial responsibility for the majority of these services. One implication of this trend is that the success of national government policies becomes dependent on its ability to influence the behavior of local areas. In order to influence sub-national spheres successfully, central government needs to be able to predict the implications of different types of grant contracts and to anticipate the likely consequences of different strategies.

6.3 CONCLUDING OBSERVATIONS

The key findings and conclusions of the study show that the objectives, as set out in section 1.3 of chapter 1 have been met. As a matter of fact, the following observations have been made: A strategic landscape of the study has been developed. It identified priority areas on the basis of which cooperation has been incorporated in the South African institutional design as one of the contributory factors to the formulation of an institutional principle based on lessons of experience underpinning the way in which, cooperation has been effected within the context of the South African constitutional framework.

The theoretical relevance of financial and fiscal relations within the context of cooperative government has received attention and the experience it fosters to local government officials to be able to align their expenditure budget with IDP strategy, operating budget and service delivery programmes has been highlighted.

The regulation and applicability of a broad framework of constitutional legislation and the implications it fosters on intergovernmental financial and fiscal relations in South Africa has been earmarked as key elements toward success or hindrance to policy efficiency.

The empirical study on the theoretical consideration of intergovernmental grant design and its rationale in the post-apartheid South Africa within the broader national and provincial context has received attention.

The major methodological dimensions and elements that determine the capacity to handle the research problem under study, using different qualitative as well as numeric statistical tools in order to analyze the data and interpret the results have been developed and addressed. This provided a user-friendly framework in order for the researcher to test the soundness of the empirical study and make contribution to the body of existing knowledge.

The second objective of the study has been met. This include recommendations on future priority areas for research and analysis, the presentation of a large chunk of both primary and secondary sources, including authoritative authors dealing with various dimensions of the subject, and the presentation of a list of Appendices for practical application to make sense of the subject under study. The study recommendations are that cooperative government, as a strategic cross-cutting terrain is the center of causes both chaos and solutions of any policy in any country. It should be regarded, together with fiscal and financial management in conjunction with related methodologies, as a critical instrument for the public and private theoreticians and academics susceptible to help build strong centers of coordination and consultation over policy issues to strengthen decision making skills.

6.4 RECOMMENDATIONS AND ISSUES FOR FUTURE RESEARCH

The following are some specific recommendations for future research:
Research priorities should be aligned to the objectives and functioning mechanism of cooperative government within the South African context.

The culture of networking with different key players between and across sectoral and three spheres of government should be enhanced as this increases institutional capacity-building, participation and communication – thus enhancing the scope for decision-making skills.

Financial and fiscal, rather than political alignment should receive valuable support in the determination of funding allocation in order to integrate policies with budget and feed into implementation of services at the grassroots level. This initiative should involve all the spheres, especially economic and social hubs and their representatives when important financial decisions are made.

Legislation and policies that are cumbersome to the delivery process should be amended or simplified, and funds allocated where basic service delivery are felt most.

Government should encourage proactive intervention rather than reactive camouflaged under the softness of diplomatic muscles in its endeavour to intervene in sub-national spheres and should encourage provinces to generate own revenues as that is the case for most metros and related municipalities.

Much could be done to ensure that education, health and housing responsibilities, which are the catalyst development determinants at the center of social transformation and dignity of people, are prioritized along IDP and devolved to local municipalities to avoid mismatch and speed up the process of delivery.

Transnet, Spoornet, Acsa, Portnet and Eskom, which are the key economic driving forces of the City of Cape Town fall outside the responsibility scope of local officials in the City. It could command loyalty if these big governments owned companies could prioritize their plans within the framework of IDP and local authorities should be mainstreamed to have a share in the running of these SOEs companies. Without this element efficiency and effectiveness might be a very difficult exercise to achieve.

A focus on the appropriate institutional arrangement through the creation of centers of excellence and skills should receive attention.

Central government should strive to avoid the top-down IDP alignment process, since all the needs felt by the respective communities fall within the scope of national and provincial responsibilities, far beyond the financial and legislative power of those local municipalities that have the constitutional mandate to address them.

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Business day, Monday, September 5, 2005

Star, August 11, 2006

APPENDIX A

LIST OF INTERIEW

SECTION 1: PRIORITISED GOVERNMENT'S INTERVENTIONS

QUESTION 1a:

In the context of the state intergovernmental grant transfers to sub-national spheres, number the most appropriate intergovernmental principles and mechanisms in order of priority:

☐ Equitable share

☐ Increase infrastructure grants to sub-national spheres unconditionally than usual

☐ Adopt BIG to help poor families in South Africa

☐ Direct more funding to lower spheres where people's needs are felt most and basic service implemented

☐ Deregulation (the government should not have direct intervention in the markets, but should create an administrative framework conducive to the success of liberalization policies in respective sub-national spheres of government).

☐ BBBEE and SMMEs.

☐ Other (reward successful municipalities that demonstrate administrative maturity rather than outsourcing its public services).

QUESTION 1b:

In the context of state's cooperative government dispensation, which specific role should higher spheres of government play to facilitate a smooth implementation services by lower spheres:

☐ Strategic coordination and grand central government orientation (devolve power to province and metropolitan cities within a general framework and grand orientation by leaving them with the choice of means of revenue sources).

☐ Disengagement of state ‘get out of the way’.

☐ Infrastructure development (ensure among local municipalities the uniform financial and maintenance of infrastructure involving central government responsibilities.

☐ Education and research (by increasing higher education and research and devolving education responsibility to municipalities as this is the case in developed countries such as UK).

☐ Intervention of macroeconomic type from central government (create a conducive legislative, administrative and fiscal environment to the delivery of services in lower spheres and development).

☐ Other

QUESTION 2

Do you agree or disagree with the following statement: Applicable legislation needs to be changed as it is very cumbersome and not beneficial to service delivery at lower spheres of government:

☐ Strongly agree	☐ Agree
☐ Strongly disagree	☐ Disagree
☐ Not sure	☐ None of the above

QUESTION 3

Do you agree or disagree with the following statement: government policies related to the political culture of the presidency undermine the tax cost of sub-national spheres’ capacity to spend basic services at the local level:

☐ Strongly agree	☐ Agree

☐ Strongly disagree ☐ Disagree
☐ Not sure ☐ None of the above

QUESTION 4

Do you agree or disagree with the following statement: fiscal autonomy of every sphere is always respected, and government in other spheres does not encroach on geographical and functional responsibilities of other entities in other spheres:

☐ Strongly agree ☐ Agree
☐ Strongly disagree ☐ Disagree
☐ Not sure ☐ None of the above

QUESTION 5

Do you agree or disagree with the following statement: the availability of financial and technical resources at sub-national sphere of government mean nothing without the appropriate capacity to implement them.

☐ Strongly agree ☐ Agree
☐ Strongly disagree ☐ Disagree
☐ Not sure ☐ None of the above

SECTION 2: THE CHALLENGES OF COOPERATIVE GOVERNMENT IN TERMS OF FINANCIAL AND ADMINISTRATIVE SYSTEM

QUESTION 6

Do you agree or disagree with the following statement: a framework for policy alignment in line with delivery is steal weak and unclear between the three spheres of government and across district and local municipalities and should receive attention:

☐ Strongly agree ☐ Agree
☐ Strongly disagree ☐ Disagree

☐ Not sure ☐ None of the above

SECTION 3:

FACTORS AND PRINCIPLES CONSTITUTING THE INTERGOVERNMENTAL TRANSFER SYSTEM

QUESTION 7

Do you agree or disagree with the following statement: Given the challenges of cooperative government in South Africa, matching transfers distort local priorities in that they favour bigger and richer Metropolitan cities on the expense of poor municipalities that can raise enough revenues:

☐ Strongly agree ☐ Agree
☐ Strongly disagree ☐ Disagree
☐ Not sure ☐ None of the above

QUESTION 8

Do you agree or disagree with the following statement: The causes of fiscal inequality and inefficiency are due to central government failure to equalise the revenue and use horizontal mechanisms of transfers and grants to sub-national spheres of government:

☐ Strongly agree ☐ Agree
☐ Strongly disagree ☐ Disagree
☐ Not sure ☐ None of the above

QUESTION 9

Do you agree or disagree with the following statement: In reference to the Municipal Systems Act, government should give more unconditional grants to provinces who need them than to local municipalities close to the people, but have no capacities to manage them:

☐ Strongly agree ☐ Agree

☐ Strongly disagree ☐ Disagree
☐ Not sure ☐ None of the above

QUESTION 10

Is IDP successfully aligned and coordinated with reference to planning and delivery of services between the three levels of governments and across districts, local municipalities and Agencies in the case under discussion?

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QUESTION 11

List the most appropriate mechanisms that you think can improve cooperation between three spheres of government and across Agencies.

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SECTION 4: KEY ISSUES IN THE DESIGN OF IGFR SYSTEM

QUESTION 12

In reflecting on best practices at the operational level, number in order of priority the issues that should, in your opinion receive attention in terms of intergovernmental relations:

☐ Fiscal harrmonisation
☐ Fiscal efficiency
☐ Not sure
☐ Fiscal effectiveness
☐ None of the above
☐ Fiscal equality
☐ Fiscal federalism
☐ Fiscal autonomy
☐ All of the above

QUESTION 13

In your opinion, what do you think are the causes of fiscal inequality or inefficacy in South African intergovernmental relations and how would government address them?

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QUESTION 14

Please comment on the various challenges that face government on the various spheres between and across sectors and departments in its attempt to making cooperative government work better.

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APPENDIX B: LIST OF INDIVIDUALS INTERVIEWED

No Observations	Names	Designation	
1	Mike Richardson Ruschda Cummings	Chief Financial officer Support Assistant	CFO
2	Lodi Venter Ria Schamrel	Treasurer Personal Assistant	Director
3	Johan Steyl Lucille Mays	Budgets Personnel Assistant	Director
4	Nothemba Lepheana	Expenditure	Director
5	Isolda Schellhase Melany Collop	Support Services Personnel Assistant	Manager
6	Leonard Shnaps	Supply Chain Management	Director
7	Lisle Alexander	Personnel Assistant	
8	Louise Luller Nomikhosi Khumalo	Shareholding Management Personnel Assistant	Director
9	Wayne Muller Maydene Cleophas	Finance & Lease Personnel Assistant	Director
10	George van Schalkwyk Poria Kotshoba	Inter-service Liaison Personnel Assistant	Director
11	Trevor Blake	Revenue	Director
12	Christopher Gavor	Valuations	Director
13	Christo de Coning	Governance, Public Policy and Management	
14	Jaya Josy	FFC Commission	Expert
15	Musa Zamisa	Budget Researcher	IDASA