Business Day

National bodies fall flat in service delivery

by Sabelo Mtantato and Sasha Peters, August 28 2015

WHILE there is no denying that provinces and municipalities have had a less-than-stellar performance when it comes to infrastructure development, they are often in a better position to understand community needs.

While the government’s implementation of infrastructure projects on behalf of municipalities may potentially ensure service delivery occurs, it also comes with risks. These include weakened accountability, as the municipality or province where the infrastructure is developed is not directly involved, resulting in poor budgeting and planning for postdelivery maintenance.

In recent years, there has been a slow but persistent shift of functions from provinces and municipalities to the national sphere, starting with social security grants in 2005. Last year, responsibility for adult basic education and training, further education and training and health laboratory services was moved. When the proposed National Health Insurance is implemented, provinces will lose a number of aspects of healthcare delivery.

In addition to shifts of functions from one sphere to another, our public finance system through the allocation of intergovernmental fiscal transfers has also seen a marked increase in the use of indirect conditional grants. Conditional grants are a dominant feature of our intergovernmental finance system and provide an avenue through which the government, through the provision of funding, can ensure its policy priorities are given attention in the nine provinces and 278 municipalities.

Conditional grants can be either direct or indirect. Direct conditional grants are transferred into the bank account of the recipient municipality or provincial department and must be used for a stated purpose and comply with stipulated conditions and reporting requirements.

Indirect grants are generally used to fund infrastructure development. With this type of grant, a national department or public entity performs a function on behalf of a municipality or province with no funds transferred to the province or municipality concerned, but any infrastructure developed as a result becomes the responsibility of the relevant provincial government. The ratio of indirect grants to direct grants has increased at a phenomenal rate in recent years (from 3.9% in 2011-12 to 6.4% in 2013-14, and is projected to reach 8.9% in 2016-17).

Apart from diluting the accountability of provincial and local governments when another sphere of government develops infrastructure in their jurisdiction, the overarching concern is that outcomes are not necessarily improving as a result of changing the location of the implementing agent from provincial or local to national. This is what recent research by the Financial and Fiscal Commission (FFC) found.

The research, which focused on direct and indirect grants in the education, health, electricity and sanitation sectors, shows that when it comes to the use of indirect grants, national departments are not categorically better than provinces and municipalities at spending grant allocations and ensuring that infrastructure development takes place.

Of particular concern is that, in reclassifying grants from direct to indirect and vice versa, policy makers are not subjecting the grants and their performance to any set of evaluative or performance principles to determine the appropriateness of the reclassification. It appears the reclassification is based on the assumption that national government-led implementation is superior to that of provinces and municipalities. The government needs urgently to develop comprehensive criteria and principles before reclassifying a grant, particularly from direct to indirect, taking into consideration the historical financial and nonfinancial performance of the grant, or the rate of infrastructure and hence, service delivery, will be compromised.

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