

Public spending beyond 'capacity constraints'

by EBRAHIM-KHALIL HASSEN

Eradicating poverty requires government to both spend more and spend well.

"There is no capacity." This has become the standard answer by senior public servants when they are quizzed on their inability to spend or implement effectively. Institutions like the Umsombuvo Youth Fund and the National Development Agency have failed to spend the funds allocated to them. These are funds that should have been allocated to poverty eradication programmes. At the other end of the spectrum is the equally worrying trend of 'fiscal dumping' – the year end rush by some government departments to spend their budgets, often on programmes and projects that are not well planned or which cannot deliver value for money. Overlaying these trends is the fact that most public spending does not lead to sustainable poverty eradication.

It is clear that the basic budget question which economists have traditionally defined as "on what basis to allocate X rands to activity A instead of activity B" needs to be widened. At the centre of this process should be the recognition that eradicating poverty requires government to both spend more and spend well.

Spending well

The excuse of 'capacity constraints', is an opaque way of defining the problem which leads

to poor solutions to problems. 'Capacity constraints' is really shorthand for the consequences of sustained under-investment in building governmental capacity:

■ Inadequate staffing and skills

The recent decision to increase the number of nurses and police personnel indicates that certain areas of the public service are indeed understaffed. There are also skills shortages in certain areas of the public service (eg maths and science teachers, project managers for infrastructure projects).

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■ Inability to monitor contracts

Recent reports of corruption in the low-income housing sector provide a sharp reminder that government lacks the ability to monitor contracts with the private sector. The Department of Housing must be commended for instructing the Public Prosecutor to pursue these matters. Yet without building capacity these types of corruption will continue.

■ Systemic weaknesses

This relates to the delivery of funds from national to provincial and local government on time, particularly with conditional grants. Anecdotal

evidence indicates that the delivery times are too near the end of financial year to ensure quality spending. The current system of conditional grants cannot support rapid and effective spending. The problem is not with the concept of conditional grants, but rather with the way the system works. The procedures used for conditional grants are extremely complex and time-consuming. Although the budget is announced in February every year, conditional grants are often only

disbursed between April and June. This shortens the period in which departments must use the grants.

■ Application of cost-recovery model

Cost-recovery systems (fees for service, etc) have become common in public sector service delivery. This is largely due to insufficient funds being made available for roll-out and the reluctance to introduce stronger cross-subsidies from the rich to the poor. Cost-recovery systems have run into the predictable problem of non-payment. While some ideological advocates for cost-recovery

argue that this is due to the 'culture of non-payment', this appears to be largely false. Grinding income poverty, which is also rising significantly, is leading to the 'economics of non-payment'. Cost-recovery systems are generally undermining the sustainability of government roll-out. For example, while government has shown impressive results in water roll-out, many of these projects have collapsed due to non-payment.

■ Procurement systems

Procurement is plagued by similar delays. The government tender process can delay major expenditure by three to six months or more. In 1998, the Presidential Review Commission had to terminate all its work and start over again because the Tender Board argued it had not followed the proper tender procedures in hiring consultants. Simply getting a tender announcement into the Government Gazette takes a few weeks. It takes months to fill a management position in the public service, making it very difficult to start new programmes quickly.

■ Culture of under-spending

The heavy fiscal restraint applied to public service institutions has become another barrier to spending. On the one hand, departments tend to see any saving as good, even at the cost of overall delivery. On the other, budget cuts have led to employment freezes and even untargeted cuts in employment. This has reduced capacity without improving efficiency. Ironically, under-spending often leads to further budget cuts. A clearer definition of the problems facing government departments is critical to removing the blockages facing delivery. However, many

senior managers do not define the problems in this manner, and instead point to poor salaries for managers, or maintain that bargaining agreements tie their hands. Robinson Ramaite, the Director-General for the Public Service, disputes both these assertions. He says that senior managers are "pretty well paid" and that heads of departments use bargaining agreements to hide a lack of leadership and management skills.

Making progress

Government has taken some important steps to build capacity. The following measures should be supported:

■ Strengthening the financial management capacity of government

The introduction and implementation of legislation to improve financial management systems and capacity are a step in the right direction. Both the Public Finance and Management Act and the Municipal Financial Management Act provide a solid base for increasing probity in the public service. The next set of reforms must, however, focus on the efficacy of spending on the poor.

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■ Matching skills and resources

The Public Service Bargaining Council has agreed to a process of matching skills and resources. The agreement seeks to align organisational structure to strategic plans. However, the short period for implementation (only 12 months) means that much work will remain after the

agreement has run its course. A more deliberate strategy has been to increase employment in crucial areas of the public service. The Medium-Term Budget Policy Statement (2002) makes strong arguments for increasing the number of health professionals and police.

■ Attacking corruption

Efforts to reduce and expose corruption are critical to building efficient and effective government spending. Recent exposures in the low-income housing and developmental welfare sectors indicate that government is making progress in protecting its fiscal resources on behalf of all South Africans. Similarly, the efforts by the South African Revenue Service to build tax compliance are beginning to yield results. A co-ordinated national campaign between government and civil society would provide a base for a longer-term campaign to attack poverty.

Improving the efficacy and effectiveness of spending is a central challenge facing government. Solving the triple problems of underspending, fiscal dumping and unsustainable delivery requires South Africa to move beyond the catch-all term

of 'capacity constraints'. As some case studies in the public service indicate, solutions to these problems can be found. It is time that we ask the rest of the senior managers why they have not replicated these success stories.

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