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ECONOMIC GROWTH, ADMINISTRATIVE REFORM AND THE NCHOLO REPORT IN THE NEW SOUTH AFRICA

by

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Abstract

Economic growth represents an essential prerequisite for political stability in South Africa, but to date official efforts aimed at stimulating growth rates have been hampered by a lack of administrative capacity on the part of the South African state. It is now widely recognised that an "enabling state" can play a decisive role in economic development. But the recent Ncholo Report and much anecdotal evidence have highlighted a severe degree of state incapacity in South African public administration. We argue that since in the short run administrative capacity represents the dominant constraint on policymaking in contemporary South Africa, government intervention should be restricted to vital core functions. However, resources should be devoted to capacity building in the medium term.

Key Words: South Africa, Ncholo Report, enabling state, administrative capacity

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INTRODUCTION

With the political transformation of South Africa now complete, its success as a fledgling non-racial democracy depends in large part on the performance of the South African economy. If rapid rates of economic growth do not deliver rising living standards to the broad mass of poor and disadvantaged South Africans in the foreseeable future, then it is by no means certain that political stability will endure. To date the outcomes of official policies aimed at enhancing economic growth are mixed. At the macroeconomic level, conservative monetary policies and the new Growth, Employment and Redistribution (GEAR) strategy are fully in accord with the so-called "Washington Consensus" (Lal, 1995) on the nature of appropriate macroeconomic policymaking in developing countries and have promising growth prospects. However, at the microeconomic level, the record of the Government of National Unity (GNU) is poor. The initial attempt by the GNU at increasing economic growth came in the form of the Reconstruction and Development Programme (RDP) - essentially a highly interventionist microeconomic policy of physical and social infrastructure development. The RDP required a sophisticated and efficient state bureaucracy to succeed and appears to have failed because the South African state simply did not possess the requisite bureaucratic capacities (Simkins, 1996). Some idea of the poor growth performance of the South African economy over the recent past and the concomitant urgent need to boost economic growth is evident from Table 1 below:

Table 1. Economic Growth in South Africa, 1980-1995

PERIOD	REAL GDP GROWTH	POPULATION GROWTH	YEAR	REAL GDP PER CAPITA*
1980-5	1.35%	2.59%	1980	R8163
1875-91	1.21%	2.28%	1981	R8380
1991-5	1.26%	2.06%	1985	R7700
1980-95	1.27%	2.33%	1995	R6932

Source: Biggs (1997, p.18, table 3).

* GDP per capita figures are given in 1990 constant rands.

A growing awareness exists that although governments cannot create wealth *per se* they nevertheless can play a key role in the process of economic development. Indeed, it is now common to refer to the "enabling state" as a crucial ingredient in achieving higher rates of economic growth (World Bank Development Report, 1997). At the very least the state must provide various fundamentally important functions, including the creation and maintenance of law and order, the provision of basic social services and physical infrastructure, and the establishment of a stable and coherent policy environment. But apart from these minimalist functions, the state can enhance economic activity in other ways too. Chhibber (1997, p.17) has put the argument thus:

> Although the importance of these fundamentals for development has long been widely accepted, new insights are emerging as to the appropriate mix of market and government activities in achieving them. We now see that markets and governments are complementary: the state is essential for putting in place the appropriate institutional foundations for markets.

It need hardly be added that for the state to play an effective catalytic role in the process of economic development, it must possess some minimal level of administrative capacity. Levy (1997, p.21) argues that for the state to intervene constructively it must exhibit two basic characteristics:

> First, the ability of government officials and agencies to manage technical complexity; and, second, the extent to which the checks and balances in force in the country can restrain agencies, officials, and politicians from departing from their stated commitments and lapsing into arbitrary and unpredictable enforcement.

The administrative capacity of the South African state and the attendant problem of rational policymaking in the presence of severe limitations on administrative capacity form the subject matter of this paper.

The paper itself is divided into three main sections. In section 1 we provide a brief review of the nature and role of the enabling state in developing countries such as South Africa. Drawing on the recent Provincial Review Report issued by the Department of Public Administration and Development (hereafter referred to as the Ncholo Report (1997)), in section 2 we evaluate the administrative and other capacities of the South African state in the light of the earlier theoretical discussion. The paper ends with a consideration of the policy implications of administrative constraints for economic and social policy formulation.

THE ENABLING STATE

The conventional economic rationale for government intervention rests heavily on the concept of market failure. Market failure can be narrowly defined in terms of economic efficiency or more broadly defined to include both economic efficiency and equity considerations. In the narrow definition, market failure refers to the inability of a market or system of markets to provide goods either at all or in an optimal manner. A somewhat broader definition is contained in Wolf s (1989, p. 19/20) observation that "... markets may fail to produce either economically optimal (efficient) or socially desirable (equitable) outcomes..." serves this purpose. In the real-world government intervention occurs to ameliorate both forms of market failure.

From an efficiency perspective, market failure may arise due to five broad factors. First, economic agents on one of both sides of a market may possess incomplete information, or available information may be asymmetrically allocated amongst market participants. Akerloff s (1970) famous analysis of the market for used cars, where dealers possess superior information about the quality of cars, and in particular the existence of "duds" or "lemons", is perhaps the best illustration of this type of market failure. Secondly, the existence of high levels of uncertainty can induce market failure. An exotic example of this may occur in the market for cryogenics where terminally ill persons are frozen in the (uncertain) hope of future cures. Thirdly, the existence of increasing returns to scale, or decreasing unit costs over a large volume of output, can result in the formation of natural monopolies. This source of market failure is most commonly evident in the provision of services like electricity and water, which are often public utilities. Fourthly, positive or negative externalities may be present involving a divergence between private and social benefits and costs. In the current climate of ecological awareness, industrial pollution is perhaps the most widely cited example of a negative production externality. Fifthly, and finally, numerous public goods exist which cannot normally be optimally provided through the competitive market process due to their twin peculiar characteristics. Pure public goods are said to be both non-rival in consumption and non-excludable in consumption. Non-rivalrous consumption occurs where one individual's consumption does not reduce the good's availability for consumption by others as, for instance, in the case of national defence. Non-exclusion means that producers of the good are technologically and/or economically unable to prevent individuals from consuming the good as, for example, in the case of radio transmissions.

The separate or concurrent existence of incomplete/asymmetrical information, high levels of uncertainty, increasing returns, externalities, and public goods leads, as we have seen, to sub-optimal market outcomes generically known as market failure. Traditionally economists argued that the existence of market failure *per se* justified state intervention in those areas of economic activity where market failure was deemed present. Evidence of market failure thus provided a *prima facie* case for microconomic policy intervention, and the purpose of such policy intervention was to induce allocative efficiency in market outcomes. Allocative efficiency refers to a distribution of productive resources amongst alternative uses which yields an optimal mix of output. In markets characterised by perfect competition, an optimal output combination arises through consumers responding to prices which reflect the true costs of production, or marginal social costs. Allocative efficiency thus involves an interaction between the productive capacity of society and the consumption desires of society. Put differently, both demand and supply are necessary to determine the allocatively efficiency level of output. In sum, knowledge of the properties of allocative efficiency provided economists with an analytical means of assessing market performance to ascertain the presence or otherwise of market failure, and simultaneously generated the allocative objectives of any subsequent policy intervention.

In addition to government intervention aimed at generating economic efficiency in cases of perceived market failure, three common ethical arguments are often used to justify government intervention. Widespread support exists for the contention that the distributive results of efficient markets may not meet socially accepted standards of equity, or accord with a desire to reduce extremes of wealth and poverty. Moreover, practical politics tends to emphasize distributive issues. Wolf (1989, p.30) has put the matter thus:

> [M]ost public policy decisions are usually even more concerned with distributional issues (namely, *who* gets the benefits and *who* pays the costs) than with efficiency issues (namely, how *large* are the benefits and costs) (original emphasis).

With its history of racial oppression, the case for redistributive activity on the part of government in South Africa is virtually irresistible.

A second line of argument is based on the notion that people do not always behave in their own best interests. Unless compelled by law, for instance, some citizens might not send their children to primary school or wear seatbelts. Others might ingest dangerous narcotics or watch violent pornographic movies. Arguments against these kinds of behaviour are based upon the concept of merit goods, and not on distinctions between private and public goods. Merit goods are defined "... as goods the provision of which society (as distinct from the preferences of the individual consumer) wishes to encourage or, in the case of demerit goods, deter" (Musgrave and Musgrave, 1984, p.78). Thus government intervention in the form of, say, subsidies to historically disadvantaged groups to establish community radio stations or build sports facilities, can be justified.

A further common ethical argument for public policy intrusion into economically efficient market outcomes is based on the idea of equal economic opportunity. It is sometimes claimed markets resort to ethnic, gender or racial stereotypes as a filtering device in labour markets, and that these biases are reflected in employment patterns. Exponents of these arguments call for government intervention in labour markets in the form of equal opportunity programs and affirmative action schemes. The GNU in South Africa appears to have embarked on extensive programs of this kind, not least in the public sector.

A good way of conceptualising the degree to which the state should intervene in any given society is to view the potential functions government can fulfil in terms of Table 2 below:

Table 2. The Role of the State

<table>
<tr><th></th><th colspan="3">Addressing market failure</th><th>Improving equity</th></tr>
<tr><td>Minimal functions</td><td colspan="3">Providing pure public goods:

Defense
Law and order
Property rights
Macroeconomic management
Public health</td><td>Protecting the poor:

Antipoverty programs
Disaster relief</td></tr>
<tr><td>Intermediate functions</td><td>Addressing externalities:

Basic education
Environmental</td><td>Regulating monopoly:

Utility regulation
Antitrust policy</td><td>Overcoming imperfect information:

Insurance (health, life, pensions)
Financial regulation
Consumer protection</td><td>Providing social insurance:

Redistributive pensions
Family allowances
Unemployment insurance</td></tr>
<tr><td>Activist functions</td><td colspan="3">Coordinating private activity:

Fostering markets
Cluster initiatives</td><td>Redistribution:

Asset redistribution</td></tr>
</table>

Source: World Bank Development Report (1997, Table 1.1, p.27).

Table 2 outlines three basic levels at which the state can intervene, depending on its institutional capacity. "Minimal functions", like the provision of law and order and disaster relief, must be provided by all states, even those with very low state capacity. The alternative is the total disintegration of the nation state, with all its attendant misery. Chhibber (1997, p. 17) has forcefully underscored this point:

> It is true that state-sponsored development has failed. But the agonies of collapsed states such as Liberia and Somalia demonstrate all too clearly the consequences of statelessness. Good government is not a luxury but a vital necessity, without which there can be no development, economic or social.

Intermediate functions such as public education and the provision of social welfare services, must also be provided by governments. However, in contrast to its minimal function role, the methods used to provide intermediate functions can vary, depending on the level of state capacity. That is, in the case of these intermediate functions, government provision can be separated from government production. The World Bank Development Report (1997, p.27) has described the role of government in the provision of intermediate functions as follows:

> Here, too, the government cannot choose whether, but only how best to intervene, and government can work in partnership with markets and civil society to ensure that these public goods are provided.

Finally, "activist functions", like intervention to stimulate new markets and generate increased coordination between existing markets, should only be undertaken by countries with a highly sophisticated state capacity, usually OECD countries.

The question naturally arises as to how the South African state should intervene in terms of this tripartite classification. The answer to this question clearly hinges on the administrative capacity of the South African state. The best evaluation of the South African state, especially the nine provincial governments, appeared in the 1997 Ncholo Report, to which we now turn our attention.

THE NCHOLO REPORT

Serious questions about the capacity of the South African state to implement government policy arose almost immediately after the GNU took office with the RDP at the centrepiece of its policy platform. Simkins (1996, p.85) has cogently argued that the RDP failed mainly due to a lack of "state capacity" in South Africa. Simkins (1996) identified three dimensions of this "state incapacity". Firstly, there exists "program incapacity" which refers to the difficulties involved in implementing specific programs in a complex, evolving and uncertain policy environment. Secondly, the reconstruction of the South African civil administration at the provincial and local levels from the former provincial and homeland bureaucracies has created a structure incapable of efficient policy implementation. And thirdly, "... the establishment of the controls essential to good government takes time and is not always adequate..." (Simkins, 1966, p.86).

Thereafter reports of administrative incapacity multiplied rapidly, especially in the various provincial administrations. For example, in the East Cape the provincial government drastically overspent its R2,4 billion rand pension budget and on 6 October 1997 Welfare Minister Mandisa Marasha (1997, p.7) was obliged to announce that "... the Department will not be in a position to process new applications [by prospective social security beneficiaries] before the end of the financial year"! In the same province, the Department of Education could not even manage to pay building contractors involved in school construction in disadvantaged areas (Ratshitanga, 1997, p.38). Similar instances of administrative collapse are evident in virtually all other provincial administrations. In the Western Cape, for example, "up to half of all businesses are not registered for tax" (Cape Argus, 1997, p.27). Indeed, Greybe (1997, p. 1) has argued that "the Northern Province, Eastern Province and Kwazulu-Natal are on the verge of collapse".

Given the convoluted structure inherited from the former apartheid state, and the nature of public sector reform and reorganisation, it is hardly surprising that the administrative capacity of the South African state has been drastically impaired. One of the key outcomes of the negotiations between President De Klerk's National Party administration and the liberation movements was that all public sector employees were guaranteed continued employment under the interim constitution. This meant that the incoming GNU inherited a labyrinthine civil service comprising the former South African civil administration (including the "own affairs" departments for coloureds, whites and Indians), the civil services of the ten former independent and self-governing tribal homelands, and the provincial administrations of the Cape, Orange Free State, Natal and Transvaal.

The GNU has followed a deliberate policy of rationalisation and restructuring (Lacey, 1996). Ncholo (1996, pp.221-222) has described the objectives of this restructuring approach as follows:

> When the present Government came into power, it embarked upon a process of rationalisation and restructuring the Public Service to ensure a unified, integrated, leaner and efficient Public Service as a matter of extreme priority. This is an important goal of the Government in line with both the White Paper on Reconstruction and Development, as well as the White Paper on the Transformation of the Public Service (p.25). The process also aimed at increasing productivity, accountability and effective policy management as essential preconditions for the success of reconstruction and democratic governance.
> In order to reach this goal, a concerted and comprehensive programme of restructuring and rationalisation was undertaken to create a unified and integrated Public Service; and a leaner, more cost-effective and efficient Public Service.

Since April 1994 considerable progress has been made in the consolidation and reorganisation of these inherited structures. The Ncholo Report (1997, p.2) has outlined the main features of this reorganization as follows:

- Amalgamation of the previous racially based administrations (RSA, Own Affairs administrations, Homelands, Self-Governing Territories, and previous provincial administrations) into a single public service split between nine provinces and the new National departments,
- reallocation of staff and resources by the provinces into new departments based on the national structures,
- creation (in some cases) of new district level services; and
- rationalisation of provincial departments in line with the allocation of resources.

Given the byzantine complexities of the structures inherited by the GNU and the far-reaching reforms inherited by it, despite progress made since the 1994 elections the problems associated with administrative capacity continued to mount.

By far the most important official initiative into the problem of administrative incapacity in South Africa has been the Ncholo Report which was prepared over the period 16 October 1996 to 9 May 1997. The Ncholo Report itself was instigated by Minister for the Public Service and Administration Zola Skweyiya. The stated intentions of the Report were as follows (Ncholo Report, 1997, p.10):

> - [T]hat a high standard of professional ethics is promoted and maintained;
> - there is efficient, economic and effective use of resources;
> - public administration is development-oriented;
> - public administration must be accountable; good human resources management and career development practices, to maximize human potential, must be cultivated; and that the
> - public administration must be broadly representative of the South African people.

The Report itself was compiled by a team of 15 specialists in public administration who met with some 950 public servants drawn from all provinces. 350 formal interviews were conducted to investigate "... leadership and strategic management, the linkage between national and provincial departments, how financial and other resources are managed, and the management of people" (Ncholo Report, 1997, p. 11). Moreover, provincial departments were requested to supply relevant supporting documentation, where possible.

The Report is divided into three main sections: "issues for the national government", "transversal issues" (i.e., issues common to all provinces and departments), and "department-specific issues". The Report made numerous findings in each of these three sections which are intended not only for public discussion but also for consideration by other official bodies.

The Ncholo Report makes for depressing reading and literally cites dozens of cases of overlapping functions, corruption and incompetence involving thousands of people and hundreds of millions of rands. For instance, consider the case cited under section 5.5 involving provincial Departments of Public Works, Roads and Transport (Ncholo Report, 1977, p.56):

> This is an area where structural changes (and also changes in political leadership) have been extremely frequent. In one province, the three components involved - Works, Roads and Transport - were rearranged twice within the same year into new departmental structures. One of the components had five different MECs during the same period. Similar changes, although somewhat less frequent, have occurred in other provinces ... These effects are aggravated when MECs become

> strongly involved in the running of the department - its functioning can then become paralysed for months following a change of MEC.

Similarly, the Report (1997, p.45) highlighted the problem of "ghost workers"; it noted that "the exact extent of the problem is unknown because many provinces were unable to provide accurate personnel statistics" and "in a number of provinces there were huge discrepancies between the number of personnel on the records of the department and the payroll statistics". Similar evidence of corruption emerged in the case of provincial motor vehicles (Ncholo Report, 1997, p.46):

> In one province, there was an estimated R50 million fraud per annum in the use of its provincial government vehicles. Evidence of such fraud was found throughout the country. In the above example, the bulk of this fraud was between government officials and petrol pump attendants. It was also clear that staff that leave the government service often take their cars, and yet still owe the State money for them.

Whilst it is possible to cite numerous other references in the Ncholo Report to various kinds of incompetence and corruption, the reader is left with the overwhelming impression that state incapacity in South Africa is largely due to a lack of administrative skill in the public sector. Its authors repeatedly stress the inhibitory character of the skills shortage in the public service. The following extract (Ncholo Report, 1997, p.49) exemplifies this line of reasoning, but there are literally dozens of similar sentiments expressed elsewhere in the Report:

> Whilst there are many skilled and capable people in the provincial Departments of Finance, there is a serious skills deficit. This has been compounded by a loss of experienced staff through the granting of unplanned and non-systematic voluntary severance packages, and the restrictions of the Public Service Regulations on the numbers of senior posts. Competition from the private sector for professionals with suitable financial qualifications (such as Chartered Accountants) and the limit on the salaries which provinces may offer has further reduced the availability of these staff. Provinces have no mechanism for providing incentives for such staff to join them.

POLICY IMPLICATIONS

It is thus clear from the Ncholo Report that state incapacity represents a profound impediment to government policy formulation and implementation in South Africa. Moreover, unless urgent steps are taken soon, state incapacity will retard economic growth in South Africa, thereby endangering political stability in Africa's newest and most powerful democracy.

Accordingly, the question arises as to how policymakers should react to this state incapacity. Two complementary approaches suggest themselves. Firstly, as a medium-term strategy, resources should be devoted to building administrative capacity in South African public administration as rapidly as possible through education, training and other avenues. This follows the policy injunction of the World Bank Development Report (1997, p.25) to "... reinvigorate the state's capability through rules, partnerships, and competing pressures outside and within the state". It also has the added advantage of concurring with the policy prescriptions of the Ncholo Report itself. For instance, the Report (1997, p.35) offers the following diagnosis of incapacity:

> The staffing of new department structures in some provinces has resulted in an unevenness in skills among staff, especially at the lower levels. This lack of skills in addition to the numerous vacancies in many provinces, has created an urgent need for capacity building in the areas of management, finance, administration, technical and professional staff.

However, it should be recognised that capacity building is a time and resource intensive exercise which will not yield substantial results in the short run. The fledgling democracy in South Africa is still too fragile and the need for economic growth too urgent for time-consuming policies of capacity building to run their course. Accordingly, we argue that in the short term the South African state should focus on fulfilling the "minimal functions" outlined in Table 2. This argument accepts the reality that in modem South Africa the scarcity of administrative capacity is sufficiently acute as to represent the single most binding constraint on developmental policymaking. By contrast, "intermediate functions" should be financed by government but undertaken as far as possible by the private sector and the non-government agencies. South Africa is fortunate in possessing a comparatively efficient private sector and an excellent network of non-government and voluntary agencies, and rational policymaking should take advantage of these circumstances. Given the pervasive nature of state incapacity in the South African Civil Service, no attempt by government should be made to pursue any "activist functions". A strategy designed along these lines would marshal scarce public administration skills into those areas crucial for economic growth to occur.

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