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by

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Administrative Constraints on Policymaking in the New South Africa: Government Failure and the Ncholo Report

Brian Dollery and Joe Wallis**

Abstract

Economic development seems likely to play a pivotal role in the alleviation of endemic poverty in South Africa and the attendant success or failure of South Africa's fledgling democracy. Rapid economic development is crucially dependent inter alia on an efficient public service which can effectively implement government policy. The economic literature on government failure generally, and public choice theory specifically, can shed considerable light on the nature and limitations of government intervention in market economies. Both anecdotal evidence and the recent official Ncholo Report provide graphic illustrations of widespread government failure in South Africa. We argue that whilst every effort should be made to strengthen state capacity, this represents an essentially medium term strategy. But the need for state-enhanced economic growth in South Africa is too urgent for time-consuming policies to be allowed to run their course. Accordingly, given that in modern South Africa the scarcity of administrative capacity represents an important binding constraint on developmental policy-making, in the short-run the role of the South African state should be limited to vital core functions.

Key Words: administrative capacity, Ncholo Report, South Africa

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Administrative Constraints on Policymaking in the New South Africa: Government Failure and the Ncholo Report

With the transformation of South African society from a white oligarchy to a non-racial democracy now complete, a central problem confronting policymakers is to stimulate economic growth and ensure that its benefits accrue to impoverished Black communities. However, given the poor growth performance of the South African economy over the past few decades, this is surely no easy task. Nevertheless, a crucial ingredient in enhancing economic growth in South Africa resides in the development of state capacity to provide the necessary foundations for rapid economic growth, especially in the areas of education, health, infrastructure, and law and order.

The question of adequate state capacity in contemporary South Africa is problematic. The present Mbeki government (and its Mandela administration predecessor) inherited a mishmash public administration composed of the former Republic of South Africa Civil Service, ten former tribal homelands, and the four former provincial administrations. The first attempt at poverty alleviation by the Mandela government, in the form of the Reconstruction and Development Programme (RDP), appears to have failed largely because of incapacity or "government failure" on the part of this unwieldy bureaucracy (Simkins, 1996). Thereafter, growing anecdotal evidence of state incapacity finally elicited an official response in the form of the Ncholo Report which investigated the problem of state incapacity and made various recommendations concerning its alleviation. This paper focuses on the question of state capacity and its role in the economic and social development of South Africa in the context of the Ncholo Report and the broader literature on government failure.

The paper itself is divided into five main parts. Section one examines the policy background to the Ncholo Report. Section two provides a synoptic overview of the economic literature on the generic problem of government failure, with the emphasis falling on the ways in which public choice theorists have categorised government failure. Section three discusses the origins and nature of government failure in South Africa. Section four attempts to place the findings of the Ncholo Report and other empirical evidence in the context of public choice theory. The paper ends with brief evaluation of the constraints placed on South African policymakers by the existence of state incapacity.

HISTORICAL BACKGROUND

Diamond (1997, p.4) has argued "In South Africa ... the transition to democracy is now complete and South Africa has entered upon what will no doubt be a rather prolonged attempt to consolidate its new democratic institutions." Central to this process of consolidation is the urgent need to accelerate economic development to improve the living standards of South Africa's black majority. The African National Congress-dominated Government of National Unity (GNU) came to power amidst unrealistic expectations on the part of many of its poor and semi-literate supporters of immediate and substantial material gains. Although the growth performance of the South African economy has strengthened since 1994, high population growth rates, severe unemployment, and other factors have meant that many poor South Africans have yet to experience any tangible benefits (Centre for Research into Economics and Finance in South Africa, 1997). Indeed, it can be argued that disillusionment on the part of the black proletariat and any attendant destabilising political outcomes have thus far been averted largely by President Mandela's extraordinary ability to exert a calming influence on many of the volatile interest groups operating in South Africa's teeming townships, not least militant trade unions.

Some idea of the growth performance of the South African economy over the recent past is provided by Table 1:

**TABLE 1. SOUTH AFRICAN ECONOMIC GROWTH PERFORMANCE
1984-1997**

Year	% Change in Real GDP	% Change in Real GDP Per Capita
1984	5.1	2.5
1985	-1.2	3.6
1986	0.0	-2.4
1987	2.1	-0.3
1988	4.2	1.8
1989	2.4	0.0
1990	-0.3	-2.6
1991	-1.0	-3.3
1992	-2.2	-4.4
1993	1.1	-1.1
1994	2.3	0.1
1995	3.3	0.2
1996	3.2	-
1997	1.7	-
Average 1984-97	1.5	-1.5

Sources: South African Department of Finance, *Budget Review*, Pretoria, 1995; South African Reserve Bank *Quarterly Bulletins*, 1995 and 1996; Centre for Research into Economics and Finance in Southern Africa, *Quarterly Review*, 1998(2).

Table 1 paints a grim picture of the performance of the South African economy and underscores the enduring character of its problems. For example, annual growth in real GDP averaging only 1.5 per cent over the period 1984-97, together with South Africa's high population growth rate, meant a decline in real per capita GDP of around 15 per cent. At least three factors compound the difficulties involved in increasing the rate of economic growth. First, although accurate official estimates do not exist, South Africa has experienced a wave of illegal immigration over the recent past believed to number in the millions. Moreover, migrant flows through South Africa's long and porous borders will very probably increase if economic growth expands economic opportunities for those within its borders. Second, external constraints on South Africa's economy ensure that any domestic economic growth causes a balance-of-payments crisis. Finally, unemployment remains a major problem. Barker (1992) has estimated that around 40 per cent of the labour force cannot obtain employment in the formal economy, half of whom may hold informal sector jobs. Even assuming an economic growth rate of 5 per cent a year, Fallon and de Silva (1994) have calculated that formal sector unemployment will be around 37 per cent by 1998-2001 and 26 per cent by 2002-5.

Nevertheless rapid rates of economic growth remain critical for democratic consolidation and political stability. To date the outcomes of official policies aimed at stimulating economic growth are mixed. The initial attempt by the GNU at increasing rates of growth came in the form of the RDP which sought "... to provide a comprehensive approach to harnessing the country's resources to reverse the effects of apartheid and to attack poverty and deprivation over a five-year period ..." (Nolan, 1995, p.161). In essence, the RDP represented a highly interventionist microeconomically-orientated policy of physical and social infrastructure development targeted at the poorer sections of South African society. It required a sophisticated state bureaucracy to succeed and appears to have failed at least in part because the South African state did not possess the requisite administrative capacities (Simkins, 1996). Subsequent policy formulation looks much more promising. Current official attempts to enhance economic growth centre on the Growth, Employment and Redistribution (GEAR) policy initiative. In contrast to the microeconomic focus of the RDP, GEAR is intrinsically a macroeconomic strategy based on "... the premise that job creation is the way to address poverty and that to increase employment opportunities higher economic growth is required" (Nomvete, Maasdorp and Thomas, 1997, p.3). Key elements of GEAR include a deficit reduction scheme, tariff reductions, stable real exchange rates, conservative monetary policies, and "moderate wage demands" (Biggs, 1997, pp.48/49). Given its adherence to the so-called "Washington consensus" (Lal, 1995) and its low demands on the bureaucratic machinery of government, GEAR appears to have a reasonable chance of achieving at least some of its objectives.

Although macroeconomic policy frameworks like GEAR play a vital role in the process of economic growth, it is now widely recognised that "development requires an effective state that can play a catalytic role, encouraging and complementing the activities of individuals and business firms" (Chhibber, 1997, p.17). An essential prerequisite of the "enabling state" is some minimal level of administrative capacity. Simkins (1996, p.85) has argued that the RDP failed because of the "lack of state capacity". 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, 1996, p.86).

Anecdotal evidence has been mounting on the problem of state incapacity in the new South Africa for some time. Until recently, evidence of this kind has been met by either outright official denials or claims that any problems experienced are only transitory. However, the release of the *Provincial Review Report* by Public Service and Administration Minister Zola Skweyiya in September 1997 marked the beginning of a new era of transparency in South African civil administration. Prepared under the personal direction of Public Service and Administration Director-General Paseko Ncholo, this Report (hereafter referred to as the Ncholo Report) provides a devastatingly frank analysis of state incapacity in South Africa.

Although claims by Simkins (1996) and others that state incapacity has been a crucial factor in constraining economic development in post-apartheid South Africa have undoubted validity, it must nevertheless be recognised that numerous other domestic, regional and international influences have also contributed to retarding the rate of economic development. For instance, since the mid-1990s South Africa has experienced a massive outmigration of skilled human capital, chiefly young educated middle-class English-speaking whites. Similarly, during the transition period from apartheid, senior Afrikaner bureaucrats designed and implemented lavish redundancy schemes and pension plans which they then took advantage of once the Mandela administration assumed office, thus depleting the public sector of experienced managers. At the regional level, many of South Africa's leading trading partners in sub-Saharan Africa, like Zimbabwe, have encountered severe economic and political difficulties which have depressed South African exports. Moreover, South Africa has a largely resource-based economy and falling international commodity prices, especially a declining real price of gold, have served to reduce economic growth appreciably. These and many other factors are largely beyond the control of the South African authorities. Nevertheless, the ongoing phenomenon of government failure and its amelioration do fall within the ambit of the South African government and they form the subject matter of the present paper.

THE THEORY OF GOVERNMENT FAILURE

The most significant approach to the phenomenon of government failure is public choice theory. In essence, public choice theory applies the postulate of *homo economicus* to non-market or political processes underlying policy formulation and implementation, and has developed a critique of government intervention flowing from the application of this methodology. Various typologies of government failure have been advanced. One of the earliest taxonomic systems was established by O'Dowd (1978).

O'Dowd (1978, p.360) argued that all forms of government failure fell into a generic tripartite classification; namely "inherent impossibilities", "political failures", and "bureaucratic failures". These forms of government failure were described as follows (O'Dowd, 1978, p.360):

The first type covers the cases where a government attempts to do something which simply cannot be done; the second, where although what is attempted is theoretically possible, the political constraints under which the government operates make it impossible in practice that they should follow the necessary policies with the necessary degree of consistency and persistence to achieve their stated aim. The third type covers the cases where although the political heads of the government are capable of both forming and persisting with the genuine intention of carrying out a policy, the administrative machinery at their disposal is fundamentally incapable of implementing it in accordance with their intentions.

In the present context, O'Dowd's (1978) "bureaucratic failures" category is especially salient since it encapsulates the problem of state incapacity dealt with by the Ncholo Report.

A more recent and closely related taxonomy has been articulated by Dollery and Wallis (1997). They argue that it is possible to identify three main forms of government failure. Firstly, legislative failure refers to the "... allocative inefficiency (which) arises from the excessive provision of public goods as politicians pursue strategies designed to maximise their chances of re-election rather than policies which would further the common good" (Dollery and Wallis, 1997, p.360). Secondly, "... even if socially beneficial policies were enacted, bureaucratic failure will ensure that these policies are not efficiently implemented. ... [because] public servants lack sufficient incentives to carry out policies efficiently" (Dollery and Wallis, 1997, p.360). This second dimension of the taxonomy clearly refers to the problems investigated by the Ncholo Report. The third form of government failure resides in rent-seeking since government intervention virtually always creates wealth transfers and "people thus devote scarce resources which could have been employed in wealth creation towards redistributing existing wealth in their own favour."

But perhaps the most comprehensive taxonomy of government failure has been developed by Weisbrod (1978). Weisbrod (1978) has advanced a fourfold typology of government failure. "Legislative failure" has much the same meaning as that ascribed to it by Dollery and Wallis (1997). Secondly, "administrative failure" derives from the fact that the "... administration of any law inevitably requires discretion, and the combination of information and incentives acts to affect the manner in which the discretion is exercised" (Weisbrod, 1978, p.36). The problems deriving from administrative failure forms the core of the Ncholo Report. Thirdly, "judicial failure" occurs when the legal system fails to deliver

judicially optimal outcomes. And finally, "enforcement failure" is defined as the sub-optimal "... enforcement and non-enforcement of judicial, legislative, or administrative directives [which] can thus vitiate the effectiveness of actions at these other stages" (Weisbrod, 1978, p.39).

The public choice perspective on government failure draws heavily on agency theory, which views the public sector in a representative democracy as an interlocking series of principal-agent relationships. For instance, Moe (1984, p.765) observes that "the whole of politics can be seen as a chain of principal-agent relationships, from citizen to politician to bureaucratic superior to bureaucratic subordinate and on down the hierarchy of government to the lowest-level bureaucrats who actually deliver services directly to citizens". This view leads to an approach to public sector reform which seeks to reduce the scope for agency failure in these relationships.

Agency failure basically arises because agents lack the incentives to act in their principal's interest. The most prominent approach to this problem has been a contractualist one. Perhaps the most radical application of this approach has been followed in New Zealand, although the wide range of contractualist instruments introduced in that country have mainly sought to govern relationships in which bureaucrats function as agents either of elected officials, funding agencies, or civil servants placed further up the hierarchy of government. These contracts have included performance agreements between departmental heads and their portfolio ministers, contracts between funders and purchasers, purchasers and providers, funders and regulators, and so on (Boston 1995). Although the legal status of these contracts varies, with only some being legally binding, their general aim has been to specify as precisely as possible the requirements of the principal and to ensure that agents can be held to account for their performance.

This contractualist approach can often only be followed after a major restructuring of the public sector has occurred with large-scale bureaucratic structures being broken up into single-objective, trackable and manageable units so that it is easier to devolve managerial responsibility and establish clear lines of accountability. Agents can then be held accountable to single rather than multiple principals, resources can be matched to defined tasks, and agency failure can be addressed by shifting from controlling the input to monitoring the output of these organizations. This managerialist emphasis on organizational restructuring, and giving managers "the freedom to manage", would seem to be an important aspect of what Hood (1991, pp.3-4) calls the "New Public Management" (NPM); that is, "the set of broadly similar administrative doctrines which dominated the bureaucratic reform agenda in many of the

OECD group of countries from the late 1970's" which prepared the way for New Zealand-style contractualism.

The difference between the widely applied managerialist approach and the contractualist approach which has been distinctive to New Zealand parallels the contrast between "letting managers manage" and "making managers manage". The managerial approach assumes that once public managers have been released from detailed regulation of their resource decisions, they will be empowered to search for and implement more efficient ways of delivering their department's services. The impact on organizational efficiency of managerialist reforms does, however, depend crucially on the generic management skills and commitment to efficiency values of the people appointed to management positions in the public sector.

From a contractualist perspective, there is always the risk that managers will opportunistically prefer the *status quo* to the difficulties of uprooting established practices and "downsizing" their workforce. To reduce this risk, managers need to be made accountable for outputs which are specified *ex ante* through contractualist instruments, since the supply of such outputs can be directly attributed to public managers and their departments whereas the outcomes of their activities tend to be influenced by many factors, some of which are beyond their control.

A recent evaluation of New Zealand's public sector reforms by Schick (1966, p.73) argues that while their distinctiveness arises because "accountability has not been an afterthought, it was designed into the system at the outset and as gaps in accountability have been identified, additional requirements have been imposed". Moreover, "at least 75 per cent" of the gains in efficiency achieved through the reforms have occurred because the shift away from input monitoring realized the managerialist imperative of freeing managers to manage. This writer goes on to highlight the shortcomings and costs of "hard-edged contractualism" including the high transactions costs of maintaining an output-based accountability system and the "check-list mentality" it can induce among public managers who are primarily focussed on fulfilling the terms of their contracts rather than exercising "judgment and leadership" in the fulfilment of their public duties.

Whilst reforming the public sector through the application of NPM represents one public choice method of minimising government failure, decreasing the size and role of the state is a second approach. Drawing on the work of Wicksell (1896), Buchanan (1976) has proposed two constitutional avenues for achieving this outcome. Firstly, parliaments can pass balanced budget amendments which oblige politicians

to pay for expenditure decisions by raising equivalent taxes. Citizens are thus confronted with the real costs of government. And secondly, national legislatures can enact statutes which limit the size of the public sector to some fixed proportion of national income. Several commentators have suggested 25 per cent of gross national product. Obviously, both of these outcomes can also be achieved through restrictive fiscal policy and removal of government from various areas of national life - a theme we shall return to below.

GOVERNMENT FAILURE IN SOUTH AFRICA

The South African public sector, and especially its core civil service and administration, has been relatively inefficient by the standards of advanced industrial democracies in almost all of the post-World War Two period. The main reasons for public sector inefficiency are ideological in essence, and have been manifested in various ways: that is, public administration has always been obliged to follow multiple objectives, with efficient service delivery usually relegated to broader political goals. For instance, the electoral victory of the Afrikaner National Party in 1948 brought with it the advent of ideological apartheid with its attendant emphasis on the "protection" of white labour from black competition, later statutorily enacted as "job reservation" and "migrant labour" laws. In the context of the South African civil service this meant *inter alia* the employment of relatively inefficient white workers since efficient black workers were excluded from employment. Direct evidence exists which documents the costs of this form of labour apartheid regulation on the fiscus. Standish (1984, p.193), for example, notes with respect to the South African Railways in the 1950s that the "cost of implementing the civilised labour policy became so embarrassing to the Railways that the Railways and Harbour Board minuted the General Manager of the Railways that he need no longer record the cost of the policy".

A similar, if somewhat less known, example resides in the deliberate exclusion of English-speaking white South Africans from the civil service in the 1950s. By forcing all public servants to take a "taaltoets" (language test) heavily weighted against native English speakers, the National Party advanced its objective of ensuring an Afrikaner-dominated civil service more likely to be sympathetic to its racial policies. One consequence of this policy was the mass exodus of skilled bureaucrats from the South African public sector to the detriment of its overall efficiency.

But perhaps the most deleterious effects on public sector efficiency in South Africa arose from the policy of grand apartheid or separate development implemented from the 1960s onwards. In terms of this

policy a number of tribally based "homelands" were established, each with its own bureaucracy. Quite apart from the massive duplication of functions involved, this enabled puppet political administrations to practise patronage on a vast scale, with tens of thousands of unskilled people occupying positions requiring administrative and other specialised skills, and many other "ghost" workers simply collecting salary payments.

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 byzantine complexities of this new administrative structure is further highlighted by considering a particular governmental service like education, which had seventeen separate departments!

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 reorganisation 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.

At the same time, the GNU has sought to change the objectives and priorities of the South African public service along the following lines (Ncholo Report, 1997, p.2):

It has begun the longer and more difficult process of improving how we deliver services whilst at the same time having to cut expenditure. Provincial administrations have: reprioritised services in accordance with the policies of the new government, begun to develop management skills to make sure that services are delivered better, improved the representativeness of the Public Service, especially at senior levels, made efforts to bring services closer to the people of the country, especially in rural areas, and begun to re-orientate services to focus on the disadvantaged groups in society.

In addition to the severe constraints imposed by the negotiated guarantee of job security for all serving civil servants, the transformation process was further constricted by a deliberate policy of changing the employment profile to better reflect the demography of South African society. In practice, this has meant hiring people of colour and women wherever possible. The instrument used to circumvent the job security guarantee has been a "voluntary severance package (VSP) scheme", in terms of which substantial payments are made to bureaucrats who decide to leave the public service.

The effects of these constraints have been to severely damage the administrative capacity of the South African public sector. In many key departments, like the national Department of Finance, virtually all of the former top managers, predominantly white male Afrikaners, have taken voluntary redundancy. The result is a dearth of expertise, with national and provincial departments competing for scarce experienced public administrators. Ramathodi (1997, p.21) has summarised the latter problem as follows:

The situation at the moment is far from ideal. Some national departments appear to be more determined to siphon off what little capacity we have left rather than to strengthen our structures. Far too often, provinces work hard to find suitable managers to serve their various administrations, only to find that their most capable people are "hijacked" by a national department - sometimes with a mere three days' notice.

These deleterious outcomes are made even more acute by the budgetary consequences of the VSP scheme. Reliable estimates are difficult to obtain. However, the Finance Department Chief Director of Pensions Peet Maritz has estimated that the government has paid out around R7 billion since the scheme was introduced in May 1996 (Ensor, 1997, p.1). A further impression of the outcome of the scheme can be determined by examining specific departments. For instance, the National Education Department has revealed that it has paid over R1 billion to 15,541 teachers in the first year of operation of the scheme. This amounts to some 2.5 per cent of the national education budget of R40 billion (Lund, 1997, p.8).

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. Initial anecdotal reports of government failure began shortly after the new GNU administration took office. For instance, a crisis soon emerged in the administration and collection of import duties by the South African Customs Service. Evidence suggests that although extensive and longstanding tariffs apply to most imported goods coming into South African ports, customs officers often no longer impose these duties on billions of rands worth of goods (Old Mutual Economic

Research Unit, 1996, p.5; Lamont, 1997, p.18). Whether this is due to corruption or incompetence is not clear.

Similarly, we have already indicated that the RDP failed because of inadequate state capacity (Simkins, 1996). Blumenfeld (1996, pp.67/68) described the nature of its administrative shortcomings as follows:

By the end of the GNU's first year in office, however, the programme was clearly in difficulties, both practically and politically. Except for electrification of (existing) houses, improvements in the provision of water supplies, and the primary school feeding programme, little real progress had been made towards meeting the first-year targets, especially in the crucial area of housing... Moreover, the probity and efficiency of the new administration were quickly undermined not only by evidence of bureaucratic incompetence and excessive red tape, but also by allegations of fraud and corruption in several projects.

Thereafter reports of government failure 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 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".

The parlous lack of administrative capacity, especially at the provincial level, has finally elicited various official responses. For instance, Constitutional Development and Provincial Affairs Minister Valli Moosa has raised the possibility of greater GNU involvement (Edmunds, 1997, p.32):

We would have to take a very hard look at how to reorganise the administration in order to ensure government services are delivered in the most efficient manner. Clearly at this stage the question of a greater role for national government departments in provincial administration should be on the agenda.

However, given the constitutional basis of provincial autonomy, it is hard to see how this suggestion could be put into practice. Similarly, Finance Minister Trevor Manuel has announced that he will table a Treasury Control Bill in 1998 to deal with "budget violations" (Fine, 1997, p.6). This will have two main dimensions. Firstly, "accounting officers" will be held legally responsible for adhering to budget

guidelines, and this will include "criminal sanctions". And secondly, "... no provincial or local government would be compensated for its failure to collect revenues which should have been due from taxation and borrowings" (Fine, 1997, p.32).

But by far the most important official initiative into the problem of government failure 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):

[To] inform the wider public, Public Servants, Parliament and Cabinet on the state of the administration and progress of reform in South Africa's provinces; identify key problems and issues which require attention so that provincial administrations may improve the quality of the services they deliver to the public; identify problems experienced in provinces which derive from the national level; and stimulate development, remedial programmes and the building of capacity in the Public Service.

Emphasis fell on the provincial level of government "... because of the fact that more than 60% of public servants are employed in the provinces" (Ncholo Report, 1997, p.3). The authors of the Report took as their foundation the "Constitutional Principles for public administration", notably (Ncholo Report, 1997, p.10/11):

- [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 (1997, p.11/12) outlines its views on the significance of its findings as follows:

The findings relate closely to the activities of other bodies such as the Presidential Review Commission on the Transformation of the Public Service (PRC), the Public Service Commission (PSC) and the South African Management and Development Institute (SAMDI) in working to improve the Public Service. This report will be a key submission from the Department of Public Service and Administration to the PRC for its comments and for recommendations on how the issues raised may be overcome. The Public Service Commission is already committed to continuing the Review process in the future in accordance with its new monitoring function as set out in the Constitution, and indeed extending it to include national departments. SAMDI has indicated its intention to re-orientate its courses to focus on overcoming some of the key human resource and financial management issues raised in this report. The intention is that all national departments and provincial administrations - and especially the Department of Public Service and Administration - should work together to overcome the challenges raised herein with all due speed.

CONCEPTUALISING THE NCHOLO REPORT'S FINDINGS

One way of comprehending the myriad of findings of the Ncholo Report is to conceptualise them in the language of public choice theory. This not only enables us to reduce an exceptionally long list of government failures to manageable proportions, but also paves the way for a useful discussion of rational policy formulation in the face of constraints on administrative capacity.

Although this approach has distinct advantages, not least its simplicity, it must be stressed that it is somewhat narrow and limiting. A broader perspective would locate the problem of government failure and its role in retarding economic development in South Africa within a more universal state-economy-society set of relationships, both nationally and internationally. After all, the demise of the apartheid state has coincided with the intensification of globalisation and the widespread adoption of "neo-liberal" policy prescriptions by international financial agencies. South Africa is by no means alone amongst transitional economies in experiencing economic and social difficulties and many of these can doubtless be traced back to changes in the structures of international economic exchange processes. As a small open economy heavily reliant on the export of mineral resources, particularly gold bullion, undertaken largely by multinational corporations, South Africa is especially vulnerable to changes in its terms of trade with industrialised nations. A broader approach along these lines would also have the additional advantage of facilitating a comparative perspective with other transitional economies. However, given the exploratory

nature of the present paper and its limited aims, an international political economy approach must await the attentions of other scholars of South African political economy.

In terms of the standard taxonomies of government failure outlined earlier, it is clear that the vast majority of problems identified in the Ncholo Report fall under O'Dowd's (1978) and Dollery and Wallis' (1997) "bureaucratic failure" and Weisbrod's (1978) "administrative failure". For instance, "lack of performance monitoring" (section 3.2); the Public Service Staff Code's emphasis on rule-following rather than outcomes (section 3.3); [at the national level]; communication problems within or between departments (section 4.1.3); non-implementation of departmental strategic plans (section 4.1.9); inadequate financial control (section 4.4.4); "lack of complete inventories and asset registers" (section 4.4.9) [under "transversal issues"]; "large number of supernumerary staff" in provincial Departments of Agriculture (section 5.5.3); "large number of excess staff" in provincial Departments of Public Works, Roads and Transport (section 5.5.4); "no norms and standards have been set" for provincial Departments of Education (section 5.6.12); and severe "problems experienced with the payment of pensions and grants" in provincial Departments of Developmental Welfare (section 5.11.4).

However, other forms of government failure also appear in the Ncholo Report. For example, it is easy to identify instances of O'Dowd's (1978) "political failures", roughly equivalent to Dollery and Wallis' (1997) and Weisbrod's "legislative failure". In the realm of national government, the Report (1997, p.14) has observed that "many National departments create new policies without considering how they are to be implemented". Similarly, "the focus of much of the strategic activity of government has been policy formulation; so far performance improvement has not been stressed" (Ncholo Report, 1997, p.15). The behaviour of politicians at the provincial level can also be identified as legislative failure. For example, the Report (1997, p.25) highlights the following problem:

In the majority of provinces, the relationship between the political leadership and the administration is not well defined. For example, in many cases MECs have become involved in the administration of departments and undermined the role of Heads of Department. MECs bypass normal, and appropriate, channels of management and become involved in recruitment and in the day-to-day running of departments. In some cases they even see themselves as accounting officers. The problems are made more severe when the political environment in the province is unstable, and especially if public servants are aligned with different political factions.

Much the same kind of problem seems to exist in individual departments in many provinces, as outlined in Chapter 5 of the Report. Consider the case cited under section 5.5 involving provincial Departments of Public Works, Roads and Transport (Ncholo Report, 1997, 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.

Evidence of Dollery and Wallis' (1997) rent-seeking category of government failure can also be found in the Report. For instance, 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 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.

POLICY IMPLICATIONS

It is abundantly clear from both the officially-endorsed Ncholo Report and other sources that government failure is a pervasive phenomenon in South Africa. Although the nature of this government failure appears predominantly in the form of bureaucratic failure and is overwhelmingly concentrated at the provincial level, other kinds of government failure are also evident. Moreover, notwithstanding the promising prospects for the GEAR macroeconomic strategy of the GNU, the current degree of bureaucratic failure has already severely inhibited development-orientated microeconomic policy making (like the RDP) and seems set to preclude the formation of an "enabling state" in South Africa. By retarding the rate of economic growth and undermining the success of development projects aimed at poor South Africans, state incapacity could threaten the very basis of political stability in South Africa.

Accordingly, the question arises as to how policy makers should react to existing government failure. The 1997 *World Bank Development Report* identifies two generic approaches to this problem. Firstly, policy makers can attempt to "... match the state's role to its existing capability, to improve the effectiveness and efficiency of public resource use" (*World Bank Development Report*, 1997, p.25). And secondly, they can seek to "... reinvigorate the state's capability through rules, partnerships, and competing pressures outside and within the state" (*World Bank Development Report*, 1997, p.25). Although these approaches can be employed as alternative strategies, they can also be used in tangent as complementary strategies as in the *World Bank Development Report's* conception.

The development of state capacity in South Africa is not a controversial issue and represented an important dimension of the Ncholo Report. At least three possibilities seem feasible, two of which have been extensively canvassed in the Ncholo Report. Firstly, the administrative doctrines of NPM could be invoked: that is, a contractualist approach emphasising performance monitoring, managerial responsibility, output rather than input evaluation, and other organisational restructuring strategies could be adopted. Much of this is recommended by the Ncholo Report. For example, the Report (1997, p.15) notes that "monitoring of provincial administrations and their departments does not focus on using the information gathered to improve service delivery". Similarly, it argues that "... regulations and the resulting culture of a lack of initiative and not holding individuals accountable ..." (Ncholo Report, 1997, p.16) must be changed in favour of the NPM stratagem of "letting managers manage".

Whilst the introduction of NPM techniques should reduce the degree of bureaucratic failure in the South African public sector, good reasons exist for believing that it will not be as successful as it seems to have been in advanced industrial democracies. Chief amongst these is the lack of administrative training and experience in the South African civil service attendant upon its transformation. It follows that NPM policies should be augmented by a second approach aimed at building up administrative skills through educational programs. This is well-recognised in the Ncholo Report. 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, experience in other less developed countries has indicated these kinds of reforms seldom effectively reduce bureaucratic failure. Grindle (1997) has examined the behaviour of public organisations in several countries and has argued that organisational culture plays a decisive role in organisational performance. This line of argument has a conceptual counterpart in the debate over the NPM-inspired reforms in advanced countries, where it has been argued that leadership can have decisive effects (Wallis and Dollery, 1997). The significance of leadership has been endorsed in a series of case studies of cultural transformation in New Zealand government agencies by Spicer *et al.* (1996). These writers found that the primary catalysts for the development of a "commercialist" culture in these agencies have been the "change agents" who were recruited from the private sector to fill the chief executive positions in these organizations. To break the hold of a bureaucratic public service culture at the senior levels of these organizations, many of these chief executives took the radical step of requiring all managers to reapply for positions. This enabled them to rapidly build up a management team comprising senior managers drawn from outside the organization as well as relatively junior staff who were not only expected to be less resistant to change but also to welcome the opportunity to leapfrog their more senior colleagues into management positions. They clearly saw their leadership role as being to transform their organizations but also to "infiltrate" these organizations with "followers" who could strive with them to affect this transformation by overcoming resistance to change from those individuals with an interest in protecting their jobs, careers, "turf", professional standards and cherished organizational beliefs. It would thus appear that cultural change would have to accompany NPM policies and administrative capacity building in the South African civil service for these latter two strategies to prove successful.

Regardless of whether this overall approach of raising "... state capacity by reinvigorating public institutions" (*World Bank Development Report*, 1997, p.3) does indeed ameliorate bureaucratic failure in South Africa, what cannot be doubted is that it is a medium-term strategy. But the fledgling transformational democracy in South Africa is too fragile and the need for state-enhanced economic growth too urgent for time-consuming policies to be allowed to run their course. Accordingly, we argue that the second broad approach of "matching the state's role to its capacity ..." (*World Bank Development Report*, 1997, p.3) should be employed in the special circumstances of contemporary South Africa, at least in the short-term.

In essence, limiting the role of the state in South Africa to perform only vital core functions follows the second public choice policy prescription for decreasing the extent of government failure. It accepts the

reality that in modern South Africa the scarcity of administrative capacity represents an important constraint on developmental policy making. This assumption has the implicit support of the Ncholo Report. Over and over again its authors 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.

Given conventional wisdom on the crucial role the "enabling state" can play in the development process (Chhibber, 1997), we fully recognise that a policy which deliberately reduces the function of government to providing only essential public goods and services is a second-best option. However, the demands on national resources for poverty alleviation and other vital tasks are so acute that South Africa simply cannot afford the vast resource-intensive and highly inefficient public sector that it has inherited. Accordingly, scarce public administrative skills should be concentrated in those areas where they can yield the greatest social benefits. The *World Bank Development Report* (1997, p.4) identifies the core functions of the state to include the establishment and maintenance of law and order, the maintenance of macroeconomic stability and "a nondistortionary policy environment", the provision of basic services and infrastructure, environmental protection, and "protecting the vulnerable". It is doubtful whether the South African civil service possesses the requisite skills in the short-run to manage even these functions efficiently. Fortunately some of these activities could be publicly funded but privately provided. A good example in this regard is the provision of social welfare services to the most disadvantaged people in South African society, an area which the Ncholo Report (1997, pp.71-71) recognises is close to total disintegration. South Africa has an excellent network of non-government organisations, like the Black Sash, various church groups, and numerous "school feeding schemes", which are able and willing to take over basic social welfare services if they are given sufficient resources. Similarly, South Africa already has a highly developed construction industry with expertise in the delivery of physical infrastructure. It should surely be

possible for this industry to assume complete responsibility for physical infrastructure provision within GNU-approved guidelines.

It could be argued that focussing the South African public sector on vital core functions and “privatising” the delivery of other public goods, like social welfare services, might well serve to enhance the economic and political power of the white community who have traditionally controlled many of the most important non-government organisations. Moreover, given the existing highly unequal distribution of wealth and power in South African society, any further concentration of economic control towards the white community could have a serious destabilising effect on the process of democratic transition.

Whilst there is undoubted validity in this view, at least two countervailing arguments exist which can weaken its force. Firstly, largely at the instigation of foreign aid donors, who finance much of their operations, the non-government organisation sector of the South African economy has become steadily democratised and non-racial since the early 1990s, and is now by no means under the hegemonic control of the white community. And secondly, any dangers inherent in reducing the role of the South African state to core functions need to be weighed up against the alternative of a continuing decline in state capacity and a concomitantly increasing inability of the public sector to deliver even basic services.

What is abundantly clear from both the Ncholo Report itself and the present analysis is that the *status quo* in South African public administration is untenable. Not only has state incapacity frustrated efforts to date to ameliorate the lot of poor communities in South Africa, but unless urgent steps are taken to improve matters this is likely to remain the case. Moreover, in the developing world South Africa is by no means alone in facing the problem of state incapacity. As 1997 *World Bank Development Report* has argued, state incapacity has inhibited numerous attempts by poor countries to deal effectively with the problem of poverty. Accordingly, the problem of state incapacity deserves far more attention from scholars in policy analysis and public administration.

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