INTERGOVERNMENTAL FISCAL RELATIONS: THE PARADOX BETWEEN THE VERTICAL FISCAL IMBALANCE AND RESPONSIVENESS AND ACCOUNTABILITY IN THE NORTHERN CAPE PROVINCIAL GOVERNMENT

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TO BRENDA, CHRISTOFF, HERMANN AND SIMONÉ

"The effort to strive for truth has to precede all other efforts." -Albert Einstein

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ABBREVIATIONS

DORA: Annual Division of Revenue Act

FFC: Financial and Fiscal Commission

IGFR: Intergovernmental Fiscal Relations

NCPG: Northern Cape Provincial Government

SCOPA: Standing Committee on Public Accounts

SNG: Sub-national Government

VFI: Vertical Fiscal Imbalance

ABSTRACT

This thesis explores South Africa's intergovernmental fiscal relations, and in particular the impact of a vertical fiscal imbalance on responsiveness and accountability in the Northern Cape Provincial Government. In South Africa the government is comprised of three spheres, namely the national, provincial and municipal spheres of government. Each of these spheres of government is responsible for performance of a number of functions that can either be exclusive, in other words performed by only one sphere of government, or concurrent, thus shared between different spheres of government. The provincial government sphere is responsible for providing certain services such as health, education and provincial roads, and promotes other services such as economic affairs, tourism, transport, sport, arts, culture, science and technology.

In order to deliver its mandate, each of the three spheres of government needs financial resources to enable it to perform its functions. These functions are financed by means of different taxes, such as personal income tax, value added tax, customs tax and property taxes, to mention a few. In South Africa, the bulk of the revenue collected by means of the different taxes, is collected by the South African Revenue Services on behalf of the national government. Provincial governments collect as little as 3% of their total revenues. The reason for this is that the tax base for provincial governments is narrow, and limited to items such as motor vehicle licenses, gambling, gaming taxes and other revenue items such as patient fees.

The gap that exists between own-revenue and revenue needed is known as the vertical fiscal imbalance, which is made up by various transfers from the national government to provincial governments. Although other countries in the world experience similar trends, the ratio of own-revenue collected by provinces in South Africa is unprecedentedly low. Transfers from the national government to the provincial governments therefore became the major source for financing the expenditure of provincial governments.

Existing theory indicates that a vertical fiscal imbalance has two major implications for provincial governments. The first relates to the potential loss of responsiveness, and the second but not less important implication, is the loss of accountability. It is therefore important that measures which exist to promote responsiveness and accountability are applied effectively, economically and efficiently.

Based on a literature study, as well as a survey and interviews conducted in the Northern Cape Provincial Government, this study concludes that the vertical fiscal imbalance has an impact on the responsiveness and accountability of the Northern Cape Provincial Government, and that existing measures to promote responsiveness and accountability can be applied more effectively, efficiently and economically. The thesis therefore provides a set of recommendations based on the empirical study and literature research on the issue, with the view to improving the status quo, not only in the Northern Cape, but in South Africa as a whole. This is relevant as responsiveness and accountability are two fundamental features of democratic governance, and both concepts form part of the values on which the Republic of South Africa is founded. The two concepts are also central elements in discussions concerning good governance.

Key Concepts: Intergovernmental fiscal relations, vertical fiscal imbalance, responsiveness, accountability, financial transfers.

OPSOMMING

Hierdie tesis ondersoek Suid Afrika se interowerheids-fiskale verhoudinge en in besonder die impak van ‘n vertikale fiskale wanbalans op responsiwiteit en aanspreeklikheid in die Noord Kaap Provinsiale Regering. In Suid Afrika bestaan die regering uit drie sfere, te wete die nasionale regeing, provinsiale reging en munisipale of plaaslike sfere van regering. Elk van hierdie sfere is verantwoordelik om ‘n aantal funksies uit te voer wat of eksklusief – met ander woorde verrig deur slegs een sfeer - of gelyklopend – gedeel tussen verskillende sfere van regering uitgevoer kan word. Die provinsiale regeringsfeer is verantwoordeklik om sekere dienste soos gesondheid, onderwys en provinsiale paaie te lewer en ander dienste soos ekonomiese aangeleenthede, toerisme, vervoer, sport, kuns, kultuur, wetenskap en tegnologie te bevorder.

Ten einde aan hulle mandaat te voldoen, benodig elk van die drie regeringsfere finansiële hulpbronne om hulle in staat te stel om dienste te lewer. Dienste word gefinansier deur belastings soos persoonlike-inkomstebelasting, belasting op toegevoegde waarde, aksysnsbelasting en eiendomsbelasting om slegs enkeles te noem. In Suid Afrika word die grootste gedeelte van die inkomstes wat deur belastings ingesamel word deur die Suid Afrikaanse Inkomstediens namens die nasionale regering ingesamel. Provinsiale regerings samel so min as drie persent van hulle totale inkomste in. Die rede hiervoor is dat die belastingbasis van provinsiale regerings nou is en beperk is tot items soos motorvoertuiglisensies, dobbelbelasting en ander inkomstes soos pasientgelde.

Die gaping wat bestaan tussen eie inkomstes en inkomste benodig is bekend as die vertikale fiskale wanbalans en word gevul deur verskillende oordragte vanaf die nasionale regering na die provinsiale regerings. Alhoewel ander lande in die wêreld soortgelyke tendense ervaar is die verhouding eie inkomste wat deur provinsies in Suid Afrika ingesamel word ongekend laag. Oordragbetalings vanaf die nasionale regering na die provinsiale regering het daarom die belangrikste bron van inkomste geword vir provinsiale regerings om hulle uitgawes te finansier.

Bestaande teorie wys daarop dat ‘n vertikale fiskale wanbalans twee wesenlike implikasies vir provinsiale regerings inhou. Die eerste het betrekking op die responsiwiteit en die tweede maar nie minder belangrik nie, is die verlies aan aanspreeklikheid. Dit is daarom belangrik dat bestaande maatreëls wat dit ten doel het om responsiwiteit en aanspreeklikheid te bevorder ekonomies, efektief en doeltreffend toegepas word.

Gebaseer op ‘n literatuurstudie, sowel as ‘n opname en onderhoude uitgevoer in die Noord Kaap Provinsiale Regering, kom hierdie studie tot die gevolgtrekking dat die vertikale fiskale wanbalans ‘n impak het op die responsiwiteit en aanspreeklikheid van die Noord Kaap Provinsiale Regering en dat bestaande maatreëls om responsiwiteit en aanspreeklikheid te bevorder meer doeltreffend, effektief en ekonomies aaangewend kan word. Die tesis bevat daarom ‘n stel aanbevelings wat gebaseer is op die empiriese en literatuurstudie oor die aangeleentheid met die oogmerk om die teenswoordige toestand nie net in die Noord Kaap nie ,maar in Suid Afrika as ‘n geheel te verbeter. Dit is relevant omdat responsiwiteit en aanspreeklikheid twee fundamentele beginsels van demokratiese regering is en beide konsepte deel vorm van die waardes waarop die Republiek van Suid Afrika gevestig is. Die twee konsepte is ook sentraal in besprekings rakende goeie regering.

Sleutelbegrippe: Interowerheids-fiskale verhoudings, vertikale fiskale wanbalans, responsiwiteit, aanspreeklikheid, finansiële oordragbetalings .

CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

Intergovernmental fiscal relations in South Africa is characterised by a highly centralised revenue raising system, enabling the national government to raise as much as 96% of the revenue needed by the provincial sphere. This implies that provincial governments raise only 4% of their total revenue budget. The gap that exists between revenue raised and that required is made up by various transfers from the national government to provincial governments. Although other countries in the world experience similar trends, the ratio of revenue collected by provinces in South Africa is unprecedentedly low. Transfers from the national government to the provincial governments have therefore become the major source for financing the expenditure of provincial governments.

The **Constitution of the Republic of South Africa, 1996** (108 of 1996) (hereafter referred to as the Constitution) provides specifically for three spheres and not three levels of government. However a sphere that lacks sufficient independent sources of revenue can never be regarded as being fiscally autonomous. Such a sphere will, as is the case in South Africa and some other countries such as Australia, depend on national revenue transfers to perform its functions, and will be subjected to the financial rule of national government.

Against this background, provincial governments, like any other government, have an obligation to be responsive and accountable to their electorate. The inability of provincial governments to respond meaningfully to the unique needs and specific demands of its customers is one of the major disadvantages caused by a vertical fiscal imbalance. A second, but not less important, disadvantage is the loss of accountability. The underlying argument is that if a provincial government does not collect sufficient revenue of its own, it may become responsive to the demands of the national government from where the bulk of the revenue flows, and will not be held accountable by the citizens of that geographical area as citizens pay their taxes to the national government.

1.2 PROBLEM STATEMENT AND RATIONALE FOR THE STUDY

Government in South Africa is comprised of three spheres, namely the national, provincial and municipal spheres of government. Each of these spheres of government is responsible for performing a number of functions that can be either exclusive, in other words performed by only one sphere of government, or concurrent, thus shared between different spheres of government (Amusa & Mathane 2007:265). Examples of exclusive functions are the national defence and home affairs, whereas functions such as health, education and housing are regarded as concurrent functions. The provincial government sphere is responsible for providing certain services, such as health, education and provincial roads, and for promoting other services, such as economic affairs, tourism, transport, sport, arts, culture, science and technology.

In order to deliver its mandates, each of the three spheres of government needs financial resources that would enable it to perform its functions. These functions are financed by means of different taxes, such as personal income tax; value added tax, customs tax and property taxes to mention a few. In South Africa the bulk of the revenue collected by means of the different taxes is collected by the South African Revenue Services on behalf of the national government. Provincial governments collect as little as 3.5% of their total revenues (Manual 2007:4). The reason for this is that the tax base for provincial governments is narrow and limited to items such as motor vehicle licenses, gambling and gaming taxes and other revenue items such as patient fees.

From the above explanation, it can be concluded that there is a gap between the amount of money that provincial governments need and the amount that they annually spend in order to perform their constitutional mandates. This gap is known as the vertical fiscal imbalance and exists between national governments and sub-national governments such as provinces (Shah 2007:17). However, in order to allow provinces to perform their functions, provision is made for the transfer of nationally raised revenues to sub-national governments by the Constitution. This forms part of the intergovernmental fiscal relations of a country (RSA 1996:119).

The vertical fiscal imbalance has two major implications. The first relates to the potential loss of responsiveness (Amusa & Mathane 2007:284 and Grewal 1995:12). Provincial governments are dependent on national government for financial resources, in the form of transfers, to perform their functions. This dependency means that the national government can exercise undue pressure on the expenditure of a province. The responsiveness of a provincial government can be undermined if a national government were to use its fiscal supremacy to enact decisions that fail to take into consideration the unique circumstances or conditions of each province. Provincial governments would then not be responsive to the needs of their citizens, but rather to what is prescribed to them by national government.

The second implication relates to the potential loss of accountability (Amusa & Mathane 2007:284 and Grewal 1995:12). Accountability implies that there is an obligation on the government to demonstrate to citizens that the taxes levied are necessary, and that the revenue collected will be utilised effectively, efficiently, and economically (Pauw *et al.* 2009:119). The underlying argument is that governments should be accountable for how they raise revenue, and how the raised revenue is spent. Each sphere of government should be able to raise enough revenue to meet its expense requirements. The sphere of government is then accountable to the citizens in the geographical area in which the revenue has been collected. This principle could be undermined when one sphere spends revenue raised by another sphere of government. In such cases there is no proof that the money raised nationally will indeed be spent in a manner that can be accounted for.

The purpose of this research is to find solutions and to make recommendations regarding fiscal imbalances, and the potential loss of responsiveness and accountability of provincial governments.

1.3 HYPOTHESIS FORMULATION

It is hypothesized that the vertical fiscal imbalance that exists in South Africa undermines both the responsiveness and accountability of the provincial governments. It is further hypothesized that existing measures to promote responsiveness and accountability are not applied effectively, economically and efficiently.

This hypothesis contains two variables, namely the vertical fiscal imbalance that exists in South Africa, and secondly the accountability and responsiveness of provinces. The vertical fiscal imbalance serves as an independent variable and is selected to determine its relationship to an observed phenomenon: the accountability and responsiveness of provincial governments. The latter constitutes the dependent variable and varies with the introduction or removal of the independent variable: vertical fiscal imbalance.

1.4 AIM AND OBJECTIVES OF THE STUDY

The aim and objectives of the study are outlined below:

1.4.1 Aim

This study aims to analyse and assess the impact of the vertical fiscal imbalance brought about by South Africa's unique intergovernmental fiscal relations on the accountability and responsiveness of the Northern Cape Provincial Government.

1.4.2 Objectives

The following are the objectives of the study:

- To analyse the concept of intergovernmental fiscal relations and its underlying theories.
- To establish the relationship in theory and in practice between intergovernmental fiscal relations and accountability and responsiveness.
- To assess the impact of the vertical fiscal imbalance on responsiveness and accountability.
- To find solutions and make recommendations that will enhance the responsiveness and accountability of provincial governments towards their citizens.

1.5 METHODOLOGY

This study will be exploratory in nature, and will be conducted by means of empirical research. According to Cooper and Schindler (2006:142), exploratory research is research where the area is new or where very little is known about the topic examined.

A mixed method of research methodology will be followed as it is best suited to provide answers to the research questions of the study. According to Johnson and Onwuegbuzie, (2004:14) as well as Twin (2003:np), the goal of mixed methods is not to replace quantitative or qualitative approaches, but to draw from their strengths and minimize their limitations. Using a mixed methods approach is congruent with the paradigmatic perspective of pragmatism, which asserts that quantitative and qualitative methods are not only compatible, but possibly better suited to answer specific research questions (Truscott 2010:318).

1.5.1 Target Population

The research will mainly be conducted in the Northern Cape Provincial Government amongst Accounting Officers, Chief Financial Officers and members of the Standing Committee on Public Accounts. Other subject experts, for instance at the National Treasury and audit firms, will also form part of the target population.

1.5.2 Data collection strategy

Both questionnaires and interviews will be used to collect data for the study that will be analysed to draw conclusions in order to prove the hypothesis correct or wrong. Questionnaires will be used to obtain information from accounting officers, committee members and chief financial officers, whilst constructed interviews will be conducted with subject experts at the National Treasury and the auditing firms.

1.6 VIABILITY OF THE STUDY

A preliminary literature review indicated that there is sufficient literature available on the concepts that need to be researched, such as intergovernmental fiscal relations, accountability and responsiveness both within the South African context as well as in other countries with a similar IGFR system. These sources are available in the local library of the university as well as the internet.

The empirical data that is needed, and should therefore be collected, is available within the different structures of government in South Africa, and are mainly in Kimberley. One should be able to obtain the data by means of questionnaires, and structured interviews.

Financial resources required are limited to travel and accommodation expenses in order to conduct interviews.

1.7 CONTRIBUTION OF THE STUDY TO THE FIELD OF STUDY

Research about this topic is surprisingly limited worldwide. As far as could be established in South Africa, no research has thus far been conducted regarding the impact of the existence of a vertical fiscal imbalance on the accountability and responsiveness of provincial governments. This study will therefore seek to provide answers as to whether a lack of accountability can be attributed to the existence of a vertical fiscal imbalance. It will furthermore provide clarity regarding the responsiveness of provincial governments to the expectations of the communities they serve, viz a viz the expectations with regard to compliance with the demands of national government.

1.8 CHAPTER OUTLINE

Chapter One: Introduction

This introductory chapter aims to provide an overview of the research problem and the rationale for the study. It also includes the hypothesis for the study, followed by a clarification of the aim and objectives of the research. The chapter will also discuss the research methodology, viability of the study and the contribution that the study will make. A chapter outline for the study will also be provided.

Chapter Two: Theoretical explanation of Intergovernmental Fiscal Relations

This chapter will deal with a literature review of the theoretical foundation of the research. The concepts of intergovernmental fiscal relations and fiscal imbalance will be defined, explained and where possible, will be compared to similar arrangements in other comparable countries. The principle of revenue sharing and different methods, such as the equitable share and grants, will be fully explored and discussed.

Chapter Three: Accountability and Responsiveness of Provincial Governments

This chapter will focus on the meaning of the concepts of accountability and responsiveness in the framework of intergovernmental fiscal relations. This will enable a comprehension of the relationship and the paradox between a fiscal imbalance and accountability and responsiveness.

Chapter Four: Research Design

Chapter four will discuss the research design, approach to the research, and methods that will be used to undertake the empirical investigation. A definition and explanation of different research methods and techniques will be made, as well as a selection of appropriate research methods.

Chapter Five: Data Analysis

In this chapter the data collected for the study by means of interviews and questionnaires will be analysed and interpreted, in order to make meaningful conclusions. The data will be used to determine the relationship between the two variables of the hypothesis, namely the vertical imbalance and accountability and responsiveness.

Chapter Six: Recommendations and Conclusion

This chapter will provide a set of recommendations on how to enhance the accountability and responsiveness of provincial governments in a system of vertical fiscal imbalances. It will provide a way forward to ensure that provincial governments remain accountable and responsive to their electorate.

1.9 CLARIFICATION OF CONCEPTS AND TERMS

Accountability refers to the duty to answer and report to a higher authority, functionary or institution about the results obtained with the performance of one or more specific functions (Cloete 1995:3).

Accounting Officer refers to a person mentioned in section 36 of the Public Finance Management Act, 1999 (1 of 1999).

The *Auditor General*, in terms of the Constitution, is one of the state institutions supporting constitutional democracy, and as such is an independent external auditor for all institutions that are supported by public funds (Pauw *et al*, 2009:47).

Intergovernmental fiscal relations refers to a system allocating taxing and spending powers in a state to several levels of government in the light of the mandates (responsibilities) of those governments (Pauw *et al,* 2009:32).

Responsiveness refers to the ability of a government to respond meaningfully and effectively to specific demands and policy requirements of its electorate (Grewal 1995:11).

Standing Committee on Public Accounts is a specialized committee of the legislature in the Westminster model of democracy, with an oversight function of the financial operations of government. It is the audit committee of Parliament, and as such the core institution of public financial accountability (Stapenhurst, 2005:np).

Vertical fiscal imbalance can be defined as a situation that exists when national government has an excess supply of revenue, while sub-national governments such as provinces and local governments have an excess supply of expenditure needs (Wagner, 1973:np).

1.10 CONCLUSION

South Africa has a unique intergovernmental fiscal relations system, one characterised by the fact that national government collects almost all (97%) of the revenue needed by provincial governments to perform their mandated obligations. This results in a large vertical fiscal imbalance, requiring national government to transfer revenue to the provincial governments in the form of either an equitable share or conditional grants.

A preliminary literature study indicates that a fiscal imbalance may have an impact on the accountability and responsiveness of sub-national governments such as provinces. It is however, necessary to do scientific research to determine what the impact of the fiscal imbalance in South Africa is on accountability and responsiveness.

CHAPTER TWO

THEORETICAL EXPLANATION OF INTERGOVERNMENTAL FISCAL RELATIONS

2.1 INTRODUCTION

In order to deliver services efficiently and effectively more than one level of government is created within a structural context, such as national, provincial, and municipal governments. Each of these spheres of government has its own unique functions and responsibilities. However, each sphere of government needs adequate funding to perform its functions and deliver services at the required standard. The manner in which different spheres of government are funded forms part of the intergovernmental fiscal relations of a country.

Intergovernmental fiscal relations can be regarded as a system of allocating taxing and spending powers, within a state, to several levels of government such as national, provincial and municipal governments. An effective system of intergovernmental fiscal relations is crucial in order to ensure sustainable development. Without such a system some government functions may be underfunded, while others have excess finances.

An important feature of the intergovernmental fiscal relations of countries all over the world, almost without exception, is that national governments normally assign more expenditure functions to sub-national governments than which these governments can finance from their own revenue sources. For instance, in South Africa, provinces collect only 3% of their revenue from their own sources. This makes provinces dependent on national government for funding to perform their service-delivery functions.

Another important feature of intergovernmental fiscal relations is the existence of horizontal fiscal imbalances, which has to do with the fact that geographical areas usually differ in respect of resource capacity and needs. For instance, the revenue base per capita often differs substantially between highly urbanised geographical areas and rural areas. In addition, the needs for public services amongst different areas may also differ, as some areas may have a higher percentage of school children or a higher disease rate than others. Economies of scale will also make it more economical to render services in areas with high population density than in other areas. It is therefore often difficult to design fiscal systems that can cope with this complex reality.

In order to address the vertical, as well as the horizontal, fiscal imbalances, governments make use of transfer payments from national government to sub-national governments. These transfers can be in the form of general purpose grants and specific purpose transfers. Transfers from national government to sub-national governments should allow sub-national governments to provide comparative services at the same cost.

2.2 INTERGOVERNMENTAL FISCAL RELATIONS DEFINED AND EXPLAINED

According to Pauw *et al.* (2009:32) intergovernmental fiscal relations could be defined as a system of allocating taxing and spending powers in a state to several levels[1] of government in the light of the mandates (responsibilities) of those governments. This notion is supported by Gildenhuys (2008:179) who argues that intergovernmental fiscal relations relate to the vertical allocation of functions,

[1] The concepts levels, tiers and spheres are used by different authors interchangeably to describe a government system with more than one level and it normally refers to a national government with one or more levels of sub-national governments such as provinces and municipalities. In South Africa the Constitution defines government as spheres rather than tiers or levels. Although the words are used interchangeably in this document the term spheres will be used when referring to the South African situation.

coupled with the allocation of revenue sources to, and the sharing of income by, the various government levels for financing their respective public functions and services. Abedian and Biggs (1998:54) provide the most comprehensive definition by stating that intergovernmental fiscal relations, or fiscal federalism as it is also referred to, is concerned with the structure of public finance in a state with more than one tier of government. It is concerned with how taxing, spending and regulatory functions are allocated among the various spheres, as well as the nature of transfers between national, provincial and local governments.

According to Boadway (2001:93), intergovernmental fiscal relations generally reflect three common features of a multi-tiered government, namely decentralization of functions, financial transfers from the national government to sub-national governments, and the equalizing nature of financial transfers. Fjeldstad (2001:2) emphasizes that one of the key issues in intergovernmental fiscal relations is the assignment of functions and finances to the different levels of government. Other elements of an intergovernmental fiscal relations system that are of importance are tax harmonization measures, cooperative agreements among governments, and measures, such as mandates or directives, through which the higher-level government induces lower-level governments to incorporate elements of national importance into the design of their programmes (Boadway 2007:67).

The manner in which a country designs its intergovernmental fiscal relations varies from country to country. These differences partly reflect historical and geographical characteristics of each country, the degree of heterogeneity of the population, and the extent of government intervention in the economy (Fjeldstad 2001:1). Despite this complexity, Bird (1990:277) indicates that virtually every country shares the following important characteristics with respect to governmental structure:

- Firstly, there is almost invariably more than one level of general government, as well as a number of more specialized governmental agencies and enterprises at each level, with the result that intergovernmental relationships, both vertical (between levels) and horizontal (within levels), are therefore matters of concern to anyone interested in the efficient and effective operation of the public sector (Bird 1990:277).

- Secondly, the key issue in intergovernmental relations, which can be described as the assignment of functions and finances to the different levels of government, is the same everywhere (Bird 1990:277).
- Thirdly, money is the heart of intergovernmental matters in all countries (Bird 19990:277).

Intergovernmental fiscal relations (IGFR) can be regarded as a central element of government structures, and the adequate design and implementation of an IGFR system is crucial for sustainable development. The assignment of fiscal competencies to different government levels is a further key issue in determining the character of a state. The greater the discretion that the sub-national governments have to make decisions about spending, taxation and borrowing, the more decentralized the fiscal system is (Ajam 2001:125). Almost invariably, countries assign more expenditure functions to sub-national governments than can be financed from the revenue sources allocated to those governments.

Boadway and Shah (2007:XXVII) support this notion by stating that, regardless of the political or constitutional definition of the nation, sub-national governments are almost never financially self-sufficient. This is due to the fact that their revenue-raising capacity falls short of their expenditure responsibilities. The result of this mismatching of functions and finances, sometimes referred to as 'vertical imbalance', is that sub-national governments are generally dependent on transfers from higher levels of government, and progressively more so the more expenditures with which they are charged (Bird 1990:278).

In most countries the sub-national governments undertake important fiscal functions, both on the expenditure and revenue sides of the budget. In such systems various forms of fiscal arrangements between the national government and sub-national governments determine how taxes are allocated and shared among the various levels of government, and how funds are transferred from one level to another (Pauw *et al.* 2009:34). Intergovernmental fiscal relations are therefore important for the development and operation of an efficient and effective public sector. According to Bird (1990:281) it is the workings of the myriad of intergovernmental relations that constitute the essence of the public sector in all countries.

Through an analysis of the different definitions provided by the various authors on the subject, the following working definition for intergovernmental fiscal relations can be formulated. Intergovernmental fiscal relations can be defined as the systematic structuring of public finances in a state with more than one level of government, where revenue, expenditure and regulatory powers are allocated to sub-national governments, and nationally raised revenue is shared among the different levels of government by means of intergovernmental transfers.

2.3 ELEMENTS OF AN INTERGOVERNMENTAL FISCAL RELATIONS SYSTEM

According to Bahl (1999:5) intergovernmental fiscal relations must be thought of as a system where all the elements must fit together. Some of the most important elements identified by a variety of authors on the subject will subsequently be discussed.

2.3.1 Fiscal decentralization

Although Davey (2003:1) views fiscal decentralization and intergovernmental fiscal relations as synonymous, some definitions indicate that it is possible to make a clear distinction between the two concepts. Abedian and Biggs (1998:59) define fiscal decentralization as the degree of discretion devolved to sub-national governments to make decisions on fiscal issues. Likewise, Davey (2003:1) adds that fiscal decentralization is comprised of the financial aspects of devolution to regional and local government. Although Smoke (2003:10) indicates that fiscal decentralization can be used in a broader context, and is comprised of issues such as the assignment of responsibilities, as well as the assignment of own-source revenues to sub-national governments, the main feature is still the element of devolution mentioned by Davey (2003:1) as well as Abedian and Biggs (1998:59).

Bahl (1999:5) argues that intergovernmental fiscal relations refer generally to the division of fiscal powers and responsibilities among levels of government, whilst fiscal decentralization refers to an intergovernmental system where the balance of power moves more toward the sub-national government than has been the case previously. Given a comparison of the abovementioned definitions with the earlier explanation in this chapter provided for intergovernmental fiscal relations, it can be concluded that fiscal decentralization is a far narrower concept than intergovernmental fiscal relations, and does not include all the elements of intergovernmental fiscal relations. The main elements identified by various scholars on the subject of intergovernmental fiscal relations include revenue and expenditure assignment to sub-national governments, vertical and horizontal imbalances, externalities, revenue sharing, intergovernmental transfers and tax sharing.

For ease of reference the following Table provides an analytical comparison between the differences of IGFR and fiscal decentralization.

Table 2.1: Analytical comparison of the difference between IGFR and fiscal decentralization

IGFR	Fiscal Decentralization
• System	• Degree of discretion devolved to sub-national governments
• Structure of public finance	• Devolution of financial aspects to sub-national governments
• Vertical allocation or decentralization of functions	• Assignment of responsibilities
• Allocation of taxing, spending and regulatory powers to sub-national governments	• Assignment of own source revenue
• Sharing of income	
• Nature of financial transfers	
• Assignment of finances	
• Division of fiscal powers and responsibilities among levels of government	

Shah (1994:7) posits that fiscal decentralization can contribute to a more efficient provision of public services, by matching expenditures more closely with priorities and preferences. A clearer and closer linkage of the benefits of public services with their costs promotes accountability, especially in large and diversified economies. According to Abedian and Biggs (1998:59) fiscal decentralization exists to the extent that sub-national governments have the power, given to them by the constitution of a country or by particular laws, to raise taxes and carry out spending activities within clearly established legal criteria.

Commonly accepted objectives of fiscal decentralization include an efficient allocation of resources via a responsive and accountable government, an equitable provision of services to citizens in different jurisdictions, and macroeconomic stability and economic growth (McLure & Martinez-Vazquez 2000:22).

2.3.2 Expenditure assignment to sub-national governments

According to Oates (1993a:31-63) the assignment of expenditure functions to sub-national governments is guided by the ’decentralization theorem‘, which proposes that a public service should be provided by the authority having control over the minimum geographic area that would internalise the benefits and costs of the provision of the service. Schroeder (2003:25) further points out that the economic based theory of assignment of powers and functions builds upon the premise that, prior to the allocation of revenue powers, the functional responsibilities of sub-national governments need to be defined. A clear allocation of functional responsibilities provides safeguards against the consequences of granting revenue powers that either fall significantly short of, or greatly exceed, expenditure requirements.

For sub-national governments in South Africa, the expenditure assignment problem relates to the development of a clear classification of responsibilities for some functions shared by the different spheres of government, especially in the areas of roads, housing and primary healthcare (Amusa & Mathane 2007:275). Some of these functions, such as health care, are concurrent in nature and require that both provincial and municipal governments share responsibility for the provision of these services. National government would set the health policy and national norms and standards, whilst provincial governments and municipalities implement the policies according to the prescribed norms and standards. Provincial governments are responsible for providing health services mainly through provincial hospitals, whilst municipal governments provide municipal health services such as health surveillance of premises and surveillance of communicable disease (Balfour 2006:5).

Unfortunately the minority of national departments have clearly established norms and standards for public service delivery, especially for those services that are concurrent (Financial and Fiscal Commission 2004:80). This complicates and hinders the costing and planning for service delivery.

2.3.3 Revenue assignment to sub-national governments

Regardless of the political or constitutional nature of a country, sub-national governments are almost never financially self-sufficient (Boadway & Shah 2007:XXV11). Their revenue-raising responsibilities fall short of their expenditure responsibilities, forcing them to rely on financial transfers from the national government. As stated by Boadway and Shah (2007:XXV11), differences in fiscal decentralization are largely differences in revenue decentralization, or equivalent differences in vertical fiscal gaps (VFG).

According to Mclure and Martinez-Vazquez (2000:2), as a prerequisite for fiscal decentralization, sub-national governments must control their own sources of revenue. Sub-national governments should have complete independence and flexibility in setting priorities and should not be constrained by the categorical structure of programmes and uncertainty associated with decision making at the national government (Shah 2007:15). When sub-national governments lack independent sources of revenue, they can never truly enjoy fiscal autonomy, and may be – and probably are – under the financial thumb of the national government. The question, then, is which revenue sources can and should be assigned to sub-national levels of government, and how these assignments are to be effected. This group of questions is commonly called 'the tax assignment problem' (Mclure & Martinez-Vazquez 2000:2). They are closely related to 'the expenditure problem' because of the importance of benefit taxation in the finance of sub-national government, and the need to ensure that sub-national governments have revenues adequate to finance the expenditures assigned to them. Among the best examples of benefit taxation are those levied on motor vehicles and motor fuels used for the construction and maintenance of roads and highways.

Rao (2007:321) states that a general principle in the assignment of revenue process, is that finances should follow functions. The problem is that although assigning functions to sub-national governments is relatively easy, finding adequate and potentially non-distorting revenue sources to finance those functions is difficult. Thus, while the expenditure assignment in South Africa can be regarded as highly decentralized to sub-national governments, revenue assignment is highly centralised, i.e. national government controls the revenue sources with broad bases, while provinces only have access to narrow based taxes and user fees (Rao & Khumalo 2003:11).

The lack of sufficient revenue sources gives rise to the existence of a vertical fiscal imbalance (Boadway & Shah 2007:XXV11), which will be discussed hereafter.

2.3.4 Existence of a vertical fiscal imbalance (VFI)

The general nature of intergovernmental fiscal relations is surprisingly similar across a wide range of countries, as almost without exception, national governments assign more expenditure functions to sub-national governments than can be financed from the revenue sources allocated to those governments (Fjeldstad 2001:8). The result of this mismatching of functions and finances is that sub-national governments are generally dependent upon transfers from the higher levels of governments.

The concept of vertical fiscal imbalance (VFI) is premised on the notion that, in the ideal situation, each sphere of government should be able to raise all the revenue required to finance its expenditure from its own sources (Grewal 1995:6). According to Wagner (1973:np), a VFI is a situation that exists when national government has an excess supply of revenue while sub-national governments, such as provinces and local governments, have an excess supply of expenditure needs.

Although many definitions exist for VFI, Karpowicz (2012:3) is of the opinion that there is no consensus in the theoretical and empirical literature on the definition of VFI. Sharma (2012:99) supports this notion by stating that there is neither a universally accepted definition of VFI, nor a commonly accepted approach to measuring it.

The abovementioned is further complicated by the fact that the terms VFI and vertical fiscal gap (VFG) are often used interchangeably. Shah (2007:17) attempts to clarify this by asserting that a VFG is defined as the revenue deficiency arising from a mismatch between revenue means and expenditure needs, typically of lower orders of government. This is the result when a national government has more revenues than needed by its spending responsibilities, and sub-national governments have fewer revenues than needed by their expenditure responsibilities. A VFI would occur when the VFG is not adequately addressed by the reassignment of responsibilities, or by fiscal transfers and other means (Shah 2007:17).

Sharma (2012:103-104) however differs from the abovementioned clarification provided by Shah, approaching the two concepts from the solution that each prescribes to the problem. As per this notion, the difference or imbalance between the revenue means and expenditure needs of a sub-national government can be addressed either through a reallocation of revenue powers (taxes), or a system of intergovernmental transfers (grants). A reassignment of revenue powers would indicate a VFI, whereas transfers are used to fill a VFG.

Due to the terminological ambiguity that obscures the terms VFG and VFI, Sharma (2012: 99) introduces the concepts of vertical fiscal asymmetry (VFA) and vertical fiscal difference (VFD) to better structure public debate on issues of vertical fiscal relations, and to stimulate a sensible appreciation of the problem and possible remedies.

According to Sharma (2012:102), VFA describes a state where the national government has access to more revenues as compared to the sub-national governments (SNGs), while the SNGs are assigned more expenditure responsibilities as compared to the national government, which is a common characteristic of multi-level fiscal systems. Thus the VFA has two components, namely the VFI that is an undesirable part and should be addressed by the reallocation of fiscal instruments, and the VFG that is the desirable part and should be addressed by transfers (Sharma 2012:112).

The second concept identified by Sharma (2012:102), the VFD, is a system of intergovernmental arrangements where a desirable level of asymmetry is adequately addressed with an appropriately designed transfer system. The VFD concept recognises the principle that, in the real world, a perfect match between revenue and expenditure is not realistic, and that there is a prima facie case for national governments to collect more money than they need in order to transfer excess funds to sub-national governments. The concept of VFG, as originally conceived, states that the national transfers must bridge the vertical fiscal gap, implying that unless addressed appropriately, a fiscal gap will remain. When transfers are adequate there is no gap. Thus, a state can be reached where there is no imbalance and no gap. Sharma (2012:112) proposes the term ‘vertical fiscal difference’ (VFD) for this state.

According to Manual (2007:4), unlike most jurisdictions in the world, provincial governments in South Africa raise only approximately 3,5% of their own revenues, and the 96.5% ratio of fiscal transfers from the national government to provinces is unprecedentedly high. The reason for this is that provinces in South Africa do not have the taxation power to raise more revenue.

2.3.4.1 Vertical fiscal imbalance and fiscal stress

An important consequence of vertical fiscal imbalance is the fiscal stress it creates on sub-national governments. Arnett (2011:50) defines fiscal stress as a government's inability to meet its financial obligations as they arise, which may be accompanied by an inability to raise revenues or to provide goods and services. When the balance between the revenue assigned to a sub-national government and its expenditure responsibilities is disproportionate, a sub-national government may find it difficult to meet minimum services requirements or expenditure commitments imposed by the national government or statutes (Rakabe 2013b:148). National government controls tax and debt limits, determines public wages, sets delivery norms and standards, determines legislations, and mandates sub-national governments to provide certain services. Without sufficient revenue, sub-national governments will experience difficulty in providing services at a prescribed standard.

The following Table provides an indication of the fiscal stress induced by the existence of a vertical fiscal imbalance amongst the different provinces in South Africa.

Table 2.2: Fiscal Stress Induced by Vertical Fiscal Imbalance

Column 1 Province	Column 2 Per capita spending	Column 3 Per capita spending variance (mean)	Column 4 Per capita spending variance (top 3 average)	Column 5 Fiscal stress (scenario 1)	Column 6 Fiscal stress (scenario 2)
Eastern Cape	8 152	-613	589	-4 023 472 756	3 867 597 356
Free State	8 663	-1 124	78	-3 087 017 073	214 639 160
Gauteng	5 519	2 020	3 222	24 788 926 101	39 546 698 976
Zulu-Natal	7 664	-126	1 077	-1 290 008 334	11 056 735 004
Limpopo	8 018	-479	724	-2 587 938 138	3 911 581 500
Mpumalanga	7 272	266	1 469	1 075 603 470	5 933 754 097
Northern Cape	9 409	-1 870	-668	-2 142 868 895	-764 935 878
North West	6 822	717	1 919	2 515 228 473	6 736 054 671
Western Cape	6 329	1 209	2 412	7 041 399 586	14 043 415 912

Source: Adapted from Rakabe (2013b:157)

- Hypothetical cost of providing a service = 8741
- Mean per capita spending =7538

The following can be deduced from the Table:

- The per capita spending per province is indicated in the second column with the Northern Cape spending the highest, and Gauteng the lowest, per capita.
- The average of the three highest, per capita spending (Northern Cape, Free State and Eastern Cape), is used as the hypothetical cost of providing standard level services. The hypothetical cost is R8,741.
- The mean per capita spending is R7,538, calculated as an average of the per capita spending of the nine provinces.
- The mean per capita spending variance – the difference between the per capita spending and mean per capita spending - is indicated in the third column.

- The per capita spending variance in the fourth column refers to the difference between the hypothetical cost of R8,741 and actual per capita spending.
- The two scenarios demonstrate the difference between actual and mean per capita spending in terms of the extent to which provincial budgets need to be adjusted upwards or downwards, if actual per capita spending is normalised across all provinces to a mean average. In the first scenario, where actual per capita expenditure is compared to mean per capita spending, the extent of fiscal stress is only concentrated in four provinces because of lower actual per capita spending. In the second scenario, where actual per capita expenditure is compared to an average of the three highest per capita expenditures, a significant element of stress is implied.

From the Table it is clear that Gauteng, the Western Cape and KwaZulu-Natal experience the highest fiscal stress, whilst the Northern Cape and the Free State experience the least amount of fiscal stress. However, the provinces have different demographic and economic profiles, noticeably different levels of economic development, and significant variations in socio-economic circumstances (RSA 2001:77). The levels of wealth, or income within a province, are further important determinants of the demand for social services, particularly primary health care, education and income support (Yemek 2005:2). One of the critical challenges that the national government faces, is therefore how best to redistribute national revenues with a view to equity and poverty alleviation.

Apart from the existence of a VFI, IGFR is also characterised by the existence of a horizontal fiscal imbalance which exists between governments at the same level.

2.3.5 Existence of a horizontal fiscal imbalance

According to Slack (2007:462) a horizontal fiscal imbalance refers to the difference in resources among governments at the same level. A horizontal fiscal imbalance emerges when SNGs have different abilities with which to raise funds from their tax bases and provide services. Eyraud and Lusinyan (2011:8) adds that a horizontal fiscal imbalance materializes when there are differences between the revenue capacities of individual sub-national governments. Sharma (2011:119) argues that such an imbalance creates horizontal fiscal disparities that generate the need for equalization grants.

According to Smart (2007:211) the concept of horizontal fiscal imbalance is controversial, because different countries have very different preferences in this respect, and because it is a concept with many different interpretations. In contrast to VFI, horizontal fiscal imbalances measure differences in spending and revenue across sub-national governments at the same level, and not at different levels (Eyraud & Lusinyan 2011:8).

The problem of horizontal fiscal imbalances has to do with the fact that geographical areas usually differ with respect to resource capacity and needs (Fjeldstad 2001:12). For instance, the revenue base per capita often differs substantially between highly urbanised geographical areas and rural areas. In addition, the needs for public services amongst different areas may also differ because some areas, for example, have a higher percentage of school children or a higher disease rate than others. Designing fiscal institutions to cope with this complex reality is not an easy task, and is often severely complicated in practice by historical rivalries and by such political imperatives as the need to treat even the most unequal jurisdictions uniformly (Bird, 1990:278).

Horizontal fiscal balance or equality on the other hand means that all governments at the same government level possess a comparable financial capacity in the sense that each is financially in a position to supply their communities with services of the same scope, variety and quality, provided that comparable taxation and tariffs are imposed (Gildenhuys 2008:196). Horizontal equity would therefore exist when two sub-national governments with the same expenditure needs, but different tax bases, are able to provide a comparable level of service at comparable tax rates. Sub-national governments with smaller tax bases or higher demands for services will normally require a grant in order to provide services comparable to those in other sub-national governments (Slack 2007:499).

The provision of government services to a specific jurisdictional area, such as a province or a municipality, often has an effect on adjacent jurisdictional areas in the form of a benefit or a cost. This effect is referred to as an externality.

2.3.6 Externalities

Externalities are government initiated benefits such as health services, or costs such as toll fees, that are not limited to the jurisdictional area of the government concerned, and which results in benefits or costs in the jurisdictions of other governments or at other government levels (Gildenhuys, 2008:194).

Benefit externalities occur when services provided and financed by a sub-national government also benefit citizens of other sub-national governments, without the latter contributing to the funding of such services (Shah 1991:26). The benefits of a regionally provided good or service itself are felt beyond the jurisdiction of the region, benefiting citizens not contributing to the costs (health, education, roads) and non-residents of the region thus enjoy the services provided (Shah1994:44).

According to Amusa and Mathane (2007:271), functions related to the provision of education, health services, social welfare, housing and agriculture are shared in South Africa between national and provincial governments, due to their spill over impact. To ensure that these functions are adequately provided in line with national imperatives and objectives, the national sphere formulates policy, and determines the regulatory framework guiding these functions, with provinces mainly acting as implementing authorities (Amusa & Mathane 2007:271).

Externalities can also arise on the revenue side of the financial domain, which will be discussed in the following paragraph. Due to competition among sub-national governments, where they strive to keep taxes or levies as low as possible, too little revenue in the form of taxes or levies is being raised by a region, resulting in too little provision of public goods such as roads or health services. Similarly, an attempt by a region to redistribute income from the rich to the poor induces poorer people to immigrate to its area of jurisdiction, and wealthier people to emigrate from lower-tax jurisdictions (Vigneault 2007:134). This migration of citizens creates cost externalities in the sense that more services must be delivered due to the increase of poorer citizens who immigrate to the jurisdiction and the loss of revenue from the wealthier citizens who emigrate from the jurisdiction.

Due to the existence of a VFI, revenue sharing is necessary to enable sub-national governments to deliver their mandated services.

2.3.7 Revenue sharing

Gildenhuys (2008:197) posits that revenue sharing means that a specific government level, or a specific government institution, has the authority to exploit a specific revenue source, and distribute the yield according to a pre-determined formula amongst the various government levels vertically, or horizontally amongst governments at the same level for example amongst the nine provinces. Rao

(2007:322) argues that revenue sharing is an arrangement in which the revenue from a given tax base accrues to both the national and sub-national governments. This arrangement assures sub-national governments of a specified source of revenue to perform their functions while attempting to provide greater harmony in the levying of taxes. Abedian and Biggs (1998:69) espouse that revenue sharing is the process in which government incomes are pooled and subsequently divided among national and sub-national governments.

Rao (2007:322) distinguishes between two types of revenue-sharing arrangements, those in which multiple levels of government share the tax base, and those in which revenue is collected by one level such as the national government and shared by different sub-national governments. In the first type of revenue-sharing, the national government determines the tax base, and allows sub-national governments to levy rates supplementary to those levied by the national government, or to 'piggyback' their tax rates on the tax base determined by the national government. In the second type, important issues must be considered regarding the proportion of national revenues to be shared between national and sub-national governments, and the formula for sharing among sub-national governments. The system can include only the national and provincial governments, or it can include local governments as well.

Given the regional imbalances in income distribution, South Africa's Intergovernmental Fiscal Relations System is based on a revenue-sharing model, with most of the nine provinces receiving more funds than they raise through national taxes (Langa & Jerome 2004:6). This is confirmed by Chapter 13, section 214 of the Constitution, which determines that revenue raised nationally shall firstly be divided equitably amongst the three spheres of government, and secondly that each province is entitled to an equitable share of the provincial share.

In 2011/2012, provinces in aggregate received 97.1% of their budgets through transfers from national government (National Treasury 2012:3). This means that 'own–revenue' collection by provinces on average was less than 3% of their total budgets.

Gildenhuys (2008:197) and Ajam (2001:131) distinguish mainly between two systems of revenue sharing, namely vertical revenue sharing and horizontal revenue sharing.

2.3.7.1 Revenue sharing: The vertical division

Vertical revenue sharing refers to the sharing of revenue between the various government levels within one state, the national, provincial and local levels (Gildenhuys 2008:198). The sharing of revenue vertically between spheres of government (vertical division) follows the principle that funds should follow function, and is informed by the responsibilities of each sphere and its capacity to generate revenue to meet its obligations (Fölscher & Cole 2006:7).

In the process of vertical revenue sharing, the spending power is shifted from one government sphere to another government sphere, and the process is managed primarily as a political decision based on the relative priority given to different functions of government, and how these functions are shared between the spheres of government. As such, it is discussed in the administrative and political spheres through the work of intergovernmental forums, and is underpinned by technical work undertaken jointly by national and provincial treasury task teams (Fölscher & Cole 2006:7). In South Africa, the final decision is however taken by a meeting of the extended national cabinet (the national cabinet as well as the premiers of the nine provinces).

2.3.7.2 Revenue sharing: The Horizontal Division

Horizontal revenue sharing refers to the sharing of revenue between governments functioning at the same level (Gildenhuys 1998:197). Rao (2007:320) argues that the differences between the capacities of sub-national governments to raise revenues could violate horizontal equity among individuals residing in different jurisdictions.

To this extent, intergovernmental transfers promote horizontal equity by providing sub-national governments of varying fiscal capacities with the ability to provide comparable levels of public services at comparable levels of taxation (Choudhry & Perrin 2007:261).

An important element of South Africa's IGFR is the use of intergovernmental transfers to correct both vertical and horizontal imbalances.

2.3.8 Intergovernmental transfers

According to Islam (2007: XV11) intergovernmental fiscal transfers are dominant features of the finances of sub-national governments in most countries. A key feature of South Africa's intergovernmental fiscal relations system is that revenue powers are less decentralized than expenditure responsibilities. Therefore, notwithstanding South Africa's relatively decentralized government structure, an important gap exists between the expenditure responsibilities of sub-national governments and their revenues (Amusa & Mathane 2007:281).

The wide variations in resource endowments and per-capita income levels of sub-national governments in South Africa, mean that many sub-national authorities lack adequate fiscal capacity in meeting their constitutional mandates (Amusa & Mathane 2007:281). This vertical imbalance makes transfers by national government to provincial and local governments inevitable (Durham & Verwey 2012:17). For this reason, intergovernmental fiscal transfers form an important cornerstone of South Africa's IGFR system.

The following Table provides an indication of the division of the available revenue raised nationally between the three spheres of government.

Table 2.3: Division of nationally raised revenue, 2009/10 – 2015/16

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
	Outcome			Revised estimate	Medium-term estimates		
Percentage shares							
National departments	50.0%	48.1%	47.0%	47.0%	47.6%	47.9%	47.5%
Provinces	42.5%	43.7%	44.6%	44.2%	43.5%	43.2%	43.2%
Local Governments	7.5%	8.2%	8.4%	8.8%	8.9%	9.0%	9.2%

Source: Adapted from National Treasury, Budget Review (2013:111)

From Table 2.3 it is evident that national and provincial governments receive the largest portion of more than 40% respectively, while local governments receive the smallest share of less than 10%. The reason for this is that local governments fund the majority of their spending through charges and taxes they collect themselves (National Treasury 2013:111).

According to Shah (2007:2) as well as Amusa and Mathane (2007:281), intergovernmental transfers derived mainly from nationally raised revenues can be broadly classified into two categories, general-purpose (unconditional) and specific-purpose (conditional or earmarked) transfers. It is necessary that the two categories be discussed separately.

2.3.8.1 General-purpose (unconditional) transfers

General-purpose transfers (unconditional grants) are provided as general budget support with no strings attached, and are normally mandated by law, but may occasionally be of an ad hoc or discretionary nature (Shah 2007:2). Gildenhuys (2008:198) supports this notion by stating that unconditional grants are grants made without any conditions being imposed by the donor government on how they should be spent.

By allowing sub-national governments to select the services on which grant revenue will be spent, unconditional grants impinge less on the autonomy of sub-national governments than do conditional grants, and have virtually no distortive effects (Kitching 2007:496). Normally, the purpose of unconditional grants is to create horizontal equality between governments at the same level, so that governments with extensive financial needs and relatively small financial capacity can benefit from the grant (Gildenhuys 2008:198).

Unconditional grants should provide equity, efficiency, predictability, flexibility, and accountability (Kitching 2007:498).

Equity: Allocated funds should vary directly with fiscal need factors, such as education services (population of school age 6-18) and transport services (total length of roads in the province) for example, and inversely with the tax capacity of each authority (Shah 2007:15). Vertical equity is achieved when a sub-national government’s revenue-raising capabilities are consistent with its expenditure responsibilities and needs (Kitching 2007:498). A sub-national government whose revenue base is not large enough to meet its expenditure needs will require a grant to meet those needs. Horizontal equity exists when two sub-national governments with the same expenditure needs, but different tax bases, are able to provide a comparable level of service at comparable tax rates (Kitching 2007:498). The sub-national government with the smaller tax base and/or the greater need will require a grant if it is to provide services comparable to those in other sub-national governments.

Economic efficiency: The design of the unconditional grant should be neutral with respect to sub-national governments' choices of resource allocation to different sectors or types of activity (Shah 2007:15). The fiscal transfer from national government should not intervene in the decision making process of the sub-national governments, and sub-national governments should be autonomous in introducing their own taxes and levies, irrespective of what they receive in the form of transfers. Economic efficiency is achieved if a grant does not affect the expenditure patterns of a recipient government, or if it affects spending in a way that corrects existing distortions in expenditure practices (Kitching 2007:498). Economic efficiency suggests that the grant from national government should not distort the choices of resource allocation and the types of activity of sub-national governments (Ahmed 1997,n.p.). A grant is not efficient if a sub-national government can affect the size of the grant it receives by manipulating its expenditures.

Predictability and flexibility: Predictability is important as sub-national governments need to be able to budget and plan for the future. At the same time, grants should be flexible enough to allow sub-national governments to respond to changing economic circumstances. The grant mechanism should ensure predictability of sub-national governments' shares by publishing five-year projections of funding availability (Shah 2007:15).

Accountability: Accountability implies that citizens should be able to hold sub-national governments responsible for the way in which grant funds are spent (Kitching 2007:498). The grantor must be accountable for the design and operation of the programme, whilst the recipient must be accountable to the grantor and its citizens for financial integrity and results, thus improvements in service delivery performance (Shah 2007:15). If unconditional grants enhance accountability at the sub-national government level, they may diminish it at the level of the donor government, since in passing on funds without conditions, the donor government also passes on much of the responsibility for using funds equitably and efficiently.

Ease of administration: A grant should be easy and inexpensive to administer (Kitching 2007:498).

In order to meet the abovementioned criteria, a formula-based grant, such as the equitable share grant, is preferred over ad hoc and discretionary grants, as it increases the likelihood of meeting these criteria. Equitable share allocations are general purpose (or unconditional) grants that are intended to do the following:

- Reduce fiscal imbalances stemming from the asymmetric matching of revenue and expenditure functions.
- Enable sub-national governments to provide basic services and perform any functions assigned to them (Amusa & Mathane 2007:281).

In South Africa this equitable share involves the following three main components:

- Percentages of nationally collected individual income taxes, value added tax or other sales tax and the fuel levy.
- Transfer duties on property situated within a province.
- Other conditional or unconditional allocations out of the national revenue (Financial and Fiscal Commission 1996:3).

The legislation giving effect to the Constitutional provisions for the equitable share is the **Intergovernmental Fiscal Relations Act**, 1997 (97 of 1997) (hereafter referred to as the Intergovernmental Fiscal Relations Act), of which Section 10 states that a Division of Revenue Bill must be adopted annually to specify the equitable share transfer to be made. The Financial and Fiscal commission makes recommendations to Parliament on each said bill (Choudhry & Perrin 2007:173).

According to Amusa *et al.* (2008:455) equitable share transfers give sub-national governments some relative autonomy (and flexibility) in designing grant expenditure frameworks, and in altering spending to suit provincial and local priorities. This form of transfer is criticized by Rao and Khumalo (2003:3) in that unconditional transfers to sub-national governments, without significant tax powers, may be made essentially to employ the sub-national governments as spending agencies.

The next Table (2.4) provides an indication of the distribution of the equitable share amongst the different provinces (National Treasury 2013:18).

Table 2.4: Total transfers to provinces, 2011/12 – 2015/16

Distributing the equitable shares by province, 2013 MTEF

	Education 48%	Health 27%	Basic Share 16%	Poverty 3%	Economic Activity 1%	Institutional 5%	Weighted Average 100%
Eastern Cape	15.3%	13.5%	12.75%	16.3%	7.7%	11.1%	**14.2%**
Free State	5.3%	5.4%	5.3%	5.4%	5.5%	11.1%	**5.6%**
Gauteng	17.3%	21.9%	23.7%	16.9%	33.7%	11.1%	**19.4%**
KwaZulu-Natal	22.7%	21.7%	19.8%	22.2%	15.8%	11.1%	**21.3%**
Limpopo	13.1%	10.3%	10.4%	13.6%	7.2%	11.1%	**11.8%**
Mpumalanga	8.5%	7.2%	7.8%	9.1%	7.0%	11.1%	**8.2%**
Northern-Cape	2.3%	2.2%	2.2%	2.2%	2.3%	11.1%	**2.7%**
North West	6.5%	6.7%	6.8%	8.0%	6.7%	11.1%	**6.9%**
Western Cape	8.9%	11.1%	11.2%	6.1%	14.1%	11.1%	**10.0%**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Adapted from National Treasury (2013:18)

The formula used to calculate the equitable share as shown above, represents the six components that capture the relative demand for services between provinces, and takes into account specific provincial circumstances.

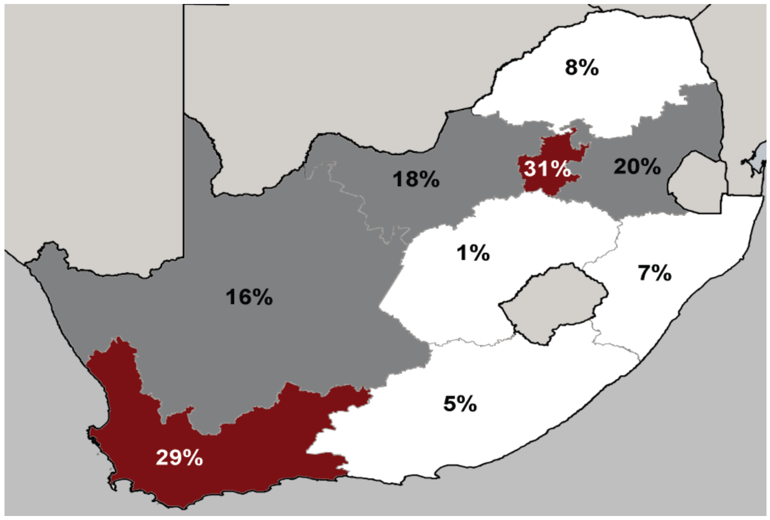
For the 2013 Budget, the formula components are set out as follows (National Treasury 2013:19):

- **An education component** (48%) based on the size of the school-age population (ages 5 to 17) and the number of learners (Grade R to 12) enrolled in public ordinary schools.
- **A health component** (27%) based on a combination of a risk-adjusted capitation index for the population, which takes into account the health risks associated with the demographic profile of the population and the relative share of case-loads in hospitals. The risk-adjusted capitation index is given a 75% weighting, and the case-load (output component) has a 25% weighting.
- **A basic component** (16%) derived from each province's share of the national population.
- **An institutional component** (5%) divided equally between the provinces.
- **A poverty component** (3%) reinforcing the redistributive bias of the formula.
- **An economic output component** (1%) based on GDP-R data.

The formula's components are neither indicative budgets nor guidelines as to how much should be spent on functions in each province or by provinces collectively. Rather, the education and health components are weighted broadly in line with historical expenditure patterns to indicate the relative need. Provincial executive councils have discretion regarding the determination of departmental allocations for each function, taking into account the priorities that underpin the division of revenue (National Treasury 2013:19).

The formula for calculating the equitable share transfers to provinces has been updated to reflect population changes observed in the 2011 Census. Figure 2.1 shows how population growth varies significantly across the country, with more urbanised provinces growing faster than others (National Treasury 2013:111).

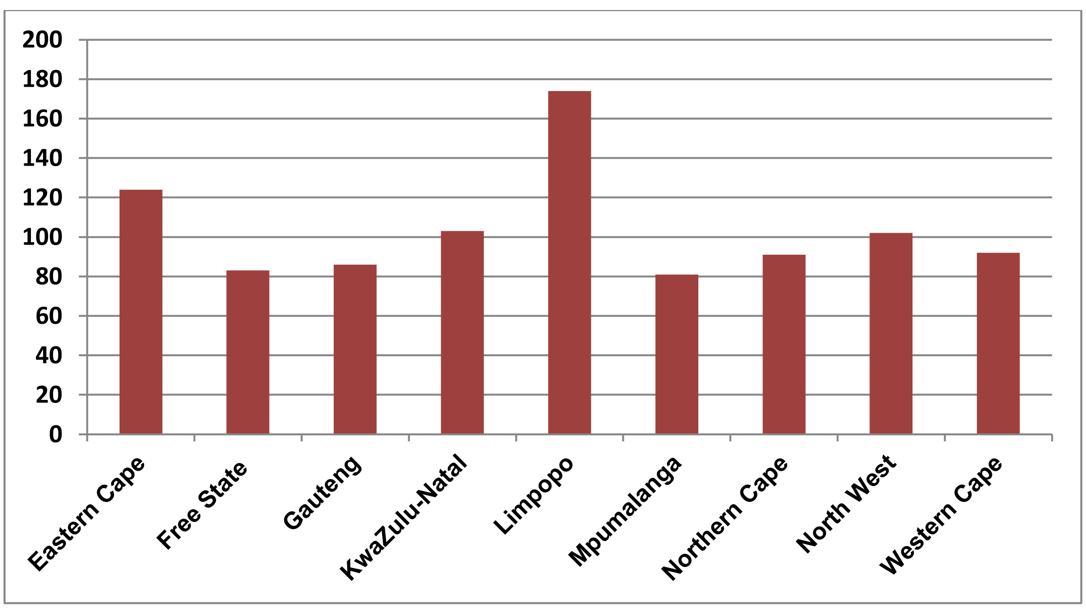
Figure 2.1: Population growth by province



Source: (National Treasury 2013:19)

To comprehend the impact of the equitable share allocations to provinces, Figure 2.2 presents the disparities in revenues collected in each province against national government allocations to the different provinces.

Figure 2.2: National government spending-to-income ratio by province



Source: Adapted from Chitiga, Fofana and Mabugu (2011:11)

In the scenario where the equitable share transfer from national government is more than the revenue collected in a province, such a province is regarded as having received a net gain transfer. However, if the equitable share transfer is less than the revenue collected, the province is regarded as having received a net-loss transfer.

According to Chitiga, Fofana and Mabugu (2011:11), Limpopo and the Eastern Cape provinces are, by far, the provinces that receive the greatest net transfers from the national government. For every R100 collected in the region, the national government spends R174 and R124, respectively. KwaZulu-Natal and the North West Province are the two other regions that receive net transfers from the national government, but to a lesser extent, R103 and R102 for every R100 collected, respectively (Chitiga, Fofana & Mabugu 2011:11).

In contrast, national government spending is less than the collected revenues in Mpumalanga, the Free State, and Gauteng, spending R81, R83, and R86 respectively for every R100 collected, whilst the Northern Cape and Western Cape receive R91 and R92 for every R100 collected in these regions (Chitiga, Fofana & Mabugu 2011:11).

From the aforementioned it can be concluded that there is a greater need for horizontal equality in the Limpopo and Eastern Cape provinces than in Mpumalanga and the Free State provinces. It can further be concluded that Limpopo and the Eastern Cape are provinces with extensive financial needs and relatively small financial capacities, and therefore benefit most from the equitable share.

2.3.8.2 Conditional grants

The second mechanism for transfers is conditional grants which are intended to fund specific purpose programmes. By nature, conditional grants are designed to provide incentives for sub-national governments to spend funds in specific ways or on specific projects (Kitchen 2007:498). Conditional grants can be utilised in addressing inter-jurisdictional spill-overs, in meeting national redistribution objectives, and in aiding the implementation of specific national priorities and policies related to socioeconomic services provided by SNGs (Amusa & Mathane 2007:281). According to Amusa *et al.* (2008:455) conditional grants emphasise spending on national priority programmes, and often have stringent accounting and planning conditions attached to their use. Kitchen (2007:498) also refers to the fact that conditional grants must be spent on specific services or facilities, and are appropriate for funding services that generate externalities.

According to Shah (2007:4) conditional grants normally specify the type of expenditures that can be financed (input-based conditionality) such as capital expenditures, operating expenditures, or both, and may also require the attainment of certain results in service delivery (output-based conditionality).

The framework for the various conditional grants is set out in the Division of Revenue Act, 2013 (2 of 2013), which lists the following key areas to be considered for each grant (RSA 2013:111):

- Strategic goal and purpose of the grant.
- Outcome statements and outputs of the grant.
- Priority outcome(s) of government that the grant primarily contributes to.
- Conditions of the grant (additional to what is required in the Bill).
- Criteria for allocation between provinces.
- Rationale for funding through a conditional grant.
- Past performance.

- The projected life of the grant.
- 2013 medium term expenditure framework (MTEF) allocations.
- The payment schedule.
- Responsibilities of the transferring national department and receiving provincial departments.
- Process for approval of business plans for 2014/15.

Slack (2007:466) states that conditional grants are fungible in the sense that even though there are certain conditions to be met, there is no guarantee that the recipient will spend the funds on what the donor government intended. Shah (2007:7) argues that the fungibility of conditional grants depends both on the level of spending on the assisted public service, and on the relative priority of such spending. If the own-financed expenditure of a sub-national government on the assisted category exceeds the amount of the conditional grant, the conditionality of the grant may or may not have any impact on the recipient's spending behaviour. In such a scenario all, some or none of the grant funds could go to the assisted function. Practical experience also indicates that it is difficult to enforce the conditions, as there may be significant opportunities for fungibility of funds. Experience has further shown that there is no one-to-one link between increases in public spending and improvements in service delivery performance (Shah 2007:13). Sub-national governments can also reallocate their own-source revenues to undo the effects of conditionality.

Whatever the theoretical merits of conditional grants, practical difficulties have led to an array of conditional transfers that are so detailed, complex and unrelated to the purpose that they are intended for, that their use has led to ineffective sub-national governments as well as a resistance towards the grants in many countries (Bird & Smart 2002,n.p.). Acccording to Amusa and Mathane (2007:281) resistance to conditional grants is due to the following two major factors:

- Perceived burden associated with the administration and implementation of these grants.
- The lack of significant provincial autonomy (and flexibility) in designing grant frameworks and altering spending to suit local priorities.

The consequences of these divergent positions, regarding the use of conditional grants, have often been delays in the transfer of funds by national government (Amusa & Mathane 2007:281). Another major disadvantage of conditional grants is that they can also undermine the ability of sub-national governments to respond to provincial and local priorities (Kitchen 2007:496).

According to Shah (1991:32), conditional and unconditional intergovernmental transfers can furthermore be classified into two categories, namely non-matching and selective matching.

2.3.8.3 Non-matching grants

Non-matching grants may be either selective or general (conditional or unconditional) (Shah 1991:32). The purpose is to stimulate the provision of certain services by lowering their marginal cost to zero, and by mandating a certain level of service (Bahl 2000:19). Full reimbursement of teachers or health practitioners' salaries is a common form of non-matching grants.

Unconditional non-matching transfers provide sub-national governments with maximum flexibility to pursue their own objectives, whilst conditional non-matching grants are best suited for subsidizing activities considered high priority by a higher-level government, but low priority by sub-national governments (Shah 2007:5).

2.3.8.4 Matching grants

Selective matching grants refer to those grants which require that the funds be spent for a specific purpose (i.e. conditional), and that the recipient sub-national government matches the funds to some degree (Shah 1991:35). Matching grants have an intentional incentive effect that reward sub-national governments for increases in particular expenditures by national government's cost sharing (Boadway & Shah 2007:XXXV1), and provide incentives for sub-national governments to invest in public goods that have positive spill-over effects into other jurisdictions (Eyraud & Lusinyan 2011:6).

A major problem with matching grants is selection of the matching ratio for the service to be provided (Bahl 2000:19). In this regard, Shah (2007:4) states that matching requirements can be either open ended, meaning that the grantor matches whatever level of resources the recipient provides, or closed ended, meaning that the grantor matches recipient funds only up to a pre-specified limit.

Where non-matching grants were recommended for relieving fiscal capacity constraints of sub-national jurisdictions, matching grants were recommended for correcting externalities in the provision of public services at the sub-national level (Gamkhar & Shah 2007:253). Shah (2007:5) however indicates that matching grants can correct inefficiencies resulting from spill-overs, but do not address uneven or inadequate fiscal capacities across sub-national governments. This is due to the fact that sub-national governments with ample resources can afford to meet matching requirements and acquire a substantial amount of assistance. Sub-national governments with limited fiscal capacities may be unable to match national funds, and therefore fail to obtain as much assistance, even though their expenditure needs may be equal to or greater than those of wealthier regions.

In addition to non-matching and selective matching grants, another popular form of grant is the well-known capital grant.

2.3.8.5 Capital grants

Capital grants are conditional in nature and are intended to provide incentives for sub-national governments to undertake specific capital or infrastructure related projects or programmes (Shah 2007:4). According to Gildenhuys (2008:200), grants can also be made to sub-national governments for the funding of special capital projects such as housing projects, water-supply projects, and road building projects. Capital grants are justified to deal with infrastructure deficiencies in poorer jurisdictions and are typically determined on a project by project basis (Shah 2007:42). Such grants are not repeatable in nature, but are made only on an *ad hoc* basis for a specific project (Gildenhuys 2008:200).

Petchey and MacDonald (2007:426) identify the following three reasons that national governments make capital grants to sub-national governments:

- The main reason is the national government's desire to maintain minimum standards.
- A second reason has to do with the interregional externalities generated by regional infrastructure, such as major road networks and airports, which sub-national governments may not take into account.
- A third reason is that region specific fiscal externalities and location-specific economic rents may create differential net fiscal benefits across regions, which may cause labour and capital to migrate from poorer regions to wealthier regions.

Shah (2007:43) argues that experience with capital grants demonstrates that they often create facilities that are not maintained by sub-national governments, which either remain unconvinced of their utility or lack the means to provide regular upkeep. According to Petchey and McDonald (2007:430), capital grants should also not be a long-term substitute for sub-national governments' access to efficient capital markets, where they can borrow money for capital projects.

2.3.9 Intergovernmental transfers in South Africa measured against objective determinants.

Due to the unique differences among provinces in South Africa, and the complexity of service delivery, it is also necessary to measure the intergovernmental fiscal transfers against objective determinants such as the Human Development Index, the Gini-Coefficient and the Human Poverty Index. It is also worthwhile to compare the population size and land area per province.

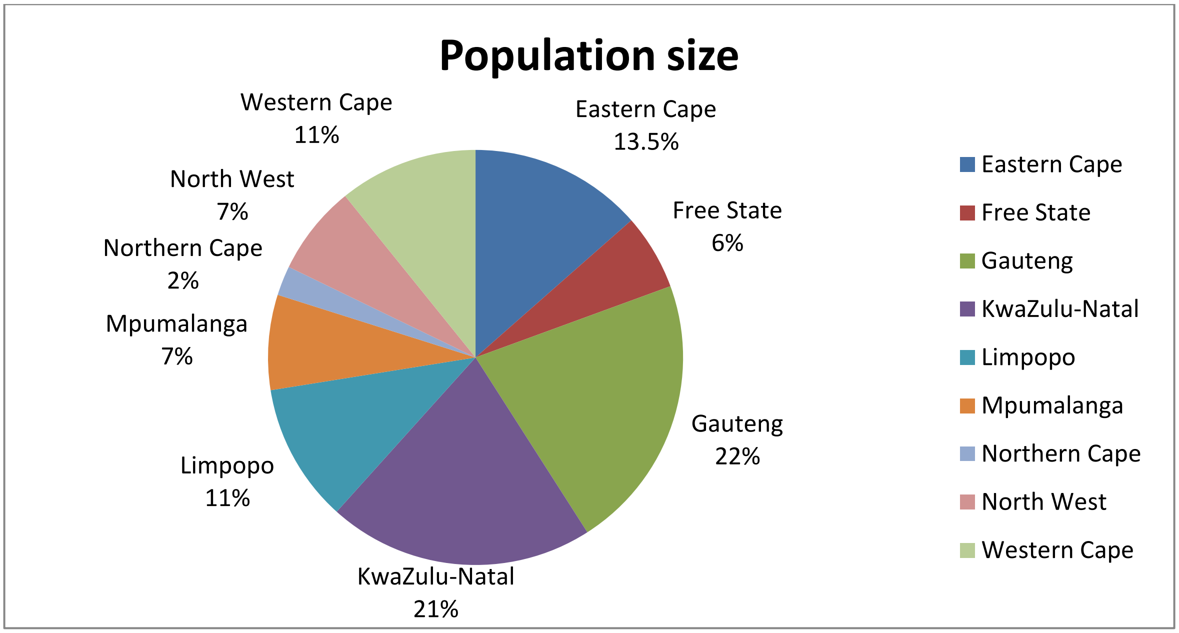
2.3.9.1 Population size and land area by province

According to Statistics South Africa (2012:2) the population of South Africa has increased to an incredible 51.7 million. Gauteng is the largest province by population size with 12.2 million people, followed by KwaZulu-Natal at 10.3 million.

Population size per province

The following Figure provides a breakdown of the population size per province.

Figure 2.3 Population size per province



Source: Adapted from Statistics South Africa (2012:12)

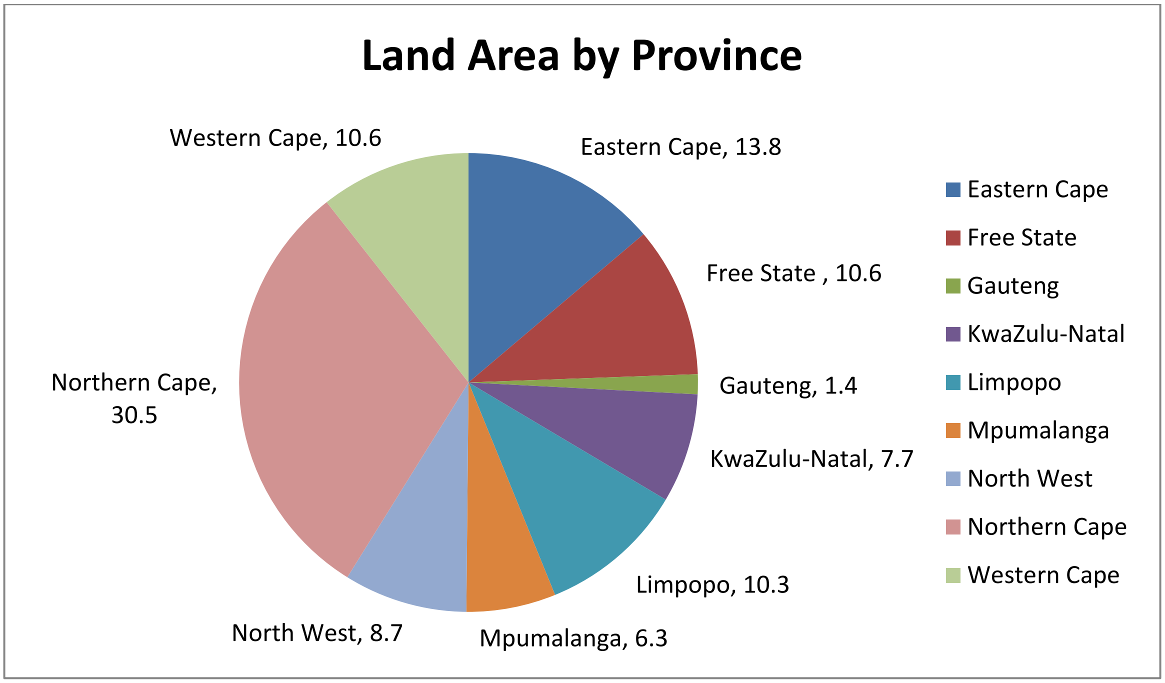
The population growth in Gauteng can be attributed to labour migration, as people tend to leave their provinces of usual residence in search of work in the more industrialised provinces such as Gauteng and the Western Cape (Statistics South Africa 2012:2). The least populated province is the Northern Cape, with 1.1 million followed by the Free State at 2.7 million people.

What is significant from the population size, and the land area by province, statistics is that Gauteng has the largest population, even though it is the smallest in square kilometres, whilst the Northern Cape has the smallest population although it is the largest in square kilometres.

Land area by province

The following Figure provides a breakdown of the land area by province.

Figure 2.4 Land area by province



Source: Adapted from Statistics South Africa (2012:12)

The Northern Cape has several unique features which pose specific challenges for the delivery of services. It has the smallest population of the nine provinces - 1.1 million or 2% of total population - but has the largest geographic area – 372 889 square kilometres or 30.5% of the country's surface area (Statistics South Africa 2012:9-18). At 30.5% of the land area, it is more than 21 times bigger than Gauteng. The capital, Kimberley, has a population of approximately 300,000, with the remaining population scattered in small towns and settlements across a vast geographical area (Northern Cape Department of Health 2009:9 and Gelb 2004:9). The size of the province and low population density make the task of ensuring equitable access to services complex and costly, and services may seem less efficient than in other provinces, where economies of scale are more possible (Northern Cape Department of Health 2009:9). The distance between one primary health care facility and the next level of care can be up to 200km for instance (Northern Cape Department of Health 2009:9).

2.3.9.2 Human development index

The Human Development Index is a composite index of specific socio-economic indicators that reflect three major dimensions of human development namely longevity, knowledge, and standard of living (Noorbakhsh 1998:590 and Despotis 2005:969). According to the Economic Glossary (2013:1) longevity is measured by life expectancy at birth, while knowledge is measured by a combination of the adult literacy rate and the combined primary, secondary, and tertiary gross enrolment ratio, and the standard of living is measured by GDP per capita.

The Human Development Index (HDI) serves as an indication of where a country or province is in terms of development. The index contains values between 0 and 1. Countries with an index over 0.8 are part of the High Human Development group. Countries between 0.5 and 0.8 are part of the Medium Human Development group, while those below 0.5 are part of the Low Human Development group (Economic Glossary 2013:1).

The following Table provides the HDI of the different provinces in South Africa

.

Table 2.5 Human development index per province

Province	HDI
Eastern Cape	0.51
Free State	0.55
Gauteng	0.66
KwaZulu-Natal	0.53
Limpopo	0.48
Mpumalanga	0.52
Northern Cape	0.57
North West	0.52
Western Cape	0.69
South Africa	**0.57**

Source: Adapted from Eastern Cape Socio Economic Consultative Council (2012:1).

From the Table it is evident that none of the provinces are in the High Human Development group. In fact, all the provinces, with the exception of Limpopo, are in the Medium Human Development group. Limpopo, with an HDI of 0.48, is in the Low Human Development group. Although the rest of the provinces are in the Medium Human Development group, the majority is in the lower band of the Medium Human Development group. Only the Western Cape, with 0.69, and Gauteng, with 0.66, are in the middle band of the Medium Human Development group. The Northern Cape, with 0.57, is also in the lower band of the Medium Human Development group.

2.3.9.3 Poverty indicators

One of the objectives of government is to eliminate poverty (National Treasury 2013:2). It is therefore necessary that provincial governments implement programmes and projects that aim to alleviate poverty. The following Table provides an indication of the poverty indicators per province.

Table 2.6 Poverty indicators per province

Province	Food poverty line (R305)			Lower-bound poverty line (R416)			Upper-bound poverty line (R577)		
	P0	**P1**	**P2**	**P0**	**P1**	**P2**	**P0**	**P1**	**P2**
Limpopo	48.5	16.6	7.8	62.1	26.9	14.4	74.3	38.8	23.6
Eastern Cape	35.7	11.8	5.3	51.0	20.4	10.4	66.1	31.1	18.0
Mpumalanga	32.1	10.9	5.1	47.6	18.7	9.7	62.5	29.1	16.7
KwaZulu-Natal	33.0	10.7	4.8	46.1	18.5	9.5	60.2	28.2	16.3
Northern Cape	26.0	7.9	3.3	42.6	14.8	7.1	58.2	24.9	13.4
Free State	24.6	7.1	2.9	42.0	14.1	6.5	57.8	24.3	12.8
North West	26.3	8.8	4.1	42.0	15.6	7.9	56.9	25.1	14.0
Western Cape	9.0	2.2	1.0	17.8	5.5	2.4	30.6	10.8	5.2
Gauteng	10.1	2.6	1.0	18.1	5.7	2.5	29.0	10.7	5.3
RSA	**26.3**	**8.5**	**3.8**	**38.9**	**15.0**	**7.5**	**52.3**	**23.6**	**13.3**

Source: Adapted from Statistics South Africa (2012:11)

Table 2.6 presents the three poverty indicators (poverty headcount-P0, poverty gap-P1 and severity of poverty-P2) by province. The poverty headcount refers to the proportion of the population living below a poverty line, while the poverty gap refers to a mean distance of the poor from the poverty line. The severity of poverty is an indicator that takes account of extreme poverty by giving greater weight to those further from the poverty line.

According to the Local Conditions Survey 2008/2009, using the food poverty line, Limpopo was the poorest province (48.5%) in South Africa, followed by the Eastern Cape (35.7%) and KwaZulu-Natal (33.0%). The Western Cape and Gauteng had the lowest poverty headcounts, 9.0% and 10.1% respectively, compared to other provinces (Statistics South Africa 2012:11). The Northern Cape is in the middle, at 26.3%. Poverty headcounts by province based on the upper-bound poverty line shows a slightly different pattern from that of the food poverty line.

While Limpopo remained the poorest province for both poverty lines, KwaZulu-Natal and Mpumalanga switched places. KwaZulu-Natal was the third poorest province, using the food poverty line, and the fourth poorest province, using the upper-bound poverty line. The same pattern is observed with the Western Cape and Gauteng. Using the food poverty line, the Western Cape was the richest province and Gauteng the second richest, and vice versa for the upper-bound poverty line. This means that there are more people with low expenditure in KZN than in Mpumalanga, and so dropping the poverty line increases the relative share of poverty in KZN, who are below the line. This also applies to the Western Cape and Gauteng, as there are more people at the low end of the distribution. This is further illustrated in the poverty gap estimates.

The position of the Northern Cape is unchanged when the lower bound poverty line and upper bound poverty line is used. Table 5 further indicates that the higher the poverty headcount of a province, the higher the poverty gap and severity of poverty estimates tend to be. This indicates that in provinces where there are high levels of poverty, the poor are usually far below the poverty line compared to provinces with low levels of poverty (Statistics South Africa 2012:11).

2.3.9.4 Gini Coefficient

According to Bellù and Liberati (2006:6), the National Institute of Statistics and Economic Studies of France (2013:1) and the World Bank (2013:1), the Gini index (or coefficient) is a composite indicator of inequalities in wages (wages, income, and standard of living). The Gini Coefficient varies between 0 and 1. It would be equal to 0 in situations of perfect equality, in which all wages, income and standard of living were equal. At the other end of the scale, it would be equal to 1 in the most unequal situation possible. The higher the Gini index, the greater the inequality between income or standard of living.

Table 2.7 provides an indication of the Gini-Coefficient per province in South Africa.

Table 2.7 Gini Coefficient per province

Province	Gini Coefficient
Limpopo	0.59
Eastern Cape	0.60
Mpumalanga	0.61
KwaZulu-Natal	0.59
Northern Cape	0.61
Free State	0.59
North West	0.60
Western Cape	0.61
Gauteng	0.60
RSA	**0.64**

Source: Adapted from Statistics South Africa (2012:13)

According to Table 2.7, the provincial Gini Coefficient appears to be rather similar across all provinces, ranging from 0.59 to 0.61. Thus, all provinces are burdened with highly unequal societies. Additionally, levels of inequality within provinces are lower than when inequality is measured across all provinces, where the Gini Coefficient for the country is 0.64 (Statistics South Africa 2012:13). Donnelly (2013:3) argues in this regard, that if the effect of government policies such as social grants and free basic services are not included, the Gini Coefficient would be higher at a level of 0.73.

An analysis of the Gini Coefficient of the provinces indicates that, although the levels of inequality between the provinces are very close (between 0,59 and 0, 61), the Northern Cape, Western Cape and Mpumalanga have the highest levels of inequality, whilst Limpopo, KwaZulu-Natal and the Free State are the most equal. South Africa's Gini Coefficient was also much higher than countries such as Egypt (30.8), India (33.4), Indonesia (34), Russia (40.1), Paraguay (52.4) and Brazil (54.7) (Donnelly 2013:3).

2.3.9.5 Total transfers to provinces

In total, National Government transferred R414 152 billion in the 2013/2014 financial year to provincial governments. The following Table provides a breakdown of the total transfers to the different provinces.

Table 2.8 Breakdown of total transfers to provinces 2011/12-2015/16

	2011/12	2012/13			2013/14	2014/15	2015/16
Rmillion	**Outcome**	**Budget**	**Revised**	**Percentage**	**Medium-term estimates**		
Eastern Cape	53 486	57 258	57 258	14.737	59 631	60 877	64 061
Free State	22 920	24 487	24 487	6.302	26 021	26 828	28 612
Gauteng	65 648	70 858	70 858	18.239	76 885	81 926	89 630
KwaZulu-Natal	76 955	83 288	83 288	21.438	88 085	91 764	97 762
Limpopo	44 094	46 815	46 738	12.029	48 541	49 962	52 820
Mpumalanga	29 189	30 829	30 829	7.935	32 998	34 700	36 607
Northern Cape	10 740	11, 440	11 298	2.908	12 295	12 874	13 886
North West	24 224	25 818	25 818	6.645	27 744	29 157	31 607
Western Cape	35 231	37 942	37 942	9.767	41 764	43 728	47 660
Unallocated					188	9 910	11 745
Total	**362 488**	**388 735**	**388 516**	**100%**	**414 152**	**441 727**	**474 389**

Source: National Treasury Budget Review (2013:112)

An analysis of the total transfers to provinces against certain objective determinants indicates that there is a strong correlation between the transfers and the population size of a province. The 2.9% share of the budget for the Northern Cape, with a population share of 2% and 21.4% of the budget for KwaZulu-Natal with a population of 21%, is evidence of this. However, further analysis indicates that KwaZulu-Natal receives the largest portion (21.4%) of the budget, although its population size is the second highest at 21%. (Gauteng with 22% has the highest population). This is in line with the Human Development Index, as well as the poverty indicators. Two provinces that compare fairly well with each other are the Western Cape and Limpopo. Both provinces have a population size of 11%. The land area of the Western Cape is 10.6%, and that of Limpopo 10.3%. The percentage transfer to Limpopo was however 12% and that of the Western Cape only 9.7%. This represents a difference of R8.7 billion. The difference in total amount transferred can be justified against the Human Development Index that lists Limpopo as the province with the lowest HDI, and the Western Cape as the province with the highest HDI. According to the poverty indicators, Limpopo is also the poorest province, while the Western Cape has one of the lowest poverty headcounts. It can therefore be concluded that transfers to provinces are in line with the HDI and the poverty indicators. The Gini Coefficient ranging, from 0.59 to 0.61, is so similar across all provinces that it is not possible to measure the difference in transfers against the Gini Coefficient.

Another instrument that can be used in IGFR to create vertical and horizontal equalisation is tax sharing, which will be discussed in the following paragraph.

2.3.10 Tax sharing

Tax sharing is an important instrument of intergovernmental transfer with which to harmonize the tax system, and ensure the stability and autonomy of sub-national fiscal policy (Rao 2007:336). Under this approach, sub-national governments receive fixed fractions of revenues from particular national taxes originating within their boundaries. Commonly the sharing rates are uniform across jurisdictions (though not across taxes), however this is not necessarily the case (McLure & Martinez-Vazquez 2000:18). According to Bahl (2000:8) tax sharing is widely practiced among developing and transitional countries, although there seems to be no reason for the choices made as to which tax base to share. Rao (2007:333) argues that the objective of tax sharing is merely to offset the VFI.

Tax sharing usually has two main purposes, vertical and horizontal equalisation (Davey 2003:4). *Vertical* equalisation is achieved by closing the gap between the cost of the services devolved on sub-national governments and the yield of their own revenue sources. *Horizontal* equalisation adjusts differences between individual sub-national governments in their *per capita* revenues or spending needs.

A disadvantage of the tax sharing principle is that it may give the national government an incentive to concentrate its collection and enforcement efforts on the taxes that are either not shared, or shared to a lesser degree, or the national government may have an incentive to concentrate increases in rates (for instance for stabilisation purposes) on the shared taxes, something that may distort the tax system (Fjeldstad 2001:9).

It is thus clear that various methods exist according to which sub-national governments can finance their expenditure, ranging from own-revenue collection to conditional grants. However, the manner in which a sub-national government's expenditure is financed does have an effect on the fiscal autonomy of that sub-national government (Henry *et al*. 2009:1). The Table below provides an explanation of the impact that different funding options have on the fiscal autonomy of sub-national governments.

Table 2.9 Impact of funding options on fiscal autonomy of sub-national governments

Own source Revenue	Tax base sharing	Revenue sharing	Unconditional grants	Conditional grants
	Reduction	in fiscal	autonomy	

Source: Adapted from Henry *et al*. (2009: 1)

From the above Table it is evident that own-source revenue has the least effect on the fiscal autonomy of sub-national governments, followed by tax base sharing and then revenue sharing. Of the two main categories of grants transferred to sub-national governments, unconditional grants have the lowest impact on fiscal autonomy. Revenue collected by sub-national governments from own-sources can be used at the discretion of the sub-national government, whereas conditional grants come with strict conditions as to how the money is to be spent (Henry *et al*. 2009:1 and RSA 2013:112). However, own-revenue collection by provinces in

South Africa is as little as 3%, and consequently the bulk of the provinces' revenue is from conditional grants (78.57%) and unconditional grants (18.43%) (RSA 2013:112). It can therefore be concluded that the manner in which provinces are funded in South Africa may cause a reduction in the fiscal autonomy of provinces.

2.4 INSTITUTIONAL ARRANGEMENTS FOR INTERGOVERNMENTAL FISCAL RELATIONS IN SOUTH AFRICA.

The institutional arrangements for a country's intergovernmental fiscal relations are normally determined by the national government on its own. In South Africa it was the result of a negotiated Constitution that was adopted by Parliament in 1996.

2.4.1 Constitutional arrangements

The first fundamental step in the design of a system of intergovernmental fiscal relations should be a clear assignment of functional responsibilities among different levels of government. According to the Constitution, government in South Africa is constituted as national, provincial and local spheres which are distinctive, interdependent and interrelated by nature (RSA 1996:25). The decision to describe the South African government system as spheres, rather than tiers or levels, was a conscious attempt to move away from the notion of a hierarchy with all the connotations of subordination (Levy & Tapscott 2001:5). The aim was to seek cooperation rather than competition, therefore ensuring that spheres commit to their assigned roles (Ile 2010:54).

While general constitutional principles set out broad principles that guide national and sub- national policies, the division of powers of each level determines their detailed legislative responsibilities (Boadway 2007:66). This is known as the assignment issue of intergovernmental fiscal relations, where legislative powers are assigned by function (defence, education, criminal justice) rather than by objective (redistribution, stabilization, allocation). This is crucial, as a key feature of the division of power is the fact that some of the responsibilities assigned to sub-national governments are those important for achieving national objectives, such as redistributive equity or efficiency in the economy (Boadway 2007:66).

The different functions assigned to the three spheres of government, in terms of the Constitution, can either be exclusive (performed by one sphere of government) or concurrent (shared between different spheres of government). The concurrent functions of national and provincial governments are set out in Schedule 4 of the Constitution, whilst Schedule 5 sets out exclusive areas of provincial responsibility. Provincial governments are responsible for a wide range of functions for instance, and share important functions such as the provision of education, health, social welfare, housing and agriculture with the National Government. To ensure that the concurrent functions are adequately provided, and in line with national norms and standards, the national sphere formulates policy, and determines the regulatory framework, with provinces mainly acting as implementing authorities (Amusa & Mathane, 2007:265).

The Constitution of South Africa expressly authorizes the provincial and local government to receive other allocations from national government revenue, either conditionally or unconditionally (Choudhry & Perrin 2007:280). Chapter 13 of the Constitution deals comprehensively with intergovernmental fiscal transfers. In this regard, Section 227(1)(a) of the Constitution enshrines the principle that provincial and local governments are entitled to an equitable share of revenue raised nationally, to enable them to provide basic services and perform the allocated functions. The Constitution further determines that this fiscal transfer is to take place promptly and without deduction (Constitution section 227[3]).

Section 214(1) of the Constitution mandates that an Act of Parliament must provide for the following:

a) The equitable division of revenue raised nationally by the national, provincial and local spheres of government.
b) The determination of each province's equitable share of the provincial share of that revenue.
c) Any other allocations to provinces, local governments, or municipalities from the national government's share of that revenue, and any conditions on which those allocations may be made.

In a judgement on the certification of the Constitution by the Constitutional Court, the court stated that there are both substantive and procedural safeguards in determining the actual amount of the equitable share (Southern African Legal Information Institute 1996:233). Procedurally, provincial and organized local governments must be consulted, and the recommendations of the Financial and Fiscal Commission must be considered before this equitable share law (officially known as the Division of Revenue Act) may be adopted (Choudhry & Perrin 2007:173).

The Constitution (section 214[2]) further requires that the following factors be taken into account before the Act for the division of revenue is enacted:

a) The national interest.
b) Any provision that must be made in respect of the national debt or other national obligations.
c) The needs and interests of the national government, determined by objective criteria.
d) The need to ensure that the provinces and municipalities are able to provide basic services and perform the functions allocated to them.
e) The fiscal capacity and efficiency of the provinces and municipalities.

f) Developmental and other needs of provinces, local governments, and municipalities.
g) Economic disparities within and among the provinces.
h) The obligations of the provinces and municipalities in terms of national legislation.
i) The desirability of stable and predictable allocations of revenue shares.
j) The need for flexibility in responding to emergencies or other temporary needs and other factors based on similar objective criteria.

Section 228 of the Constitution also allowed provincial governments to impose taxes on any base except personal and corporate income, general sales, value added, customs, and property (RSA 1996:120). The available tax bases of provinces however are by nature narrowly based, and contributed less than 5% to total provincial budgets (Amusa & Mathane, 2007:271). This implies that provinces are mainly dependant on national transfers, in the form of the equitable share allocation or conditional grant allocation, to perform services.

Sogoni (2010:21) posits that the division of revenue across the three spheres of government (i.e. the vertical division) is largely a political decision based on the priorities of government, as detailed in the Medium Term Strategic Framework. Each province's allocation (i.e. the horizontal allocation), that follows after the share for the provincial sphere has been determined, is done in accordance with the provincial equitable share formula (Amusa & Mathane, 2007:271).

Instability and controversy in the practice of decentralized systems has followed when the law was silent or unclear about the competencies and expenditure obligations of different levels of government. A stable and meaningful decentralization requires an unambiguous and well defined institutional framework in the assignment of expenditure responsibilities among the different levels of government, together with sufficient budgetary autonomy to carry out the assigned responsibilities at each level of government (McLure & Martinez-Vazquez 2000.1).

The Constitution, as well as supporting legislation such as the Intergovernmental Fiscal Relations Act, does not spell out quantitative parameters for revenue sharing, nor does it explore the minutiae of cooperative governance (Fölscher & Cole 2006:6). The Constitution sets out the principles and requires subsequent Acts of Parliament to determine how these principles are to be applied, and how requirements are to be met. In keeping with this spirit, the supportive legislation enacted in the first years after the 1994 transition to a democratic government also does not primarily legislate specifics, but puts in place sets of institutional arrangements to facilitate the best possible substantive outcome to be found in any given year or circumstance. It is therefore necessary to discuss other supportive legislation as well.

2.4.2 The Intergovernmental Fiscal Relations Act, 1997 (97 of 1997)

The purpose of the **Intergovernmental Fiscal Relations Act, 1997** is to promote cooperation between the national, provincial and local spheres of government on fiscal, budgetary and financial matters; to prescribe a process for the determination of an equitable sharing and allocation of revenue raised nationally; and to provide for matters in connection thereto (RSA 1997a:3).

The Constitution makes provision for the division of the revenue raised nationally among the three spheres of government. For this purpose the Intergovernmental Fiscal Relations Act formally established the Budget Council and Local Government Budget Forum, and outlined the process for sharing nationally collected revenues across the three spheres of government (Department of Provincial and Local Government 2008:8). The Budget Council and the Local Government Budget Forum are the two major intergovernmental fiscal institutions established by statute. The Budget Council consists of the Minister of Finance and the MECs for finance of the provinces, whilst the Local Government Budget Forum consists of the Minister of Finance, the MECs for finance of the provinces as well as a number of persons representing organized local government (Pauw *et al*. 2009:69).

According to the **Intergovernmental Fiscal Relations Act, 1997**, ”... the Budget Council is a body in which the national government and the provincial governments consult on -

(a) any fiscal, budgetary or financial matter affecting the provincial sphere of government;
(b) any proposed legislation or policy which has a financial implication for the provinces, or for any specific province or provinces;
(c) any matter concerning the financial management, or the monitoring of the finances, of the provinces, or of any specific province or provinces; or
(d) any other matter which the Minister has referred to the Council”.

A representative of the Financial and Fiscal Commission attends the Budget Council’s meetings, which take place at least twice a year. Decisions taken by the Budget Council only become binding once they are accepted and ratified by National Cabinet (Ajam 2001:137).

The Budget Council has been regarded by observers as one of the more focussed and effective intergovernmental forums, and provides provinces with the opportunity for a formal consultative role in intergovernmental fiscal and financial matters (Department of Provincial and Local Government 2008:26).

The Intergovernmental Fiscal Relations Act, 1997, defines the Budget Forum as “...a body in which the national government, the provincial governments and organized local government consult on -

(a) any fiscal, budgetary or financial matter affecting the local sphere of government;
(b) any proposed legislation or policy which has a financial implication for local government;
(c) any matter concerning the financial management, or the monitoring of the finances, of local government; or
(d) any other matter which the Minister has referred to the Forum".

The Budget Forum is a similar body to the Budget Council established for municipal government issues, and is the only role player in the budget process that has representatives from local government. It is primarily through these forums that discussions take place (from June to September each year) between the three spheres of government, regarding the overall budget framework and the division of revenue between the spheres of government (Fölscher & Cole 2006:8).

According to Choudhry and Perrin (2007:277) the nature of provincial consultation has been clarified by the Constitutional Court, based on the fact that the equitable share of a South African province is regarded as a direct charge from the National Revenue Fund. The Court considered the importance of this terminology, and concluded that it does not contemplate a money bill but "necessitates additional and direct consultation with provincial interests rather than a mere indirect engagement through the second House." (Southern African Legal Information Institute 1996:230). The Constitution of the Republic of South Africa Second Amendment Act, 2001 explicitly states that a money bill does not include equitable share transfers under Section 214 of the Constitution, affirming the consultative role of the provinces in modifying the system of intergovernmental transfers (Choudhry & Perrin 2007:277).

2.4.3 The Financial and Fiscal Commission Act, 1997 (99 of 1997)

The Financial and Fiscal Commission (hereafter referred to as the FFC) was established in terms of Section 220 of the Constitution, and the Financial and Fiscal Commission Act, 1997. The FFC is a permanent expert commission that plays a major advisory role in South Africa's intergovernmental fiscal transfer system, with primarily "consultative and investigative powers but not lawmaking or enforcement powers" (Motala & Ramaphosa 2002:97). Sections 220–222 of the Constitution created the FFC, and tasked it with making independent and impartial recommendations pertaining to fiscal matters, whilst the Financial and Fiscal Commission Act, 1997 provides a more thorough elaboration of the functions and procedures of the commission (Choudhry & Perrin 2007:275).

According to Peter (2005:5), the FFC is a product of the multiparty constitutional negotiations that led to the 1994 elections. The inequalities and divisions that characterised South Africa for many decades, as well as the inherent uncertainty of political outcomes, led to a unique context within which the FFC must be viewed. The FFC was instituted to provide advice with respect to the equitable sharing of revenue and other intergovernmental fiscal issues, and to limit subjective political decisions regarding the allocation of public resources in the spheres of national, provincial and local government. Institutionally and functionally, the FFC has no real precedent in South Africa or elsewhere in the world (Peter 2005:5).

The powers and functions of the FFC are contained in the Constitution and the Financial and Fiscal Commission Act, 1997. According to the Financial and Fiscal Commission Act, 1997 the FFC is required to render advice and make recommendations to all relevant legislative authorities (local, provincial and national) regarding their financial and fiscal requirements. Peter (2005:5) states that the advice and recommendations provided by the FFC concern issues such as the following:

- Fiscal policies (of government at all spheres).
- Fiscal allocations to government.
- Taxes which provinces intend to impose.
- Borrowing by local and provincial government.
- Criteria to be considered in determining fiscal allocations.

2.4.4 The annual Division of Revenue Act (DORA).

In terms of Section 214 of the Constitution, which deals with equitable shares and allocations of revenue, an Act of Parliament must provide for the following:

- The equitable division of revenue raised nationally among the national, provincial and local spheres of government.
- The determination of each province's equitable share of the provincial share of that revenue.
- Any other allocations to provinces, local government and municipalities from the national government's share of such revenues, and any conditions under which those allocations may be made.

The abovementioned Act is called the Division of Revenue Act, the Bill of which is introduced each year by the Minister of Finance in the National Assembly when the annual budget is tabled (Ajam 2001:137). According to Section 214 (2) of the Constitution, the Division of Revenue Act may only be enacted after the provincial governments, organized local government, and the Financial and Fiscal Commission have been consulted, and any recommendations of the FFC have been considered.

The Intergovernmental Fiscal relations Act, 1997 further requires that, when the Division of Revenue Bill is introduced, it must be accompanied by a memorandum explaining the following:

(a) How the Bill takes account of each of the matters listed in section 214(2)(a) to (j) of the Constitution, as listed in par 2.4.1 of this chapter of the thesis.

(b) The extent to which any recommendations of the Commission submitted to the Minister was taken into account.

(c) Any assumptions and formulae used in arriving at the respective equitable shares.

From the aforementioned it can be concluded that the annual Division of Revenue Act can only be enacted upon proper adherence to the Constitution, other supportive legislation, and proper consultation with the provinces and organized local government.

2.5 CONCLUSION

This chapter has defined the concept intergovernmental fiscal relations and the elements that form part of an intergovernmental fiscal relations system. The legislation that provides the legislative framework for intergovernmental fiscal relations in South Africa has also been identified and discussed in this chapter. It has been established that in any country where more than one tier of government exists, finances and the assignment of functions are a key issue of the intergovernmental relations. The existence of a VFI is an integral part of the intergovernmental fiscal relations system of any country. In order to correct this imbalance, national government makes use of transfers to sub-national governments to enable them to deliver their mandated services. These transfers are normally in the form of conditional and unconditional grants. Research proves that without sufficient transfers, sub-national governments will not be able to deliver such services, as they have limited revenue-raising capacities.

CHAPTER THREE

RESPONSIVENESS AND ACCOUNTABILITY OF PROVINCIAL GOVERNMENTS

3.1 INTRODUCTION

In a democracy people elect representatives to represent them in the legislative authority. Elected representatives are mandated to advance the welfare and the interest of the citizens. In order to do so they must respond meaningfully and effectively to the specific needs of the citizens, and be accountable for the manner and extent to which the needs have been satisfied.

Responsiveness and accountability are two fundamental features of democratic governance. Both concepts form part of the values upon which the Republic of South Africa is founded, and are central elements in discussions concerning good governance. However, the concepts responsiveness and accountability are elusive and have been conceptualised in various ways by different authors.

Responsiveness and accountability have become increasingly important in developing countries, as governments (including sub-national governments) are increasingly required to provide more services, alleviate poverty and facilitate development. These services must be provided against a background of limited resources where there is not enough financial resources to provide the required services.

The decentralization of services to sub-national governments has often been held to increase the responsiveness and accountability of sub-national governments, as it brings government closer to the people. A government that is close to the people can respond in a more meaningful manner to the needs of its citizens, but will also be held more accountable than a government with which the citizens do not have contact.

Within an intergovernmental fiscal relations system, responsiveness implies that the needs and priorities to which a government is responding are its own, and not the needs of another government. This may be the case if a national government funds a sub-national government to render services, and uses its fiscal supremacy to influence the budget of a sub-national government. In such a scenario the responsiveness of sub-national governments is eroded by the decisions and demands of national government.

In the provision of sub-national services, accountability is achieved when citizens are able to identify who is responsible for rendering the service, and from where the funding for the services will be recovered. If sub-national governments are responsible for collecting their own revenue by means of taxes, instead of receiving it in the form of transfers, they will be held more accountable by local populations.

3.2 RESPONSIVENESS DEFINED

The concept responsiveness refers to the ability of a government to respond meaningfully and effectively to specific demands and policy requirements of its electorate (Grewal 1995:11). According to Shah (2007:ii) responsiveness is the matching of public services by governments with citizens' preferences. Diamond and Morlino (2004:22) argue that responsiveness provides a basis for measuring how much, or how little, public policies (including laws, institutions, and expenditures) correspond to citizen demands and preferences as aggregated through the political process. Yang and Pandey (2007:218) support this notion by stating that responsiveness is the congruence between the goals the organization or administrative system pursues, and the goals desired by the people to whom the organization is responsible and under whose authority it operates.

The fundamental task of government, according to Shah (2014:8), is to promote and pursue collective interest while respecting the rule of law and informal norms. This is done by creating an enabling environment in which government promotes and delivers services consistent with citizens' preferences, and carries out only the tasks that it is authorized to do. Grewal further (1995:11) points out that responsiveness means that the priorities to which a government is responding are its own priorities, and not that of another government, which may for instance be involved in the financial arrangements. An example of this would be where a national government transfers money to finance a sub-national government such as a provincial government or municipality.

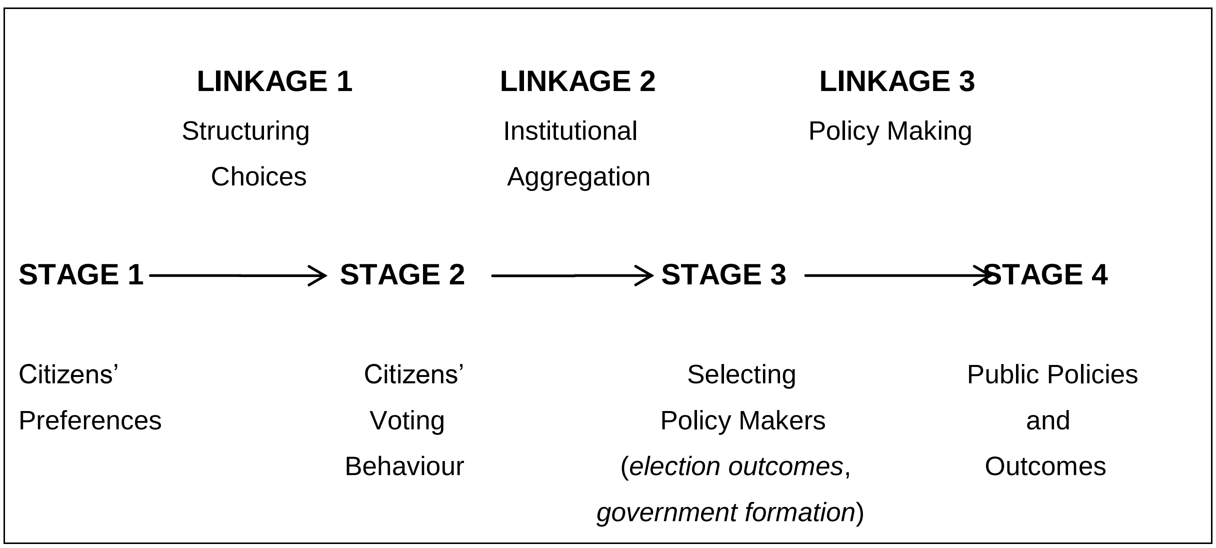
Bingham Powell (2004:91) qualifies the concept of responsiveness in more detail by referring to it as democratic responsiveness, which occurs when the democratic process induces democratic governments to make and implement policies that the citizens want. In this sense responsiveness is one of the justifications for democracy. One of the key characteristics of a democracy is the continued responsiveness of the government to the preferences of the people (Dahl 1971:1). Democratic responsiveness is concerned with the manner in which politicians prioritize different issues, and how this corresponds with the public's issue preferences (Hobolt & Klemmensen 2008:310).

According to Bingham Powell (2004:91), democratic responsiveness is a complex process, consisting of different stages that are linked together like a chain, the links of which are causally connected (see fig 3.1).

- The process begins with the policy preferences of citizens, and moves through the first linkage where choices are structured in a way that distils citizens' diverse, multidimensional policy preferences into more coherent policy choices offered by competing political parties.

- The second linkage is when citizens' voting behaviour (electoral preferences), based on party policies, are aggregated into a government of policy makers (by varying means amongst different countries).
- In the third and final linkage, elected officials (and their appointees) then translate policy stances and commitments, through the process of policy making, into actual policy outcomes. Policies should then be seen as the response to citizens' preferences. Figure 3.1 provides a schematic illustration of the different stages and links in the chain of democratic responsiveness.

Figure 3.1: Democratic Responsiveness. Stages and Linkages



Source: Adapted from Bingham Powell (2004:27)

The failure or severing of any of the linkages, namely "Structuring Choices," "Institutional Aggregation," and "Policy Making" may cause failures of responsiveness by governments.

From the above discussion it can be concluded that democratic responsiveness is the reaction (response) of an elected government, as it culminates in policy outcomes, towards the preferences of the citizens. However, Bingham Powell

(2004:91) notes that the process is ongoing and dynamic as the policies actually adopted, and the consequences that flow from them, affect the future preferences of citizens.

According to Hobolt and Klemmensen (2008:310), two additional aspects of responsiveness can be identified as follows:

- *Rhetorical responsiveness*, the extent to which governments' selective policy is emphasised in speeches such as the speeches of prime ministers or presidents, and to which public issue preferences is reflected.
- *Effective responsiveness*, the correspondence between public issue preferences and budgetary priorities.

Heads of government such as Prime Ministers and Presidents normally outline governments' policy priorities with the opening of the legislature in what is known as the State of the Union (United States), Queens Speech (Britain) and Prime Minister's Opening Speech (Hobolt & Klemmensen 2008:317). In South Africa this is known as the State of the Nation Address. The efficient provision of government services requires that governments satisfy the needs and preferences of taxpayers as well as possible 'effective responsiveness' (McLure & Martinez-Vazquez 2000:6). Priorities funded in the budget process should therefore correspond with the public preferences. An issue is the manner in which countries allocate their limited resources to activities that meet the preferences of the citizens. From an analysis done on this by Soucat, *et al*. (2005:161), it can be concluded that governments are not fulfilling their basic financing responsibilities optimally, in large part due to multiple competing demands on very limited resources.

3.3 RESPONSIVENESS IN PUBLIC ADMINISTRATION AND MANAGEMENT

Yang (2007:131) argues that responsiveness has been a key concept for recent public administration theories, often indicating change, adaptation, and social relevance. In essence, responsiveness generally denotes the *speed* and *accuracy* with which a service provider responds to a request for action or information (Vigoda 2002:529). According to this definition, and for the purpose of Public Administration and Management, speed may refer to the waiting time between a citizen's request for action and the reply of the public institution or the public servant. Accuracy refers to the extent to which the institution's response meets the needs or wishes of the service user. Vigoda (2002:527) argues further, that responsiveness is based on the marketplace view of better services for citizens as clients or customers. Meeting their needs is seen as vital for efficient and effective government and public administration.

According to Stivers (1994:365) as well as Vigoda (2000: 167), a responsive administrator must be reactive, sympathetic, sensitive, and capable of feeling the public's needs and opinions. Against this background, Stivers (1994:365) adds that responsive administrators should be open, able, and willing to respond, but also just, that is judicious and uncorrupted. Responsive administrators should know how to draw on their expertise, while seeking diverse viewpoints and remaining open to the unexpected and the unpredictable. They should be receptive to difference and able to help evoke the reciprocal dynamics and expressive potential of dialogue (Stivers 1994:367).

According to Shah (2005:XX11) the following two overarching issues are important:

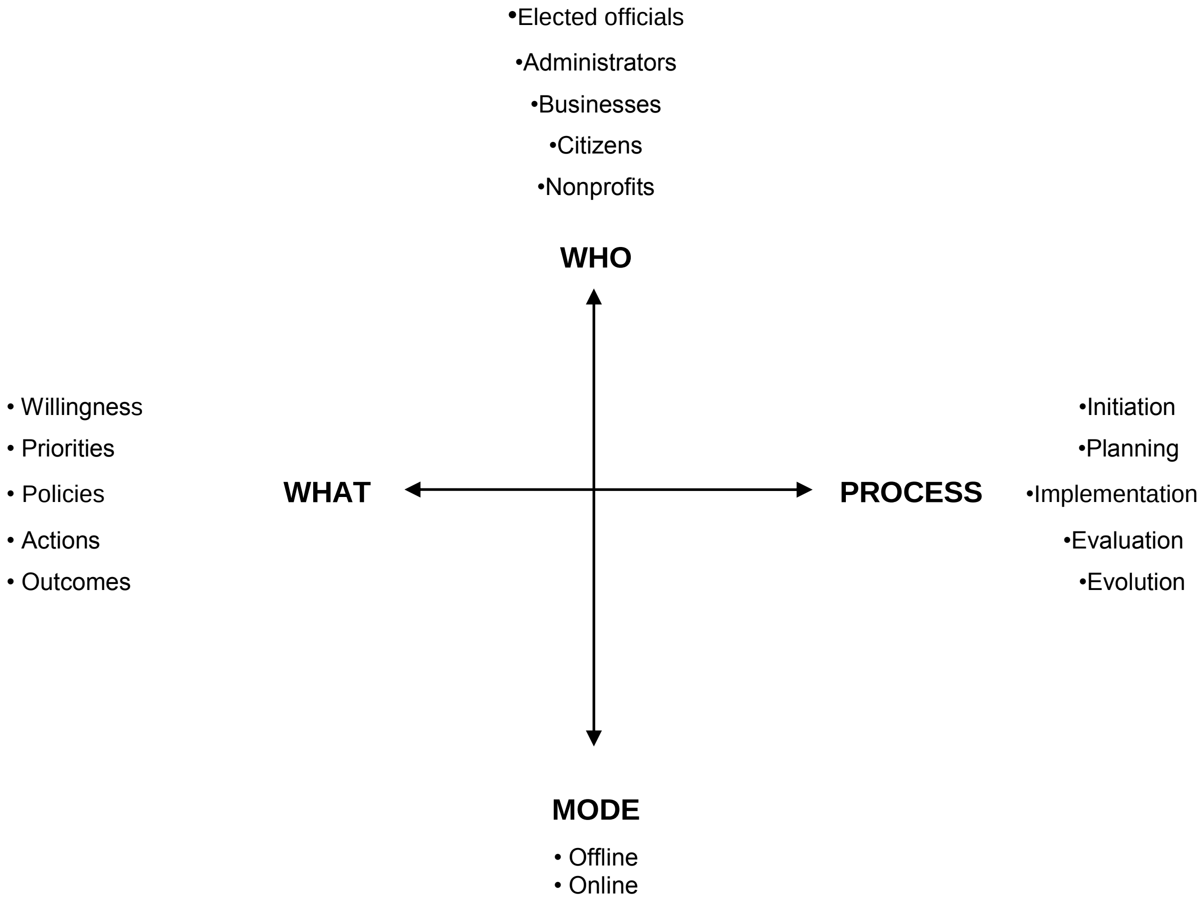
- Whether the public manager is doing the right things, that is, delivering services consistent with citizen preferences.
- Whether the public manager is delivering services in the right way, that is, providing services of a given quality in a cost effective manner.

However, the abovementioned qualities, although praiseworthy and admirable, are hardly an image that would attract people to the public service or strengthen their commitment to it. It is therefore not strange that Prud'homme (1995:208) argues that administrators in many developing countries are often unresponsive, poorly motivated and occasionally poorly qualified, and they might have good reasons to pursue their own agenda rather than the agenda of their superiors.

Listening is a very important practice of responsiveness that requires administrators to develop modest but significant capacities. Because it promotes openness, respect for difference, and reciprocity, the practice of skilful listening can help administrators to evolve toward a form of responsiveness that supports administrative effectiveness (Stivers 1994:367).

Yang (2007:134) asserts that although responsiveness is a central concern for public administration, and has generated extensive writings, it is such an ambiguous concept that systematic empirical explanation is often difficult. Responsiveness has different sources, types, and modes, and can occur in different stages of organizational action. Figure 3.2 obtained from Yang (2007:135), illustrates four dimensions of responsiveness, namely the who, what, process and mode dimensions.

Figure 3.2: Dimensions of responsiveness



Source: Adapted from Yang (2007:135)

Bryer (2007:492) describes the dimensions as follows:

- The ***who*** dimension refers to various objects or sources of responsiveness such as elected political office bearers, other governments, organizational employees, non-profit organizations, citizens and businesses.
- The ***what*** dimension proposes different contents or forms of responsiveness such as the willingness to listen emphasized by Stivers (1994:367), the willingness to strike a balance among competing demands (Sharp 1981:33-58), congruence of values and priorities, match between policy content and

citizen interests, responsive behaviours such as involving citizens, and outcomes satisfying citizen expectations (Saltzstein 1992:63-88).

- The ***process*** dimension indicates that responsiveness has different meanings in different stages of public decision making such as agenda setting, policy planning, implementation, evaluation, and evolution (Yang 2007:134).
- Finally, the ***mode*** dimension emphasizes that responsiveness can be achieved through both offline and online activities (Yang 2007:134).

Vigoda (2002:528) argues that, because the needs and demands of a heterogeneous society are dynamic, it is vital to develop systematic approaches of understanding. This is one of the most important conditions for securing a fair social contract between citizens and government officials. Due to the fact that the opinions of service receivers are good indicators of public policy outcomes, scholars and practitioners suggest the elaboration of performance indicators based on public opinion (Vigoda 2002:528). According to Palfrey, *et al*. (1992:128) performance indicators can help to do the following:

- Understand and establish public needs.
- Develop, communicate, and distribute public services.
- Assess the degree of satisfaction with services

An aspect that may have an effect on the responsiveness of public institutions is the decentralization of services, which will be discussed in the next paragraph.

3.4 DECENTRALIZATION AND RESPONSIVENESS

According to Shah (2005:XXV11) decentralization has become increasingly common in developing countries over the past two decades. Sub-national governments are increasingly required to play larger roles in providing services, alleviating poverty, and facilitating development. Part of the appeal for decentralized service delivery relies on the belief that citizens have coherent and identifiable preferences about services, and these vary from one locality to another (Rodden 2012:5).

Decentralization has often been held to increase the responsiveness of government policy to the preferences of citizens (Smart 2007:204). In order to provide for the different preferences, local policies should be tailored according to the needs and desires of local populations. If such policies are made locally it can be more effective than when policy making is centralized at a higher level. This implies that schools can teach and educate according to local language and tradition, and that financial resources for public works can be funnelled into the projects with the greatest needs at a specific locality.

Shah (2005:XXV111) argues further that decentralization in a democratic context should lead to greater responsiveness to constituent demands. The level of local political influence on financial allocation decisions, and the level of civic participation in the decision-making process, is seen as two important aspects of the sub-national government service provision process that relate to responsiveness. Where there is a higher level of local political influence and civic participation, one can expect a higher level of sub-national government response to citizen demands (Shah 2005:XXV111). A large part of the theoretical argument in favour of decentralization is that sub-national governments are more likely to provide the right services, rather than national governments (Andrews & Shah 2005:72). Sub-national governments also offer a practical appeal in the developing country context, where sub-national governments such as provinces and municipalities are often created in reaction to the low levels of responsiveness by central governments.

Wilson (2007:342) posits that provision of services by sub-national governments also increases efficiency, as the providers are closer to the recipients of the services and thus more responsive to their wishes. According to Oates (1993b: 240) there are strong reasons to believe that policies formulated for the provision of infrastructure, and even human capital that are sensitive to regional or local conditions, are likely to be more effective in encouraging economic development than centrally determined policies that ignore these geographical differences. The hope is that sub-national governments, being closer to the people, will be more responsive to the particular preferences of their constituencies and will be able to find new and better ways to provide these services (Oates 1993c:1).

Although many scholars argue that decentralization made governments more responsive to local needs, others such as Samoff (1990) and Slater (1989) find the impact on responsiveness strongly negative, asserting that decentralization schemes around the world have largely failed. (Faguet 2001:868). They have neither enhanced local capacities nor improved sub-national programmes, in large part because they were neutralized by elaborate mechanisms of central supervision and control.

3.5 INTERGOVERNMENTAL FISCAL RELATIONS AND RESPONSIVENESS

If preferences were homogeneous throughout a nation, or if the national government could provide heterogeneous outputs and policies, all public goods could be provided by the national government through administrative delegation if necessary, and no need would exist for decentralized decision-making, which is the key to fiscal decentralization (Grewal 1995:11). It follows from the above-mentioned that the need for fiscal decentralization arises from the inability of national governments to properly assess, and respond at a reasonable cost, to the unique needs of regional and local societies.

In order to perform the roles assigned to it by its people, government needs, among other things, to collect resources from the economy in a sufficient and appropriate manner, and allocate and use those resources responsively, efficiently and effectively (Durham & Verwey 2012:73). When a level or sphere of government cannot collect enough revenue to finance its expenditure, a vertical fiscal imbalance (VFI) exists. According to Amusa and Mathane (2007:284) as well as Grewal (1995:12), one of the implications of a vertical fiscal imbalance on government's fiscal relations relates to the potential loss of responsiveness. In countries where there are large VFIs, responsiveness can be undermined if the national government uses its fiscal supremacy to enact decisions that fail to take into account possible effects on provincial budgets, and consequently, the effects on social spending programmes.

According to Boadway and Shah (2007:XXX), the fact that sub-national governments are dependent on national transfers makes them responsive to moral suasion by the national government. An example of such a scenario is Germany's equalization transfers that have been criticized for limiting the flexibility and responsiveness of the *Länder* (Choudhry & Perrin 2007:285). Grewal (1995:11) argues incidentally, that in the context of intergovernmental grants, responsiveness means that national government is fully aware of and able to respond to the fiscal needs of sub-national governments, and the latter are able to spend the grants as warranted by the needs of their respective electorate. The coincidental involvement of national government through revenue sharing arrangements should not extend into the decision-making process (Grewal 1995:11).

Wehner (2000:72) argues that if national governments treat sub-national governments as mere implementing agents, a sub-national government will have little incentive to behave as a responsible actor, accountable to an electorate, nor will it have sufficient space to be innovative and responsive enough to address specific regional needs. Having elected sub-national governments while trying not to allow them to do anything by themselves amounts to wanting to have one's cake and eat it too (Wehner 2000:72). Unless sub-national governments are given some degree of freedom, including the freedom to make mistakes for which they are held accountable, the development of responsible and responsive local government will remain an unattainable mirage (Bird 1990:284).

According to Andrews and Shah (2005:72), literature illustrates that the responsiveness of sub-national governments is eroded by a high level of political influence from the central government on the decisions of sub-national government regarding service provision. Studies conducted by Benjamin (2000) in Bangalore as well as Devas and Korbe (2000) in Ghana found that sub-national governments were more responsive to central government demands than they were to the needs of local constituents (Andrews & Shah 2005:72). In addition, Bird (1990:278) argues that solutions such as the creation of a proliferation of small geographical governments, to solve the problems created by intergovernmental fiscal relations such as the vertical and horizontal imbalance, create additional problems such as functional fragmentation of governments that is unresponsive to the wishes of the population served.

Government responsiveness to citizen demands can be constrained by limited resources and budget deficits, even in the wealthiest countries (Diamond & Morlino 2004:26). For example, if the unemployed part of the population demands higher grants and other benefits, a government burdened with budgetary limitations may simply be unable to meet their expectations in a sustainable way. No government can afford for long to be fully responsive to all the different demands of major constituencies for services, benefits, and other programme expenditures. One of the most important aspects of responsiveness in a democracy is to infer from the cacophony of policy commitments, election results, and interest group demands precisely what “the electorate’s” priorities are (Diamond & Morlino 2004:26). Inevitably, some groups will be disappointed.

The budgetary arrangements for sub-national governments in South Africa permitted provinces to determine their own budgets according to their own social and economic priorities, within the national framework (Abedian, Ajam & Walker 1997:56). In this manner, the budget should embody the sub-national governments' responses to regional challenges and opportunities for development within the nine provinces. According to Yilmaz, Beris and Serrano-Berthet (2010: 279) unfunded mandates imposed from national governments on sub-national governments influence the responsiveness of sub-national governments, as it reduces their budgetary autonomy.

With respect to intergovernmental transfers or grants, responsiveness requires that the national government be fully informed and able to meet the fiscal requirements of sub-national governments (Amusa & Mathane 2007:284). In turn, provinces and local governments should be able to carry out their expenditure functions congruent with the needs of their respective electorate. Responsiveness thus implies that the national government aids sub-national governments in meeting their local priorities, without exerting undue influence on the fiscus of sub-national authorities (Amusa & Mathane 2007:284). Expenditure by sub-national governments is for local public goods or services with local catchment areas. Local provision allows sub-national governments to provide different levels of service in different areas, and to respond to differences in taste (Wilson 2007:342).

3.6 ASSESSING RESPONSIVENESS OF SUB-NATIONAL GOVERNMENTS

Given the important role that sub-national governments are being called to play, it is important for central governments to determine how well they are doing and how the services they render could be improved. According to Andrews and Shah (2005:72), the following two aspects of sub-national government's service delivery require specific attention in any assessment of responsiveness:

- The level of local political influence on allocation decisions.

- The level of civic participation in the decision-making process.

The assessment of responsiveness measures the extent to which public policies (including laws, institutions, and expenditures) correspond with citizen demands and preferences, as aggregated through the political process (Diamond & Morlino 2004:25).

Philip (2009:47) argues that, by making government more responsive to the popular will or popular interests, its outcomes are more in harmony with people's expectations and demands. For instance, a key outcome indicator of responsiveness is the poverty focus in allocations to sub-national governments in the case of developing countries (Andrews & Shah 2005:72).

According to the aforementioned explanation of responsiveness, it is essential that the *speed* and *accuracy* with which government responds to a request be determined if the responsiveness is to be evaluated. While speed is a relatively simple factor to measure, accuracy is more complicated, as public-service accuracy must take into consideration social welfare, equity, equal opportunities, and fair distribution of public goods and services to all citizens (Vigoda 2002:528).

The following methods may be applied to determine the accuracy of a government service:

- Examining citizens' attitudes and feelings when consuming public services (Vigoda 2002:528). The capacity of government to satisfy the preferences of citizens, especially those who are dependent on an institution, will influence the attitude and feelings of consumers. Citizens are viewed as consumers of policy outputs, and public officials are expected to base their actions on citizen evaluation of those outputs (Saltzstein 1992:74). An examination of citizens' attitudes and feelings can be achieved by using satisfaction measures that indicate the outcomes of certain activities, and the acceptance of public administration actions as fruitful, beneficial, equally shared among a vast population, effective, fast, and responding well to public needs (Vigoda 2002:528).

- In the context of a democratic governance dispensation, citizens, businesses, and non-profit organizations become co-producers, together with officials and elected representatives; sharing responsibilities and having equal stances (Yang 2007:136). It is therefore necessary that government examines the attitudes and perceptions of other role players such as citizens, businesses and non-profit organizations who also take part in the process of planning, producing, delivering, and evaluating public outcomes (Vigoda 2002:528).

- Comparing objective public outcomes with absolute criteria for speed, quality, and accuracy (Vigoda 2002:528). The citizens judge the government's ability to serve using broader, more complex factors as people want to be listened to and place value on mutual trust (The World Bank 2011:29). Absolute criteria need to be determined in advance within a strategic process of setting performance indicators. Such a comparison is even more effective when it is conducted over time, populations, cultures, and geographical areas (Vigoda 2002:528).

- Comparing the distribution of services and goods with moral and ethical criteria set forth by academics and professionals (Vigoda 2002:528). Commonly utilized criteria include efficiency, fiscal integrity, accountability, equity, neutral competence, expertise, and professionalism (Saltzstein 1992:68).

Citizen concern about government responsiveness is documented in several surveys by the Institute of Democracy in Africa (IDASA), the Afro barometer, and the Human Sciences Research Council (The World Bank 2011:28-29).These surveys suggest that citizen responses to government are not usually expressed as a demand to have services delivered. People want the government to serve them individually, but judge the government's ability to serve using broader, more complex factors as they want to be listened to, place value on mutual trust, and demands extend to issues such as responsiveness, accountability, and respect (The World Bank 2011:28-29).

3.7 CONCEPTUALISING ACCOUNTABILITY

According to Thomas (1998:349) no single study can hope to provide a comprehensive systematic treatment of the topic of accountability. Its evocative powers makes it a very elusive concept, which resembles a dustbin filled with good intentions, loosely defined concepts and vague images of good governance (Bovens 2007:449). In addition, Olum (2011:12) views it as a protean or amorphous concept and placeholder for multiple contemporary anxieties. Thomas (1998:348) argues that the term has conceptually been defined in various ways to describe a wide range of situations which is sought through a multiplicity of approaches, activities and techniques, some of them far more visible than others. This study will attempt to assign a clear meaning to the concept as applied in public institutions.

In a democracy, people elect representatives to represent them in the legislative authority of the country. The elected representatives have a mandate to advance the welfare and the interest of the citizens through legislative processes. According to Venter and Landsberg (2011:139), this implies that public representatives are accountable to the electorate for their actions. This notion is supported by Gildenhuys (1997:56), who argues that one of the cornerstones of a democracy is the fact that each political representative and each public official is subject to accountability. Accountability is the hallmark of modern democratic governance, and democracy remains clichéd if those in power cannot be held accountable in public for their acts or omissions, for their decisions, their expenditure or policies (Oversight Model of the South African Legislative Sector 2011:14).

According to Pauw *et al.* (2009:119), accountability is a key concept in modern management theory and practice. It implies that there is a legal obligation on the administrative authority to report and reason on its functioning to other organs that have the right to take steps toward giving effect to the administrative authority's responsibility (Pauw *et al*. 2009:119). Durham and Verwey (2012:63) support this notion by stating that accountability is about the legal requirement to *report back* and give an account of what has been done. The obligation on the part of the legislature and executive to explain and justify their decisions towards the implementation of the responsibilities conferred on them by the electorate, can therefore be described as accountability.

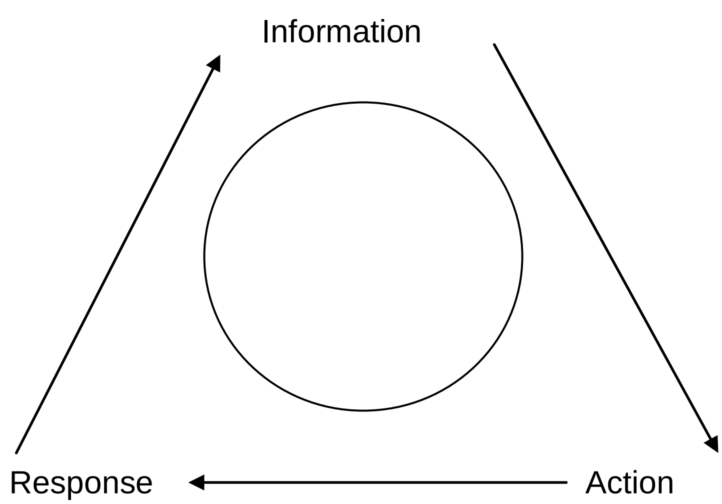
Cloete (1995:3) defines accountability as the duty to answer and report to a higher authority, functionary or institution (in a democracy the highest authority is the people) about the results obtained with the performance of one or more specific function. Bovens (2007:450) argues that accountability is a relationship between an actor and a forum, in which the actor has an obligation to explain and to justify his or her conduct, the forum can pose questions and pass judgement, and the actor may face consequences. The Oversight Model of the South African Legislative Sector (2011:14) supports this notion by stating that accountability can broadly be defined as a social relationship where an actor (an individual or an agency) feels an obligation to explain and justify his or her conduct to some significant other (the accountability forum, accountee, specific person or agency). Narrowly defined, accountability is the social relationship in which an actor feels an obligation to explain and to justify his or her conduct to some significant other (Olum 2011:12).

Accountability has three main features, namely information, justification, and punishment or compensation (Diamond & Morlino 2004:16). Information on the political act or series of acts by a politician or government institution is indispensable for attributing responsibility. Justification refers to the reasons furnished by the governing leaders for their actions and decisions. The third, punishment/compensation, is the consequence that is imposed by the elector or some other authoritative body following an evaluation of the information, justifications, and other aspects and interests behind the political act.

3.8 THE ACCOUNTABILITY CYCLE

The accountability cycle models the internal logic of the relationship between an institution of accountability (oversight institution) and a unit of the executive branch of government (Schakter 2000:3). The cycle has three stages namely information, action and response. Figure 3.3 sets out the accountability cycle.

Figure 3.3: The accountability cycle



Source: Adapted from Schakter (2000:3)

Stage 1 Information: Provision of information is at the centre of accountability relationships, and access to information is key to effective accountability, including access to classified information (Beetham 2006:130). According to Thomas (1998:354-355), the adequacy of information flow depends on the following four factors:

- The accessibility of information.
- The sensitivity of officials to the information needs of authorities.
- The capacity of authorities to interpret information.
- The capacity of authorities to verify the authenticity and accuracy of information.

Stage 2 Action: Based upon the information it is able to obtain, the institution of accountability must evaluate and analyze, and, secondly, use its analysis as a basis for making demands on the executive for explanation and justification of its actions (Schakter 2000:3). Institutions of accountability must assess information about activities, outputs, outcomes and impacts, from the executive, as well as the reporting of such results to relevant stakeholders (Olum 2011:20).

Stage 3 Response: The effectiveness of the institution of accountability is ultimately determined by the appropriateness and timeliness of the reaction it is capable of eliciting from the executive (Schakter 2000:3). Developments at this stage depend on the extent to which the executive feels compelled to respond to the institution of accountability (Bovens 2007:6). This usually involves a form of debate, questions by the institution regarding accountability, and answers by the executive.

3.9 TYPES OF ACCOUNTABILITY

Various authors such as Behn (2001:7), Hague and Harrop (2010:343), Diamond and Morlino (2004:21) Schacter (2000:1) and Bovens (2007:460) distinguish between different types of accountability, such as vertical and horizontal accountability, and political, administrative, judicial and financial accountability.

In addition to the above, Behn (2001:7) argues that accountability can refer to three categories of accountability namely finances, fairness and performance. Accountability for finances has to do with controlling how well the responsible individuals or departments have used resources wisely according to explicit rules, procedures and standards (Behn 2001, 7). Accountability for fairness entails that citizens also have an interest in finding out whether those in power, individuals or departments, have paid due attention to ethical standards such as fairness and equity which they want an institution to adhere to (Hanberger 2008:5). Lastly, a need exists to hold government accountable for the outcomes and consequences of public policy. Hanberger (2008:5) espouses that accountability for performance however, is not about rules and compliance, and cannot be evaluated in the same manner as accountability for finances and fairness. This notion of accountability shifts attention to the responsibility of all those constituting the accountability environment – that is, all those engaged in, and affected by, public policy (Hanberger 2008:5). In view of the above different opinions, it is necessary to discuss the concept of accountability in more detail.

A more comprehensive and structured analysis of accountability as a concept is provided by Bovens (2007:461), who distinguishes amongst four distinctive dimensions of accountability, and argues that a specific *form* of accountability could be classified separately, and then according to each of the four dimensions. This classification of accountability is presented in the following Table.

Table 3.1: Types of accountability

Types of Accountability
Dimension:
Based on the nature of the forum
Form:
• Political accountability
• Legal accountability
• Administrative accountability
• Professional accountability
• Social accountability
Dimension:
Based on the nature of the actor
Form:
• Corporate accountability
• Hierarchical accountability
• Collective accountability
• Individual accountability
Dimension:
Based on the nature of the conduct
Form:
• Financial accountability
• Procedural accountability
• Product accountability
Dimension:
Based on the nature of the obligation
Form:
• Vertical accountability
• Horizontal accountability
• Diagonal accountability

Source: Adapted from Bovens (2007:461)

The different types of accountability identified in the Table will subsequently be discussed.

a) Accountability based on the nature of the forum

- **Political accountability** is exercised along the chain of principal–agent relationships, where public servants are accountable to their political heads, such as a minister, who must then render political account to Parliament (Bovens2007:455). The purpose of political accountability is to minimise the abuse of political power. In South Africa, political accountability concerns the achievement of the political goals, or outcomes that ministers have set for departments, and the minister is responsible for reporting to the president and cabinet in this regard (Fourie 2002:122). The issue is not whether someone acted within his or her legitimate and allocated powers, but whether they exercised those powers in ways that their political constituencies are willing to endorse or approve (Philip 2009:39). Political accountability delivers a judgement by the electorate or some other body approving or disapproving of a political representative's action or conduct in office. In terms of political accountability, each citizen has the same rights and obligations, namely to be informed about prospective actions, to hear the justification for them, and to make a judgement about how they were performed (Schmitter 2007:5).

  Political accountability involves more than generating data and the interplay of arguments. In addition to its informational dimension (asking what has been done or will be done) and its explanatory aspects (giving reasons and forming judgements), it also contains elements of enforcement (rewarding good and punishing bad behaviour) (Schedler, Diamond & Plattner 1999:15). This implies the idea that accounting authorities do not just question, but eventually also punish improper behaviour and, accordingly, that accountable persons not only explain what they have done and why, but bear the consequences for it, including eventual negative sanctions.

- **Legal accountability** will usually be based on specific responsibilities, formally or legally conferred upon authorities, and monitors the observance of legal rules (Schedler *et al.* 1999:22). According to Bovens (2007:456), legal accountability is the most unambiguous type of accountability, as the legal scrutiny will be based on detailed legal standards, prescribed by civil, penal or administrative statutes, or precedent.

  Stapenhurst and O'Brien (2007:2) distinguish between political accountability and legal accountability by stating that in political accountability, Parliament holds the executive politically accountable, whilst in legal accountability, the judiciary holds the executive legally accountable.

- **Administrative accountability** reviews the expediency and procedural correctness of bureaucratic acts (Schedler *et al.* 1999:22). According to Pearson and Wiggington (1986:329), administrative accountability is viewed in the public administration literature as obtainable through administrative controls – a complicated set of constraints applied to executive branch bureaucracies by political institutions and actors. A wide range of forums, such as the Ombudsmen, Anti-Fraud Office and Office of the Auditor-General exercise independent and external administrative and financial supervision and control, to secure not only the probity and legality of public spending, but also its efficiency and effectiveness (Bovens 2007:456).

- **Professional accountability** watches over ethical standards of professionalism, such as medical, academic, and judicial professionalism (Schedler *et al.* 1999:22). Public managers, apart from being managers, are also trained as professionals, such as doctors, nurses, veterinarians, engineers, teachers and many other occupational professionals. This implies accountability relationships with professional associations and disciplinary tribunals. Professional bodies lay down codes with standards for acceptable practice that are binding for all members. These standards are monitored and enforced by professional supervisory bodies on the basis of peer review. This type of accountability relationship will be particularly relevant for public managers who work in professional public institutions, such as hospitals, schools and research institutes (Bovens 2007:456).

- **Social accountability** is an approach towards building accountability that relies on civic engagement, namely a situation whereby ordinary citizens and/or civil society organizations participate directly or indirectly in exacting accountability (Stapenhurst & O'Brien 2007:2). According to Bovens (2007:457), there is a need in many Western democracies for more direct and explicit accountability relations between public institutions on the one hand, and clients, citizens and civil society on the other hand. The term social accountability is, in a sense, a misnomer, as it is not meant to refer to a specific type of accountability, but rather to a particular approach (or set of mechanisms) for exacting accountability (Stapenhurst & O'Brien 2007:2).

b) Accountability based on the nature of the actor

- **Corporate accountability** implies that public institutions are corporate bodies with an independent legal status, which can operate as unitary actors and be held accountable accordingly (Bovens 2007:458). According to Schmitter (2007:4), accountability is first a relationship between two sets of actors, of which most is played out not between individuals, but between organizations. It is therefore not the individual that is held accountable, but the institution or the organization. Most Western countries accept corporate liabilities in civil, administrative and even criminal law (Bovens 2007:458). Public institutions are usually included in these corporate liabilities, with the exception of criminal liability.

- **Hierarchical accountability** denotes that the internal structure of government institutions is bureaucratic and hierarchical by nature and functions are carried out within departments under the control of the institution's head (Spahn 2007:98). According to Boyne *et al*. (2002:695) as well as Roberts (2002:658), hierarchical accountability derives from hierarchical arrangements, based on supervision and organizational directives concerning the relationship between superiors and subordinates within an institution. This is the official setting for accountability in most public institutions and regarding most types of accountability relationships, with the exception of professional accountability where a professional association can hold an individual accountable (Bovens 2007:458).

- **Collective accountability** holds all members of a group mutually accountable, rather than a single individual or leader, who is solely accountable (Sargiacomo, Stefania & Carnegie 2012:398). According to Mulgan (2003:7), collective accountability relies on various forms of agreement between legally independent actors, linked together in a cooperative enterprise or partnership. Such relationships have come to be known as 'networks', and understood as structures of collective action and decision-making in which formally independent groups or individuals cooperate for shared purposes (Mulgan 2003:7).

  The major weakness with collective accountability lies in its moral appropriateness, since collective accountability is barely reconcilable with legal and moral practices and intuitions that are current in modern Western democracies (Bovens 2007:459). Collective accountability is also not sophisticated enough to do justice to the many differences that are important in the imputation of guilt, shame and blame. There is a substantial difference between someone condoning corrupt activity as the head of a department, and a statistician at a lower level who merely collects and processes data (Bovens 2007:459).

- **Individual accountability** can be defined as a social relationship where resources and responsibilities are entrusted to a steward for a particular task by one or more principals, with the consequent potential requirement of a future account for judgements made and resulting sanctions (Lupson 2007:206). Under this approach, each individual is judged on the basis of his or her actual contribution instead of the basis of his formal position (Bovens 2007:459). Under individual accountability it is thus not possible for individual officials to hide behind their institution or minister, as those in charge are not required to shoulder all the blame.

c) Accountability based on the nature of the conduct

- **Financial accountability,** according to Bovens (2007**:**459), is when an audit focuses on the financial propriety of transactions. This means that government should account, through its elected representatives, for its intentions, objectives and strategies, the cost of its strategies and actual results (Abedian 1997:141).

  Shapiro (n.d.:20) argues that financial accountability implies the following:
  - Regular financial reports are given to all those who have a right to know what the organization is doing with its funds.
  - The organization can account for funds by producing documentary proof of receipts and payments.

- The organization can prove that the money is being spent on its aims and for the particular work it was intended to undertake.
- The organization does not take on financial obligations it cannot meet.
- The organization has taken all necessary precautions to prevent misuse of funds, and to keep funds and records relating to them safe.

Financial accountability implies accounting for the funds under one's control to accounting and auditing bodies. According to Olum (2011:16), financial accountability refers to the manner in which money earned or received is budgeted and spent. It further embraces financial transparency, which refers to the development of, and adherence to, clear, well defined and written financial regulations that are consistent with financial management principles and practice.

- **Procedural accountability** reflects the fact that users of resources cannot be assumed to be completely honest, and requires the generation and display of information which will attest to the propriety or integrity demonstrated in discharging the stewardship of resources within the organization (Cutt & Ritter 1984:6). As such, procedural accountability aims to demonstrate that scarce resources are used in the manner authorised, where the focus is on inputs rather than on outcomes or consequences. Hüpkes, Quintyn, and Taylor (2006:6) argue that procedural accountability refers to the requirements related to the processes that must be followed within the organization in order to account for its resources. It can be regarded as the formal mechanisms adopted by the organization for management purposes.

- **Product accountability,** according to a NGO report by the NGO Taskforce on Business and Industry to the UN Commission on Sustainable Development (1997:n.p.), is necessary to ensure that an organization's products and operations are in the interests of society and not harmful. This concept holds those organizations who refuse to act in a responsible manner accountable. This implies that government institutions should be aware of the negative or harmful effect that their activities or products may have on the community or environment, and should act in such a manner that an account can be given. According to Mohr, Webb and Harris (2001:47), a socially responsible society should avoid buying products and services from organizations that are harmful, and should rather actively seek out products and services from organizations that help or contribute to the wellbeing of the community.

d) Accountability based on the nature of the obligation

- **Vertical accountability** holds institutions accountable to citizens, jointly and individually, whether through elections and other formal processes, or through lobbying or mass mobilization, both of which rely on the existence of a set of informal institutions, such as the media and social networks (Grant & MacArthur 2008:7). This form of accountability refers to the obligation of elected political leaders to answer for their political decisions when asked by voters or constitutional bodies (Diamond & Morlino 2004:21). According to Schacter (2000:1), vertical accountability is imposed upon government from the outside by citizens, and may include citizens acting through the electoral process or indirectly via civic organizations 'civil society' or the news media.

  Vertical accountability is the most direct form of accountability and according to Morgan (2003:864), requires motivation from public officials to consider the wishes of the people when making decisions. In order for this motivation to exist, officials must believe that the public will somehow reward or punish them for their decisions.

According to Diamond and Morlino (2004:6), vertical accountability is based on two assumptions. Firstly, if citizens are given the opportunity to evaluate government's performance, they are in fact capable of doing so, implying that they possess a relatively accurate perception of their own needs and preferences. The second assumption is that citizens, either alone or as part of a group, are the only possible judges of their own interests and needs, and no third party can determine them (Diamond & Morlino 2004:6).

- **Horizontal accountability** entails formal relationships in government itself. It exists when one government institution has the formal authority to demand explanations or impose penalties on another government institution (Goetz & Jenkins 2002:8). Horizontal accountability can manifest in different ways, such as executive institutions providing explanations to the legislatures, and political leaders who hold civil servants to account. According to Diamond and Morlino (2004:19), as well as Goetz and Jenkins (2002:8), it manifests in the monitoring, investigation, enforcement and independent functioning of a number of different government institutions, such as the opposition in Parliament, specific investigative committees of Parliament, the various tiers of the court system, including (crucially) the Constitutional Court, Auditor General, Anti-Corruption Commission, the Central Bank, Independent Electoral Commission, the Ombudsman, and other bodies that scrutinize and limit the power of those who govern.

  According to Stapenhurst and O'Brien (2007:1), horizontal accountability refers to the capacity of government institutions to identify abuses by other public institutions and branches of government, or the requirement for institutions to report sideways. Horizontal accountability is most effective when it is comprehensive, that is, when the institutions that comprise it, interlock, and partially overlap in a systemic fashion (Diamond & Morlino

2004:22). Overlapping, according to the aforementioned, implies that if one government institution fails to perform its duty to expose, question, or punish corrupt behaviour, another institution may initiate the accountability process. Interlocking means that different government institutions work together so that, for example, the auditor general can uncover fraud, an anti-corruption commission can impose civil penalties for it, and the judicial process can function on its own to press for criminal penalties.

- **Diagonal accountability** refers to situations where external actors, who in vertical accountability hold governmental institutions to account, are included in relationships of horizontal accountability (United Nations 2013:4). Examples of this is the inclusion of citizens or civil society organizations in commissions, or other entities designated as public institutions and charged with exercising oversight and control over governmental institutions.

According to Stapenhurst and O'Brien (2007:3) as well as Olum (2011:16), the following are the main principles of diagonal accountability:

  - **Participation in horizontal accountability mechanisms**.
    Community advocates participate in institutions of horizontal accountability, rather than creating distinct and separate institutions of diagonal accountability.
  - **Information flow***.*
    Community advocates can access information about government agencies that would normally be limited to the horizontal role players, for example, through internal performance reviews.
  - **Compel officials to answer***.*
    Community advocates co-opt the horizontal accountability institution's authority to compel a government institution to answer questions.

- **Capacity to Sanction***.*

  Community advocates acquire the authority of the horizontal accountability institution to enforce the findings, or influence elected officials.

3.10 NEED FOR ACCOUNTABILITY

Accountability is seen as a precondition for responsible behaviour in business, government or any other major centre of power (Ahmed 2004:6). According to Bovens (2007:462), accountability is important in providing a democratic means to monitor and control government conduct, in preventing the development of concentrations of power, and in enhancing the learning capacity and effectiveness of public administration.

According to Abedian, Strachan and Ajam (1998:5) the public sector accounts for one-third of the gross domestic product of the country, yet the reporting framework for what is done with the money is a farce. Money spent is accounted for in terms of probity only, i.e. authorised uses, and not in terms of results and outcomes. In this regard, Bird (1990:279) points out that public sector activities are unlikely to be efficiently provided, or to be responsive to the wishes of those served, unless the lines of responsibility and accountability are clearly established.

Accountability necessitates appropriate organizational structure and individual responsibility (Abedian *et al.* 1998:10). Collectivisation of responsibilities in teamwork promotes inefficiency and obstructs the realisation of organizational goals. In such situations, lack of organizational progress is almost always evident (Abedian *et al.* 1998:10).

According to the Oversight Model of the South African Legislative Sector (2011:21) the need for accountability includes the following:

- To enhance the integrity of public governance in order to safeguard government against corruption, nepotism, abuse of power and other forms of inappropriate behaviour.
- As an institutional arrangement, to effect democratic control.
- To improve performance, which will foster institutional learning and service delivery.
- To ensure public confidence in government with regard to transparency, responsiveness and answerability, and to bridge the gap between the governed and the government, ensuring public confidence in government.
- To enable the public to judge the performance of the government by the government giving account in public.

Fiscal accountability requires governments to justify their expenditures and explain why the revenue necessary to sustain expenditure is raised the way it is. One way of encouraging public scrutiny, and therefore accountability, is by linking expenditure and revenue and, subject to equity considerations, by raising the required revenue directly from the beneficiaries of the services provided (Abedian *et al.* 1998:30). However, Manuel (2007:7) argues that it is difficult within the South African intergovernmental relations system to enforce accountability for performance. “For instance would it be entirely unreasonable for an MEC to argue that his/her department failed to implement a particular policy because the policy was bad in the first place?” (Manuel 2007:7).

3.11 FRAMEWORK FOR ACCOUNTABILITY

The incentives that motivate public servants and policy makers; the rewards and sanctions linked to results that help shape public sector performance; are rooted in a country’s accountability frameworks (Léautier 2005:1X). Accountability in South Africa stems from the Constitution, which stipulates that the Republic of South Africa is “one, sovereign, democratic state founded on the values of *inter alia* universal adult suffrage, a national common voters roll, regular elections and a multi-party system of democratic government, to ensure accountability, responsiveness and openness” (RSA 1996:3).

The Constitution further requires the National Assembly (Section 57 [1]) and the National Council of Provinces (Section 70 [1]) to make rules and orders concerning its business with due regard to representative and participatory democracy, accountability, transparency and public involvement. According to the Oversight Model of the South African Legislative Sector (2011:21), organs of state at national level, and ministers and their departments, are generally held to account by Parliament. At the national sphere, there is direct accountability to Parliament by national departments, national public entities, and national bodies such as commissions. In the provincial sphere a Provincial Legislature may make rules and orders concerning its business, with due regard to representative and participatory democracy, accountability, transparency and public involvement (RSA 1996:45). Members of the Executive Council of a province are accountable collectively and individually to the provincial legislature for the exercise of their powers and the performance of their functions (RSA 1996:50).

Paragraph 4.1 of the introduction to the Public Finance Management Act, 1991 (1 of 1999) stipulates that the Act assumes that the political head of a department (Cabinet Minister or a Provincial MEC) is responsible for policy matters and outcomes, which includes seeking parliamentary or provincial legislature approval and adoption of the department’s budget vote. The head official (Director-General of a national department or a provincial Head of Department) is responsible for outputs and implementation, and is answerable to Parliament or provincial legislature respectively for the management of the implementation of that budget. This distinction in the responsibilities between senior political office bearers and senior public servants is based on the appreciation of experts in performance-based accountability systems, that good policy design and appropriate prioritisation may nonetheless fail to realise planned outcomes because of poor programme implementation (Oversight Model of the South African Legislative Sector 2011:32). Good policies are not discarded because of a failure to implement them.

In order to give effect to the principles of accountability, the Standing Committee on Public Accounts (SCOPA) was established in accordance with Rule 204 of the National Assembly, and has functions and powers as set out in Rule 206. SCOPA is particularly focused on assessing whether a budget has been implemented as planned, and whether public funds have been spent in a manner which is efficient, effective and economic. In order to promote accountability SCOPA assesses the following (Durham & Verwey 2012:43):

- The financial statements and audit reports of all executive organs of state submitted to Parliament.
- The financial statements and audit reports of all constitutional institutions submitted to Parliament.
- Any reports submitted by the Auditor General.
- Any financial statements and reports referred to the Committee.

3.12 ASSESSING ACCOUNTABILITY

The criteria related to the assessment of accountability, several of which require the ability to observe governance processes, include the following:

- The information citizens have regarding governance (transparency).
- The access citizens have to the governance process.
- The ability to express a voice to officials.
- The specific laws and processes governments adopt to either enhance or reduce their accountability to citizens (Shah 2005:XX1X).

Strong monitoring, evaluation and voice and exit mechanisms facilitate the above-mentioned, but are notably lacking in many governments (Paul 1992, 1996). The most basic of these mechanisms is the regular political choice process in which citizens have an opportunity to voice their response to whatever evidence they have of their political representatives' performance (Andrews & Shah 2005:79).

Islam (2005:X1) argues that, in order for accountability to be effective, a framework is needed for measuring government performance to deliver public services. According to Roberts (2005:15), one of the primary purposes of government-wide performance plans is to promote accountability in this way. However, governments are often reluctant to stipulate performance targets or to make commitments about progress on social indicators except in rough terms. According to Roberts (2005:15) this is the reason why so many plans include general commitments such as to 'strive toward', 'promote', or 'help achieve' outcomes. The absence of specific commitments about progress on indicators, for example precise targets, make it difficult to measure government performance and therefore to determine accountability.

According to a report from The World Bank on *Accountability in Public Services in South Africa* (2011:2), the South African development paradigm has focused on service delivery, where the meeting of national infrastructure development targets has undermined citizens' choices of what services are required, and their participation in how to deliver them. Multiple strategies for citizen participation were often used, such as formal participatory fora or councils. However, where these formal mechanisms are weak or non-responsive, as in South Africa, citizens use street protests to claim perceived rights to service delivery (Benequista, Gaventa, & Barrett 2010:11).

Centralized planning has tended to use provincial and local governments as 'delivery' agencies of the national sphere, rather than as representative institutions accountable to citizens (The World Bank 2011:2) To strengthen political accountability, communication with all citizens must be improved and institutionalized, particularly among the poor and those living in informal settlements (The World Bank 2011:2) .

3.13 ACCOUNTABILITY AND INTERGOVERNMENTAL FISCAL RELATIONS

Accountable governance requires citizens to be able to hold the government to account for all its actions (Shah 2014:8). South Africa's Intergovernmental Fiscal Relations System is in line with this requirement, premised on certain key principles, of which accountability and autonomy is the first (Manuel 2007:4). Each sphere of government has specific constitutionally defined responsibilities, is accountable to its own legislature or council, and is empowered to set its own responsibilities. However, the assignment of functions between levels of government is complex, and in South Africa this gives rise to responsibility-sharing between the national and sub-national governments (Manuel 2007:4).

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In this sharing of responsibilities there should be no room for ambiguity. Clear assignment of roles and responsibilities is decisive in shaping accountability relationships (Yilmaz, Beris & Serrano-Berthet 2010:279). If the contest over service-delivery responsibilities is not resolved, it can easily constrain sub-national autonomy and reduce the credibility and responsiveness of sub-national governments. Fjeldstad (2001:5) is further of the opinion that in such a scenario, there can be no accountability without transparency and an appropriate regulatory framework.

Literature on intergovernmental fiscal relations identifies major gains to be derived from granting more taxing and spending powers to sub-national governments. These gains revolve around two basic issues which are as follows:

- Accountability and responsiveness.
- Sub-national autonomy (Amagoh & Amin 2012:2).

Proponents of fiscal decentralization often argue that, if sub-national governments are responsible for administering their own tax revenues, they will be held accountable by local populations (Freinkman, 2010:117-168). The decentralized form of government, therefore, brings about welfare-enhancing results and makes sub-national officials more accountable and responsible. However, according to Huther and Shah (1998:10), the success of sub-national governments is not very commendable, as they often followed 'beggar thy neighbour' policies, sought to 'free-ride' with no accountability and, in pursuit of narrow self-interest, often undermined national unity.

Kitchen (2005:122) argues that in the provision of sub-national public sector services, accountability is achieved when citizens or taxpayers are able to identify who is responsible for rendering the service, and can link the governing unit responsible for the service directly to its funding. It follows from the above that citizens (taxpayers) should be able to identify who delivers which functions, and from where the funding for the services will be recovered. If there is only one governing unit, taxpayers know who is responsible for delivering the service, and who to contact if they wish to make an impact on decision making (Kitchen 2005:122). Where there are however a number of governing units responsible for a diverse range of services, citizens may become confused and would not know who is responsible for what services, or how to make an impact on decision makers.

According to Amusa and Matane (2007:285), the South African national government has raised its concerns in the past regarding the effectiveness of sub-national governments in implementing social sector programmes. In view of national government, the failure to spend budgets meant for service delivery demonstrates a lack of accountability on the part of provinces. While provincial legislatures approve budgets at the beginning of the financial year, most fail to carefully probe provincial departments' budgets or ascertain whether provincial officials have delivered on spending priorities set out in budgets, a situation that hinders effective responsiveness in meeting service delivery imperatives (Amusa & Matane 2007:285).

Sogoni (2010:23) argues that the challenge of the current intergovernmental fiscal arrangements in South Africa is the very fact that the majority of revenue is collected nationally, and redistributed to sub-national governments to fund both their exclusive and concurrent functions. The result is that provinces receive transfers in the form of grants to fund these services, but may use them for other purposes, knowing well that the national government will intervene to provide the needed service (Fjeldstad, 2001:5). Improved accountability requires that the sphere of government that has a mandate to deliver also has the power to raise funding so it can be held accountable by the local electorate.

According to Fjeldstad (2001:11), there are two factors that seem to be crucial to ensure the effectiveness of the grant system, namely (1) accountability, and (2) predictability. With regards to accountability, financial management and control of the recurrent grants suffer from several weaknesses in many developing countries. These often relate to the absence of internal audit sections, poor reporting systems and non-compliance with established financial regulation. Sound public sector management and government spending help determine the course of economic development and social equity, especially for the poor and other disadvantaged groups, such as women and the elderly (Léautier 2007:XV). Sub-national governments further divert large shares of the grants disbursed for specific purposes, such as education and health sectors, to other issues (Fjeldstad, 2001:11). To ensure accountability for results, conditional non-matching output based transfers or grants are preferable to other types of transfers (Shah 2007:9). Output-based transfers respect the autonomy and budgetary flexibility of sub-national governments while providing incentives and accountability mechanisms to improve service delivery performance.

Manuel (2007:6) argues that a provincial legislature may appropriate its share of the equitable share differently, or not in line with national priorities. National departments therefore prefer earmarked allocations for their priority policy programmes, taking away autonomy and discretion from the provinces, and thus reducing their sense of ownership of the programme and accountability (Manuel 2007:6).

3.14 CONCLUSION

Responsiveness and accountability are two of the key characteristics of democratic government. Democratic principles require that a government respond to the needs and preferences of its citizens, and account for the manner in which those preferences and needs have been met with limited resources.

One of the major challenges with South Africa's intergovernmental fiscal arrangements is that the majority of the revenue is collected nationally, and then redistributed to sub-national governments to fund their functions. The fact that sub-national governments are dependent on national transfers can lead to governments that are unresponsive to the wishes of the population served. If national governments fund sub-national governments, they can dictate how and on what the budgets of sub-national governments should be spent.

Accountability requires that the sphere of government that has a mandate to deliver services, also has the power to raise funding so it can be held accountable by the local electorate. There can be confusion amongst taxpayers as to who is to be held accountable, when taxes are collected by one sphere of government and then spent by another sphere of government.

Despite the benefits that the decentralization of functions poses for responsiveness and accountability of sub-national governments, the success of sub-national governments is not very commendable. They often follow ‘beggar thy neighbour’ policies, seek to ‘free-ride’ with no accountability and, in pursuit of narrow self-interest, often undermine national unity.

CHAPTER 4

RESEARCH METHODOLOGY AND APROACH

4.1 INTRODUCTION

In order to find solutions and answers that will solve the problem statement of a study it is necessary for the researcher to conduct scientific research. The research process entails the systematic, methodological and ethical gathering of information from which inferences can be concluded. The aim with research is to find answers or practical solutions to the problem statement.

Scientific research is not conducted in isolation, but takes place within a philosophical context. This philosophical context is made up of assumptions, concepts, values and practices. One of the first steps for a researcher is therefore to position him or herself paradigmatically before the research project commences. This means that the researcher will have to make certain assumptions on *what* he or she will learn during the study, as well as *how* he or she will learn it.

In order to find solutions to the research problem, a researcher can make use of different types of research methodologies, such as exploratory, descriptive, analytical or predictive research. It is important that the researcher identifies the type of research he plans to utilise as this will have a major impact on the design of the study and consequently on the outcomes of the research.

There are three major approaches that can be followed when research is conducted, namely quantitative, qualitative and mixed methods. No one of the three approaches is in itself better than any of the other, but the approach depends on the type of research that will be conducted and the type of information that needs to be gathered. Quantitative research focuses on the collecting and analysing of numerical data, whilst in qualitative research the focus is on non-numerical data such as words, stories, pictures and other communicative representations. Mixed methods aim not to replace quantitative or qualitative research, but rather to draw from the strengths and minimize the weaknesses of both. Mixed methods are used to do both numerical and non-numerical research.

Depending on the research approach chosen, the researcher can use various research techniques to collect information such as observation, surveys, pilot studies and focus groups. The technique or combination of techniques that provides the richest data should be selected for the study.

After data has been collected, the raw data should be analysed so that inferences can be drawn from the collected data. It is recommended that researchers make use of software packages that are developed for this purpose, as it enhances the quality and objectivity of the findings.

Ethical considerations are crucial in research, where privacy and confidentiality are profoundly important. It is therefore imperative that proper consideration is given to ethical issues when conducting scientific research. Where needed, the necessary approval should be obtained, and participating in the study should be voluntary.

4.2 RESEARCH DEFINED

A variety of definitions and descriptions of the term ‘research’ exist. Two of the most appropriate definitions, given the theme of this study, will be stipulated here. According to Neville (2007:1), research is a process of inquiry and investigation, which is systematic, methodical and ethical, and can help solve practical problems and increase knowledge. Marais (2012:66) defines research as the uncovering of the truth about a phenomenon (and/or its relationship with other phenomena) by means of scientific methods.

From the aforementioned it can be deduced that research is a process whereby an endeavour is made to obtain information and answers in order to solve problems in a scientific manner. Gathering information and finding answers aimed at the solution of an identified problem is at the heart of the matter. Against the background of this explanation, this study can be regarded as a systematic, methodological and ethical inquiry to determine the relationship of the vertical fiscal imbalance, as a phenomenon in a sub-national government, with that of responsiveness and accountability; the two other phenomena.

Research can be conducted from different viewpoints, perspectives or beliefs also known as dimensions, which will be discussed hereafter.

4.3. RESEARCH DIMENSIONS AND PARADIGMS

Methodological research exists within a philosophical context in which choice of method is driven by philosophical assumptions (Cameron 2011:99). In order to conduct research, it is important to know what these assumptions are. One of the first tasks that a researcher needs to undertake is to position him - or herself paradigmatically. According to Creswell (2003:6) researchers start a research project with certain assumptions about how they will learn, and what they will learn during their inquiry. These assumptions are also referred to as dimensions or beliefs, and provide the bases for conducting research in the social sciences (Brynard & Hanekom 1997:3, and Wahyuni 2012:69).

Authors such as Wahyuni (2012:69), Yang and Miller (2008:7), Creswell (2003:6), Babbie and Mouton (2001:8) and Brynard and Hanekom (1997:3), distinguish between four fundamental philosophies namely, ontology, epistemology, axiology, and methodology. In addition to the aforementioned philosophies, research is also conducted within a specific paradigm, which serves as a theoretical framework within which theories, laws, and generalisations are made and the experiments are formulated in support of them (MacDonald & Headlam nd:66). The most important research paradigms identified by authors such as Landow and Everett (2012:1), Neville (2007:6), Al-Hamdan and Anthony (2010:47), Williams (2000:210), Onwuegbuzie and Leech (2005:377) and Creswell (2003:13) include positivism, post-positivism, interpretivism and pragmatism.

The philosophical assumptions underlying this research come from pragmatism which holds that a mixture of ontology, epistemology and axiology is acceptable to approach and understand social phenomena (Wahyuni 2012:71). Here, the emphasis is on what works best to address the research problem at hand, giving the researcher a great degree of flexibility in conducting research. Within these philosophical assumptions the researcher was therefore able to make use of a variety of research techniques such as a literature study, a mixed methods approach for empirical research containing questionnaires, and interviews to obtain the necessary information from the sample population.

Pragmatism implies ontologically that knowledge is based upon our belief system, which is reinforced by understanding gained through scientific research (Yang & Miller 2008:8). The researcher's beliefs are founded in the problem statement where it is stated that there is a relationship between the existence of a vertical fiscal imbalance on the one hand, and responsiveness and accountability on the other hand. However, scientific research is required to prove it, and for this purpose empirical research will be conducted.

Epistemologically the focus is on practically applied research, where different perspectives are integrated to help interpret the data **(**Wahyuni 2012:71). The sample group was therefore selected and organized in such a way that it was representative of different segments, such as Accounting Officers, Chief Financial Officers, and members of the Standing Committee on Public Accounts. Data was collected in different ways by means of questionnaires, and in-depth interviews. This ensured that the data collected would provide different perspectives on the research question.

Following a pragmatic approach, the researcher was able to begin with a research question to determine the research framework (Onwuegbuzie & Leech 2005:377). In this research the focus was on intergovernmental fiscal relations, and the paradox between a vertical fiscal imbalance on the one hand, and responsiveness and accountability on the other. The question driving the research was what the impact of a vertical fiscal imbalance on responsiveness and accountability is, and whether existing measures to ensure responsiveness and accountability are applied effectively, efficiently and economically.

Pragmatists favour working with both quantitative and qualitative data as it enables them to better understand social reality (Wahyuni 2012:71). A pragmatic research paradigm allowed the researcher to perform a practical and outcome-orientated method of inquiry based on action, which may lead to further action and the elimination of doubt. It offers a method for selecting methodological mixes that can help better answer many of the research questions, which justifies the researcher's choice of pragmatism as the philosophical perspective for this research dissertation.

After deciding on a research paradigm, the researcher must decide on what type of research will be conducted, which will be discussed hereafter.

4.4 TYPES OF RESEARCH

Authors such as Hermosillo, Ryan and Gupta (2011:1), Fox and Bayat (2007:30), Collis and Hussy (2009:6) and Neville (2007:2) distinguish mainly between four different types of research, namely exploratory, descriptive, analytical and predictive research. In addition, Collis and Hussy (2009:5) state that research at an undergraduate level is usually exploratory and/or descriptive, while at postgraduate level it is always analytical or predictive. This means that research for a master's or doctorate degree must be of an analytical or predictive type.

As explained in Paragraph 4.1 of Chapter one of the thesis, the purpose of this research was to analyse and assess the impact of the vertical fiscal imbalance brought about by South Africa's unique intergovernmental fiscal relations on the accountability and responsiveness of the Northern Cape Provincial Government. Taking the purpose of the study and the objectives of the research into account, the research conducted through this study could best be defined as analytical research. Analytical research attempts to explain the reasons for the phenomena that a descriptive study only observed, and aims to understand phenomena by discovering and measuring causal relations among them (Collis & Hussy 2009:6). In this study the researcher attempted to explain the impact of, and find solutions for, the paradox between the vertical fiscal imbalance and responsiveness and accountability.

Cooper and Schindler (2003:11) argue that in analytical research, the researcher makes use of theories and hypotheses to account for the forces that caused a certain phenomenon to occur. An important feature of analytical research therefore is in locating and identifying the different factors (or variables) involved in the study (Neville 2007:2). Chapters two and three of the dissertation therefore provide a theoretical basis for the study, and a hypothesis was developed. The hypothesis reflects the two dependent variables which were tested against an independent variable. The independent variable, namely a vertical fiscal imbalance, was selected to determine its relationship to observed phenomena, the responsiveness and accountability of a sub-national government. The discovery and analysis of causal relations among phenomena explained earlier clearly indicate that the study should be classified as analytical research.

The research approach employed in this study will be discussed as follows.

4.5 RESEARCH APPROACHES

A variety of research approaches exist namely applied, basic, deductive, inductive, quantitative and qualitative research (Neville 2007:4). Many research projects combine a number of approaches, and may use both quantitative and qualitative approaches.

The research approach for this study was firstly deductive in nature, as it is a study in which a conceptual and theoretical structure was developed that was then tested through empirical observation; thus, particular instances were deduced from general inferences (Collis & Hussy 2009:8). Deductive research entails that the researcher has a clear theoretical position prior to the collection of data (Neville 2007:3). The first objective of this research was to analyze the concept of intergovernmental fiscal relations and its underlying theories. This is presented in Chapter two of the study, where intergovernmental fiscal relations are theoretically explained. The second objective was to establish the relationship in theory and in practice between intergovernmental fiscal relations and accountability and responsiveness. Chapter three of the study explains theoretically the relationship between intergovernmental fiscal relations and responsiveness and accountability. These two chapters provided the researcher with a clear theoretical position prior to the collection of data.

Empirical research in the Northern Cape was further conducted to test the theoretical perspectives. This began with abstract conceptualisation, proceeding to testing through the application of theory in order to create new experiences or observations (Shaukat 1998:5).

It can be concluded that the emphasis in deductive research is on the deduction of ideas and facts from the theory, in the hope that it provides a better or more coherent framework than the theories that preceded it.

Authors such as Marais (2012:66), Creswell (2003:21), Neville (2007:3), Johnson and Onwuegbuzie (2004:14) and Tashakkori and Teddlie (2003: 711) identify three approaches according to which empirical research is normally conducted. These include quantitative, qualitative and mixed methods research. The research for this study made use of a mixed methods approach, but in order to better understand it, it is necessary to first discuss quantitative and qualitative research.

4.5.1 Quantitative and qualitative research

Quantitative research, as the name suggests, is concerned with trying to quantify data and generalise results from a sample of the population of interest, and asks questions such as ‘how long’, ‘how many’ or ‘the degree to which’ (MacDonald & Headlam nd:9). It approaches phenomena from the perspective of an outsider in order to explain and predict the phenomena under study in isolation.

This approach uses numerical indicators of abstract concepts, and its methodology is normally relatively formalised, rigid, cross-referenced and explicated, but more parsimoniously recorded by means of statistics (Marais 2012:66). The emphasis of quantitative research is on collecting and analysing numerical data, as it concentrates on measuring the scale, range and frequency of phenomena (Neville 2007: 3).

According to Creswell (3003:18), a quantitative research approach is one in which the researcher primarily uses post-positivist claims for developing knowledge, employs strategies of inquiry, such as experiments and surveys, and collects data on predetermined instruments that yield statistical data. This type of research, although harder to design initially, is usually highly detailed and structured and results can be easily collated and presented statistically (Neville 2007:3). In this scenario, the researcher tests a theory by specifying narrow hypotheses and the collection of data to support or refute the hypotheses (Creswell 2003:20).

Quantitative research quantifies data and generalises results from a sample of the population of interest (MacDonald & Headlam nd:9). An experimental design is then used in which attitudes are assessed both before and after an experimental treatment. The data is collected on an instrument that measures attitudes, and the information collected is analysed using statistical procedures and hypothesis testing (Creswell 2003:20).

According to Brynard and Hanekom (1997:29), quantitative research requires methods such as experiments and surveys to describe and explain phenomena. The methods could include techniques such as observation, pilot studies and questionnaires.

Qualitative research approaches phenomena from the perspective of an insider or subject in order to understand the phenomenon in its natural context. According to Marais (2012:66) this approach uses qualitative 'indicators' such as words, stories, pictures and other communicative representations as non-numerical symbolic information on phenomena, and its methodologies are normally less formalised, rigid, specific and explicated, but more comprehensively recorded.

In qualitative research, the researcher seeks to establish the meaning of a phenomenon from the views of participants (Creswell 2003:21). This notion is supported by MacDonald and Headlam (nd:9), who argue that qualitative research is concerned with the quality of information and attempts to gain an understanding of the underlying reasons and motivations for actions by establishing how people interpret their experiences and the world around them.

Qualitative research is more subjective in nature than quantitative research, and involves examining and reflecting on the less tangible aspects of a research subject, such as values, attitudes and perceptions. Neville (2007:3) argues that although this type of research could be easier to start, it can often be difficult to interpret and present the findings, as the findings can be challenged more easily.

In qualitative research, methods such as case studies, in-depth interpreting of key informants, participant observation, questionnaires and perusal of personal documents are used (Brynard & Hanekom 1997:29).

The differences between quantitative and qualitative research is explained in the following Table 4.6.

Table 4.1. Major differences between quantitative and qualitative research

Quantitative	Qualitative
It is numerical, non-descriptive, applies statistics or mathematics and uses numbers	It is non-numerical, descriptive, applies reasoning and uses words
It is an iterative process whereby evidence is evaluated	Its aim is to get the meaning, feeling and describe the situation
The results are often presented in tables and graphs	Qualitative data cannot be graphed
It is conclusive.	It is exploratory
It investigates the what, where and when of decision making	It investigates the why and how of decision making

Source: Adapted from Rajasekar et al. (2013:9)

4.5.2 Mixed methods research

Tashakkori and Teddlie (2003: 711) define mixed methods as research that includes qualitative and quantitative data collection and analysis in parallel form, in sequential form, or where the data is converted and analysed again. A more comprehensive definition is provided by Creswell (2003:18), who defines mixed methods as an approach in which the researcher tends to base knowledge claims on pragmatic grounds (e.g. consequence-oriented, problem-centred, and pluralistic) and it employs strategies of inquiry that involve collecting data either simultaneously or sequentially to best understand research problems. Furthermore, the data collection also involves gathering both numeric information (e.g. on instruments) as well as text information (e.g. on interviews), so that the final database represents both quantitative and qualitative information.

The goal of mixed methods research is not to replace quantitative or qualitative research approaches, but rather to draw from the strengths and minimize the weaknesses of both (Johnson & Onwuegbuzie 2004:14). Creswell (203:22) supports this notion by stating that a mixed methods approach is useful to capture the best of both quantitative and qualitative approaches. In doing so, it enables the researcher to simultaneously answer confirmatory and exploratory questions, and therefore verify and generate theory in the same study (Truscot *et al*. 2010:318).

According to Johnson, Onwuegbuzie and Turner (2007:123), mixed methods approaches are likely to add insights into the research process, as one considers most, if not all, research questions. The following are some of the advantages of mixed methods (Johnson *et al.* 2007:115 and Jick 1979: 608-609):

- It allows researchers to be more confident of their results.
- It stimulates the development of creative ways of collecting data.
- It can lead to thicker, richer data.
- It can lead to the synthesis or integration of theories.

- It can uncover contradictions.
- By virtue of its comprehensiveness, it may serve as the litmus test for competing theories.

A mixed methods research approach was followed for the empirical study as it was best suited to provide answers to the research questions of the study. Using a mixed methods approach is also congruent with the paradigmatic perspective of pragmatism, which asserts that quantitative and qualitative methods are not only compatible, but possibly better suited to answer some specific research questions (Wahyuni 2012:71).

The research required the collection and analysis of both numerical as well as non-numerical data. Statistical indicators as well as descriptive reasoning were used to gather and interpret data. The data was also collected in parallel as well as in a sequential form from the sample group. In addition, the study attempted to obtain an understanding of the underlying reasons and motivations for actions, to establish how people interpret their experiences and the world around them. For this reason it was best suited to make use of a mixed methods research approach.

After deciding which approach to be followed the researcher had to determine which techniques would be used to obtain the necessary information. The next paragraph will discuss the different research techniques.

4.6 RESEARCH TECHNIQUES

The most frequently used techniques for data collection within the quantitative, qualitative and mixed methods approaches are the following (Brynard & Hanekom 1997:30, Fox & Bayat 2007, Cooper & Schindler 2003 and Tashakkori & Teddlie 2003):

- Observation

- Surveys
- Focus groups

The different techniques will consequently be discussed.

4.6.1 Observation

Observation involves the systematic recording of occurrences or the behaviour patterns of subjects without questioning or communication with them (Fox & Bayat 2007:84). According to Zikmund (2003:235) observation becomes a technique for scientific inquiry when it does the following:

- Serves a formulated research purpose.
- Is planned systematically.
- Is recorded systematically and related to general propositions rather than being presented as reflecting a set of interesting curiosities.
- Is subjected to checks or control on validity and reliability

Fox and Bayat (2007:84) argue that observation can be conducted in terms of six different methods as follows:

- **Participant and non-participant observation**

  This form of observation depends on how the researcher positions himself in respect of the situation he or she is observing. The researcher may or may not be part of the situation he or she observes.
- **Obtrusive and unobtrusive observation**

  This depends on whether the subjects being observed can detect the observation, for instance hidden cameras to observe behaviour, and garbage audits to determine consumption.
- **Observation in natural or contrived settings**

In natural settings, behaviour is normally unobtrusive and the researcher observes it when and where it occurs. In contrived settings the situation is created to speed up the behaviour.

- **Disguised and non-disguised observation**
  This depends on whether or not the subjects being observed are aware of the observation. In disguised observation the researcher may pretend to be someone else, for example a newly appointed employee.
- **Structures and unstructured observation**
  This refers to the presence or absence of guidelines or checklists for recording those aspects of behaviour that are observed. In disguised observation, where the researcher disguises him or herself, it is difficult to record exact words spoken between two individuals.
- **Direct and indirect observation**
  This depends on whether behaviour is being observed as it occurs or after the event. Video recording makes it possible to analyse the event later.

The major advantage of observation is that real-life behaviour can be perceived, studied and verified, whilst the major disadvantage is that the target group may feel an outsider interrupts their work, and they become uncomfortable (Brynard & Hanekom 1997:39). This study did not make use of observation, as this technique was not suitable for the type of information that had to be collected.

4.6.2 Surveys

Zikmund (2003:175) describes a survey as a research technique in which information is gathered from a sample of people by use of a questionnaire or interview. In public administration, researchers frequently use the survey methodology to collect information on work values and organizational commitment among individuals in public institutions and peoples' opinions on public policies, and to gauge the level of their satisfaction with public goods and services (Yang & Miller 2008:241).

Surveys can be conducted by means of questionnaires; telephone surveys and personal interviews.

4.6.2.1 Questionnaires

When using questionnaires the researcher constructs a self-report data collection instrument that is filled out by the research participants. The following principles indicated in Table 4.2 should be considered when constructing a questionnaire.

Table 4.2 Principles of Questionnaire Construction

	Principles
Principle 1	Ensure that the questionnaire items match the research objectives
Principle 2	Understand the research participants
Principle 3	Use natural and familiar language
Principle 4	Write questions that are simple, clear and precise
Principle 5	Do not use leading or loaded questions
Principle 6	Avoid double-barrel questions
Principle 7	Avoid double negatives
Principle 8	Determine whether an open-ended or a closed ended question is needed
Principle 9	Use mutually exclusive and exhaustive response categories for close-ended questionnaire items
Principle 10	Consider the different types of response categories available for closed-ended questionnaire items
Principle 11	Use multiple items to measure abstract constructs
Principle 12	Develop a questionnaire that is easy for the participants to use
Principle 13	Always pilot test your questionnaire

Source: Adapted from Tashakkori and Teddlie (2003:303)

Various authors, such as Fox and Bayat (2007:91), Yang and Miller (2008:245) and Tashakkori and Teddlie (2003:303), distinguish between three types of questions namely open questions, open-ended questions and close-ended questions.

Open questions are questions in which the respondents are encouraged to respond freely to the topics that have been put to them. According to Fox and Bayat (2007:91) open questions are used specifically to find reasons for particular respondent opinions or attitudes. An example of such a question is to describe the shortcomings in the responses of province A towards the needs of its citizens.

Open-ended questions pose some problem, topic or question, and ask the respondent to answer in his or her own words (Tashakkori & Teddlie 2003:303). Examples of open-ended questions include the following:

- Name the different conditional grants that province A receives from the National Government?
- What are the priorities that province A focuses on?

Closed questions require classification of the answer into standardised groupings prior to data collection (Zikmund 2003:333). Questions are phrased in such a format that respondents are guided or requested to choose an answer from among two or more specifically stated alternatives. The following serve as examples of closed questions:

- Multiple–choice questions.
- Dichotomous questions (where there are only two answers to choose from).
- Scaled questions, where questions are scaled from 1 to 5, as on a Likert scale.

The Likert scale consists of a collection of statements about the object. Respondents have to indicate the degree to which they agree or disagree with its content, for example on a five-point scale (for example strongly differ; differ undecided; agree; strongly agree) (Fox & Bayat 2007:94).

An example of a closed question is the following multiple-choice question:
What, in your opinion, is the major shortcoming in the response of province A towards the needs of its citizens?

a) Slow response rate 1
b) No response at all 2
c) Partial response 3
d) Poor quality of services 4
e) Poor quality of service and slow response 5

The following Table (Table 4.3) provides an explanation of the advantages and disadvantages of questionnaires:

Table 4.3 Advantages and disadvantages of questionnaires

Advantages	Disadvantages
• Questionnaires are cost effective when compared with other techniques like interviews.	• Possibility of low response rate
• Easy to analyse because data entry and tabulation can be done with computer software	• The inability to probe responses
• Familiar to most people	• As structured instruments they allow little flexibility to the respondent in respect of the response format
• Reduce bias, because there is uniform question presentation	• May be completed by someone who was not intended
• Less intrusive than telephone or face-to-face surveys	• Not suited to some people, for example people who are poorly educated

Source: Adapted from Fox and Bayat (2007:88)

This study made use of questionnaires to collect information. For this purpose a questionnaire was compiled consisting of 21 questions. The questionnaire made use of closed questions in the form of multiple questions, dichotomous questions where there are only two possible answers to choose from, and scaled questions, where questions are scaled from 1 to 5, on a Likert scale. The major reasons that closed questions were selected are that they use multiple items to measure abstract constructs, and are easy for the participants to use. The questionnaire was divided into two sections in order to collect information separately for both responsiveness and accountability. The aim of the study was to analyse and assess the impact of the vertical fiscal imbalance on the accountability and responsiveness of the Northern Cape Provincial Government. It was therefore essential to collect information on both responsiveness and accountability.

Discussions were also held with a data analyst who had evaluated the questionnaire in order to ensure that the instrument would allow for the collection and interpretation of the data.

4.6.2.2 Telephone surveys

Telephone surveys are often used to access a large, geographically diverse population, and save both money and time (Yang & Miller 2008:248). According to Zikmund (2003:208) the following are the strengths and weaknesses of telephone surveys:

- **Speed**

  The speed of data collection is a major advantage compared to mail, e-mail or personal interviews.
- **Cost**

  The cost of personal interviews continues to increase whereas telephone interviews are relatively inexpensive.

- **Absence of face-to-face contact**

  Telephone surveys are more impersonal than face-to-face interviews, making it more possible for respondents to answer embarrassing or confidential questions.

- **Cooperation**

  In some instances respondents may be reluctant to allow a stranger into their work environment or homes. However, the same people may be perfectly willing to cooperate with a telephone survey.

- **Call-backs**

  Telephone call-backs are substantially easier than a return visit for a personal interview.

- **Representative samples**

  When an organization's employees are the group of interest, there are few sampling problems in telephone surveys. However, when the group of interest consists of the general population the availability of the numbers can became impractical.

- **Lack of visual medium**

  Since visual aids cannot be used in telephonic interviews, research that requires visual material, illustrations or explanations cannot be conducted by phone.

- **Limited duration**

  A disadvantage of the telephone interview is that the length of the interview is limited. Respondents may be unwilling to cooperate with interviews that stretch over a long time period.

This study will not make use of telephone surveys for the following reasons:

- The telephone numbers of the sample group are not known.
- Respondents may be unwilling to spend 30 minutes on the telephone completing a questionnaire.
- It is unknown what will be a convenient time to call participants.

4.6.2.3 Personal interviews

In a face-to-face interview, respondents are asked questions in a relaxed atmosphere. Visual and other aids can be used in the data collection process and to probe respondents for additional information (Yang & Miller 2008:249). Face-to-face interviews are used when complex and more open-ended questions need to be asked, and respondents require much more time to respond.

An advantage of the personal interview is that the interviewer can probe respondents for clarity or more information when needed (Tashakkori & Teddlie 2003:303). Interviewers also have more freedom to determine what further questions should be asked in order to obtain the required information. Brynard and Hanekom (1997:39) warn against the use of interviews to collect statistical or fiscal data, as the memory of an interviewee may not be so accurate in respect of dates and amounts and errors may occur.

The following Table describes some of the major advantages and disadvantages of personal interviews.

Table 4.4 Advantages and disadvantages of interviews.

Advantages	Disadvantages
• Opportunity for feedback to the respondent • The interviewer and respondent can clarify certain instructions or questions if necessary • The interviewer has the opportunity of probing the answers by asking the respondent to clarify or expand on a certain response • The interviewer can supplement answers by recording her or his own observations, for example there is no need to ask the respondents' gender, date and where the interview takes place • The interview can last longer and be more complex than in the case of other survey techniques	• Personal interviews can be costly • Personal interviews provide significant scope for interview error or bias when the interviewer's behaviour, appearance or actions in some way influence the respondents to such an extent that they provide an inaccurate answer

Source: Adapted from (Fox and Bayat 2007:88)

This study made use of interviews as a follow up to questionnaires in order to obtain more in-depth information. Interviews allow the researcher to ask more complex questions, and the interviewer can probe respondents for clarity or more information when needed.

4.6.3 Focus groups

The focus group is a panel of people led by a trained researcher who uses group dynamics principles to focus or guide the group in an exchange of ideas, feelings and experiences on a specific topic (Cooper & Schindler 2006:212). This loosely structured discussion assumes that individuals are more willing to share their ideas when they are able to hear the ideas of others (Zikmund 2003:64).

During the conduct of a focus group session the researcher normally facilitates discussion on open-ended questions. By gathering a number of people together to provide information, the researcher may save time and money (O'Sullivan & Rassel 1995:35).

Focus group sessions generally last between one and three hours, and allow in-depth discussion (Tashakkori & Teddlie 2003:303). By allowing in-depth discussions on a small number of topics or questions, information can normally be obtained that is otherwise difficult to get hold of through other methods. Due to the nature and complexity of the sample group, and the difficulty to get them together, this study did not make use of focus group meetings, to collect data.

A prerequisite for any scientific study is that it should be credible. The credibility of scientific research will be discussed hereafter.

4.7 CREDIBILITY OF THE STUDY

In order to ensure that research data is credible, it must meet the criteria of reliability and validity (Babbie & Mouton 1998:119).The two said criteria will consequently be discussed.

- **Reliability** relates to the question of whether a particular technique, applied repeatedly to the same object, would yield the same result each time (Babbie & Mouton 1998:119). The assumption that research findings are repeatable is referred to as the replicability of investigations (Howard 1985:98). The results of a research study are therefore reliable if researchers are able to replicate the findings in subsequent studies.

- **Validity** refers to the question of whether or not the measurement of a phenomenon is true, that is whether or not the instrument measures what it purports to measure (Tashakkori & Teddlie 2003:581). To ensure validity, the questionnaire should be compiled in such a way that the questions are correct and appropriate for the purpose for which it is intended (Brynard & Hanekom 1997:40).

To enhance reliability and validity of the study, questions are based on information gathered during the literature review to ensure that they are representative of what participants should know in respect of responsiveness and accountability. The questions are formulated in simple language for clarity and ease of understanding. Questions were submitted to the study leader as well as a research analyst at the University of the Free State to evaluate the questions for further validation. Clear instructions were given to the participants regarding how to complete the questions. Reliability and validity were also enhanced by minimising sources of measurement error such as data collector bias. For this reason there was consistency in administering the questionnaires. All questionnaires were distributed to participants by the researcher personally.

After deciding upon the research techniques the researcher must decide on the sample and sample size within the research setting. The next paragraph therefore discusses the research setting.

4.8 RESEARCH SETTING

The study was conducted at the Northern Cape Provincial Government. The Northern Cape Province is geographically the largest of South Africa's nine provinces, but has the smallest population size. The study population is therefore made up of officials and political representatives of the Northern Cape Provincial

Government, as well as subject experts such as auditors and budget officials of the National Treasury.

4.8.1 Sampling

The sample is the section of the wider population that will be engaged in the survey, and sampling is the process of identifying who to contact from that population (Macdonald & Headlam nd:12-13). There are two categories of samples namely, probability sampling and non-probability sampling. A probability sample is a sample in which each element in the population has a known and non-zero probability of being included in the sample, and includes the following sub-categories (Fox & Bayat 2007:55):

- Simple random sampling
- Stratified random sampling
- Systematic sampling, and
- Cluster sampling

A non-probability sample is a sample in which units of analysis in the population do not each have an equal chance of being included in the sample, and includes the following sub-categories (Fox & Bayat 2007:55):

- Accidental sampling
- Convenience sampling
- Purposive sampling
- Snowball sampling

The abovementioned sub categories of sampling are not all defined in this thesis. The aim of stipulating them was merely to highlight the variety of methods that could be selected to sample the respondents for research purposes. However, purposive sampling will be defined as it was used to select the sample for this research.

Purposive sampling is a non-probability sampling technique in which the researcher selects the sample based on some appropriate characteristics of the sample members (Zikmund 2003:382). The probability that any unit will be selected is unknown, as it depends entirely on the judgement of the researcher. According to O'Sullivan and Rassel (1995:127) the researcher assumes that the units selected will represent the population.

The benefit of purposive sampling lies in the selection of information rich units that will provide the best information for the questions under review (Tashakkori & Teddlie 2003:279). However, it is important to note that purposive sampling requires the researcher to understand the characteristics clearly and thoroughly enough to be able to choose the sample (Latham 2007:10).

The main advantages of purposive sampling can be summarised as follows (Pountney 2013:1):

- Those members who are unsuitable for the sampling study, or who do not meet the characteristics, have already been eliminated, and only the most suitable candidates remain.
- As the most appropriate members for the study have been selected, this process becomes a lot less time consuming.
- With fewer time constraints and a more accurate subject, the costs for carrying out the sampling project are greatly reduced.
- The results of purposeful sampling are usually expected to be more accurate than those achieved with an alternative form of sampling.
- If a very rare or much sought after group of people is sought for a particular research study, purposive sampling is usually the only way to track them down.

Patton (1990:169) identifies 16 different types of purposive sampling, of which criterion sampling is one. In criterion sampling the researcher sets criteria and selects all cases that meet the criteria. The logic of criterion sampling is to review and study all cases that meet some predetermined criterion of importance (Patton 1990:169). This allows the researcher to conduct an in-depth study from information rich units.

This study was based on criterion-type purposive sampling due to the fact that time and resources were limited, and information was available from only a certain group of officials and political office bearers. Knowledge and understanding of the extent to which the responsiveness and accountability of the Northern Cape Provincial Government is influenced by the vertical fiscal imbalance was an important criteria for this study. Based on this criterion the researcher selected four different groups to elicit information from namely, the Accounting Officers, Chief Financial Officers, members of the Standing Committee on Public Accounts from the Legislature, and subject experts. The researcher held that Accounting Officers and Chief Financial Officers were the best suited to serve as a sample from a public officials' perspective, the reasons being that Accounting Officers are held accountable and are also responsible to ensure that their departments are responsive to the unique needs of the community. Chief Financial Officers assist Accounting Officers in discharging their financial duties, as prescribed in the PFMA. To enhance the validity of the study it was necessary to elicit the opinion of members of the Standing Committee on Public Accounts, who are members of the Legislature and who deal with the annual reports of departments. It was also necessary to obtain the view from subject experts in order to obtain more in-depth information.

4.9 SAMPLE SIZE

There are a number of factors that determine the size of a sample such as population size, homogeneity of the population, degree of reliability required in the research, as well as the method of sampling (Fox & Bayat 2007:61). It was therefore not possible to state categorically what the size of a sample should be.

Lincoln and Guba (1985: 202) recommend sample selection in purposive sampling to the point of redundancy…"In purposeful sampling the size of the sample is determined by informational considerations. If the purpose is to maximize information, the sampling is terminated when no new information is forthcoming from new sampled units; thus redundancy is the primary criterion". The aforementioned is confirmed by Patton (1990:169), who states that the logic and power of probability sampling depends on the selection of a truly random and statistically representative sample that will permit confident generalization from the sample to a larger population.

Criterion sampling is based on the principle that the researcher selects, reviews and studies all cases that meet the predetermined criterion of importance (Patton 1990:169). The sample size for this study was therefore made up of all the units of the four identified groups. Thus, all Accounting Officers, Chief Financial Officers and all members of the Standing Committee on Public Accounts formed the sample size for the questionnaire. Four subject experts were identified in addition, to obtain more in-depth information by means of interviews in order to enhance the validity and reliability of the study. The following subject experts were identified to participate in the interviewing process:

- A director of SizweNtsalubaGobodo who conducts performance audits on behalf of the Auditor General in the Northern Cape.

- A director of Mazars who is rendering a financial management function in the Northern Cape, and who also served as the previous head of the Office of the Auditor General in the Northern Cape.
- The Director: Provincial Budget Analysis for the Northern Cape Province at the National Treasury.
- The Chief Financial Officer of the Northern Cape Provincial Legislature.

After data was collected the raw data was analysed in order for inferences to be drawn from it.

4.10 DATA ANALYSIS

Once data has become available, the next phase is the analysis of the data. Wahyuni (2012:75) argues that data analysis involves the drawing of inferences from raw data, whilst Creswell (2003:217) is of the opinion that data analysis involves understanding the data, representing the data, and making an interpretation of the larger meaning of the data. Yang and Miller (2008:159) provide the most comprehensive description of data analysis, stating that data collection is a three linked sub-process which can be described as follows:

- Data reduction – condensing the data by coding, summarising, clustering and writing.
- Data display – a condensed and organized layout of data that permits conclusion drawing or action taking.
- Conclusion drawing or verification – interpreting and drawing meaning from data.

From the aforementioned it can be concluded that data analysis entails reducing the data to a manageable size, developing summaries, examining patterns and drawing inferences.

Tashakkori and Teddlie (2003:352) argue that data analysis does not depend on the research approach that has been followed (qualitative, quantitative or mixed method), but should rather stem from the research purpose. There is therefore a relationship between analysis of the data and the research purpose, which in turn relates to the problem statement. Data should therefore be analysed in such a way that it is evident from the analysis that the research problem is answered.

Modern technology can enhance data analysis, and there are a number of software tools on the market which researchers can utilise. Two of the most common software packages that can be used for data analysis are Microsoft Excel and Formal Statistical Packages such as Statistical Product and Service Solutions (SPSS) (McDonald nd:32).

This study made use of the Statistical Product and Service Solutions (SPSS) software available from the University of the Free State. SPSS covers a broad range of statistical procedures, which made it particularly useful for the analysis of survey data collected in this research.

It is a prerequisite of scientific research to not only adhere to ethical principles, but also to be guided by ethical considerations. The research process must therefore pay attention to ethical considerations.

4.11 RESEARCH ETHICS

Ethics in research involves getting the informed consent of those who are going to be interviewed, questioned, observed or from whom material will be taken (Fox & Bayat 2007:61). In order to conduct the research, approval was obtained from the Director General of the Northern Cape Provincial Government and the Speaker of the Legislature in the Northern Cape. Approval was also obtained from all participants who filled in the questionnaires, and who participated in the interviewing process. The purpose, as well as the benefits of the study, was explained to all involved, and they were informed that participating was on an entirely voluntary basis.

Privacy and confidentiality are profound ethical issues in research (Zikmund 2003:79). The researcher did not reveal the identity of any participant in the study, and protected the personal information as well as the views of the participants. In order to ensure privacy and confidentiality, information elicited did not include any personal information that could be harmful to the participants. This also prevents participants being placed in situations where they may be at risk of both physical and psychological harm as a result of their participation (Fox & Bayat 2007:148).

In conclusion, the study findings will be presented to the Director General, and a formal presentation will be made. After completion of the study a letter of gratitude will be forwarded firstly to the Director General, HODs, members of the Legislature and all other participants.

4.12 CONCLUSION

The philosophical assumptions underlying this study came mainly from pragmatism, which allows the researcher to start off with the research question to determine the research framework. The research is based on practically applied research, integrating different perspectives to help interpret the data. Emphasis was placed on what best would address the research problem at hand, giving the researcher a great extent of flexibility in performing the research.

The purpose of the research was to analyse and assess the impact that the vertical fiscal imbalance has on the accountability and responsiveness of the Northern Cape Provincial Government. Taking the purpose of the study and the objectives of the research into account, this research can at best be defined as analytical research.

The study made use of a mixed methods research methodology as it was best suited to provide answers to the research questions of the study. Using a mixed methods approach is also congruent with the paradigmatic perspective of pragmatism, which asserts that quantitative and qualitative methods are not only compatible, but possibly better suited to answer some specific research questions.

In order to provide answers to the research problem, data was collected by means of surveys in the form of questionnaires and personal interviews. Once data had been collected it was analysed by making use of the Statistical Product and Service Solutions software package.

CHAPTER 5

DATA ANALYSIS AND RESEARCH FINDINGS

5.1 INTRODUCTION

This chapter analyses the data that was collected by the questionnaires and interviews as part of the empirical research for the study. The findings of the research relate to the purpose of the study at large, namely to analyse and assess the impact of the vertical fiscal imbalance brought about by South Africa's unique intergovernmental fiscal relations on the accountability and responsiveness of the Northern Cape Provincial Government. Data was collected by means of self-administered questionnaires and in-depth interviews that were conducted on a face-to-face basis. The questions asked during the interviews correlated with the questions that formed part of the questionnaire. Data collected was subsequently analysed to identify, describe and explore the relationship between the vertical fiscal imbalance on the one hand, and responsiveness and accountability on the other.

In order to collect the data 25 questionnaires were distributed to Heads of Departments (Accounting Officers), Chief Financial Officers and members of the Standing Committee on Public Accounts. Of the 25 questionnaires distributed, 19 were received back. This represents a response rate of 76%. After the questionnaires were collected the data was analysed by means of the Statistical Package for Social Sciences (**SPSS**) computer-based programme. Upon receiving the analysed data of the questionnaires, in-depth interviews were conducted with four subject experts in the field of public financial management, responsiveness and accountability. The purpose of the interviews was to obtain additional information, motivation and understanding of the data collected from the questionnaire.

The results of the research are presented in two sections in the chapter. The first section discusses the findings pertaining to responsiveness and the second part presents the findings pertaining to accountability. A synopsis is provided at the end of the discussions to confirm that the findings of the study support the hypothesis as presented in Chapter one.

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5.2 APPROVAL FOR THE RESEARCH

Formal requests to conduct the research were directed to both the Speaker of the Northern Cape Provincial Legislature as well as the Director-General of the Northern Cape Provincial Government (NCPG). Both granted approval that the research could be conducted, and that for purposes of the research, questionnaires could be distributed for completion to the members of the Standing Committee on Public Accounts of the NCPG as well as the Chief Financial Officers and Heads of Departments of the NCPG.

5.3 QUESTIONNAIRES

Twenty five questionnaires were distributed for completion, which was in accordance with the target group identified for sampling purposes. Ten questionnaires were forwarded to the Heads of Provincial Departments, another ten to the Chief Financial Officers, and five to the members of the Standing Committee on Public Accounts. These questionnaires were sent by email, accompanied by a letter that explained the purpose of the research, assuring the respondents of confidentiality, soliciting their participation, and assuring them that the Speaker or Director General (whichever was applicable) had authorised the study.

5.3.1 Questionnaires' structure

The questionnaires consisted of 21 questions and were divided into two main sections, namely responsiveness and accountability. The questions relating to responsiveness tested respondents' opinions regarding issues such as:

- Unique needs of the citizens of the Northern Cape.
- The Northern Cape Provincial Government's ability to respond to the needs of its citizens**.**
- Conditions attached to financial transfers (conditional grants).
- Unfunded mandates.
- National Government's influence on the budget.
- Limited financial resources of the Northern Cape Provincial Government.
- Priorities of the Northern Cape Provincial Government.

The questions relating to accountability tested respondents' opinions regarding issues such as:

- Accountability for the collection of revenue.
- Accountability in terms of results and outcomes.
- Responsibility for the implementation of policies and programmes.
- Ambiguity in the assignment of roles and responsibilities.
- Collection of more own-revenue by means of taxes and service fees.
- Linking of revenue to expenditure.
- Internal audit, financial reporting and compliance with financial prescripts.

The abovementioned issues were included in the questionnaire as the literature study proposed that these matters are indicators of, or relate to, the responsiveness and accountability of sub-national governments.

5.3.2 Questionnaires' response rate

This study attracted a response rate of 80% from members of the Standing Committee on Public Accounts, 80% from Chief Financial Officers and 70% from Heads of Departments. When all responses were combined it resulted in an overall response rate of 76%. In order to collect the questionnaires, weekly follow ups were made by means of telephone calls and e-mails. All departments were also visited individually in order to stress the importance of receiving the questionnaires back.

It took three months to secure the responses and retrieve questionnaires from respondents. The response time was influenced by issues such as absence from office (leave or business), unavailability of respondents (meetings and other engagements), time of the research (i.e. close to the end of the financial year), and the fact that 2014 was an election year (campaigns by members of the Legislature). After three months the researcher concluded that a representative sample of opinions had been collected to secure the validity of findings, and the data collection process was subsequently concluded.

5.3.3 Data analysis procedure

In order to analyse the data collected by means of the questionnaire, the Statistical Package for Social Sciences (**SPSS**) computer-based research programme was employed to assist the researcher. Upon receipt of the questionnaires, responses were grouped together according to the research sample i.e. HODs, CFOs and members of the Legislature. A numerical value was then allocated to each answer, and the questionnaires were handed to a data analyst in the Faculty of Economic and Management Sciences who is also trained in the SPSS programme.

The data analyst captured the information on the SPSS programme and provided the researcher with a frequency table, as well as a position cross tabulation in respect of each question. The frequency table and position cross tabulation provided a count and percentage indication per group, as well as a total for each question in a tabular format. This enabled the researcher to make better inferences during interpretation of the collected data. The following paragraphs deal with data analysis and the findings of each questionnaire.

5.4 INTERVIEWS

In addition to the questionnaires, personal in-depth interviews on a face-to-face basis were also conducted. The interviews were conducted by means of a set of predetermined questions that correlated with the questions asked in the questionnaire, resulting in a structured interview. The questions for the interviews correlated with the questions asked in the questionnaire so that it tested the same information. The interviewees were selected for their relevance and expertise in public financial management, accountability and responsiveness rather than their representativeness. The purpose of the interviews was to obtain additional information to the data obtained from the questionnaire. Interviews were conducted with a Director of SizweNtsalubaGobodo on 9 May 2014, the Chief Financial Officer of the Northern Cape Provincial Legislature on 10 May 2014, a Director of Mazars on 16 May 2014, and the Director: Provincial Budget Analysis for the Northern Cape Province at the National Treasury on 28 May 2014.

All interviews were recorded in MP3 format, and extensive notes were also taken during the interview process. Interview records and written notes were analysed systematically through iterative and repeated re-listening and re-reading. This made it possible to gain an increasingly profound understanding of each interviewee's viewpoint and perspective, of links and contradictions within and across interviews and questionnaires, of complex contextual factors emerging from the aforesaid interviews, and of the many relationships between the relevant concepts.

5.5 ANALYSIS OF THE QUESTIONNAIRE AND INTERVIEWS

The questionnaire consisted of two sections, namely questions that related to responsiveness and questions that related to accountability. This was in accordance with the hypothesis and objectives of the study which hypothesized that the vertical fiscal imbalance that exists in South Africa undermines both the responsiveness and accountability of the provincial governments. It is further hypothesized that existing measures to promote responsiveness and accountability are not applied effectively, economically and efficiently. The two objectives that relate to the empirical research are as follows:

- To establish the relationship between intergovernmental fiscal relations and accountability and responsiveness.
- To assess the impact of the vertical fiscal imbalance on responsiveness and accountability.

The aforementioned sections are discussed separately.

5.5.1 Questions relating to responsiveness

This area of the questionnaire contained eight questions, formulated to determine the impact that the existence of a vertical fiscal imbalance may have on responsiveness in the Northern Cape Provincial Government.

Question 1: Unique needs of the citizens of the Northern Cape Province.

The researcher used this question to determine whether the citizens of the Northern Cape Province have unique needs that differ from the needs of citizens in other provinces. Table 5.1 indicates the responses to the question.

Table 5.1

Citizens of the Northern Cape Province do have unique needs that differ from the needs of citizens in other provinces.		Position			Total
		CFO	HOD	SCOPA	
Strongly disagree	Count	0	0	0	0
	% within position	0.0%	0.0%	0.0%	0.0%
Disagree	Count	2	1	0	3
	% within position	25.0%	14.3%	0.0%	15.8%
Uncertain	Count	1	0	0	1
	% within position	12.5%	0.0%	0.0%	5.3%
Agree	Count	3	3	0	6
	% within position	37.5%	42.9%	0.0%	31.6%
Strongly agree	Count	2	3	4	9
	% within position	25.0%	42.9%	100.0%	47.4%
Total	Count	8	7	4	19
	% within position	100.0%	100.0%	100.0%	100.0%

A total of 31.6% of the respondents agreed and 47.4% strongly agreed that the citizens of the Northern Cape Province do in fact have unique needs that differ from the needs of citizens in other provinces. A deeper analysis indicated that it was members of the Standing Committee on Public Accounts in particular who felt very strongly about this, as 100% of them indicated that they strongly agreed with the statement. This finding confirms theories by scholars on intergovernmental fiscal relations, such as Yemek (2005:2), Fjeldstad (2001:12) and Slack (2007:462), that there are differences between the needs of the citizens in different sub-national governments of a country. In order to respond meaningfully to the needs of its citizens, it is important for a government to realize that differences exist amongst sub-national governments (such as provinces), and that different policies and programmes may therefore be required.

Interviewees agreed that, from a demographic perspective, citizens of the Northern Cape do have unique needs. This confirms the findings of the questionnaire where 79% of the respondents indicated that the needs of the citizens of the NCPG differ from the needs of citizens in other provinces. According to the interviewees the Northern Cape is the largest province in terms of geographical area (more than 30% of the country's surface area), with the smallest population size (1.1 million people). The low population density and the vastness of the province makes it very complicated logistically to deliver services. The equitable share formula that is used for the division of revenue is mainly population driven whilst the NCPG does not benefit from economies of scale in service delivery. The capital outset needed to put infrastructure in place for a small population (1.1million) that is scattered over 30% of South Africa’s land area makes it more expensive to deliver certain services such as health and education. In addition to this there is a high unemployment rate due to a decline in the mining industry, a high poverty rate, and other socio-economic issues such as substance abuse that contribute to a high percentage of foetal-alcohol syndrome.

Question 2: The Provincial Government of the Northern Cape is closer to the people of the province and could respond better to the needs of its citizens than National Government.

This question sought to understand the extent to which respondents believed that the NCPG could respond better to the needs of its citizens than National Government. Table 5.2 indicates the responses to the question.

Table 5.2

The Provincial Government of the Northern Cape is closer to the people of the province and could respond better to the needs of its citizens than National Government.		**Position**			**Total**
		CFO	**HOD**	**SCOPA**	
Strongly disagree	Count	0	0	0	0
	% within position	0.0%	0.0%	0.0%	0.0%
Disagree	Count	0	0	0	0
	% within position	0.0%	0.0%	0.0%	0.0%
Uncertain	Count	0	1		1
	% within position	0.0%	14.3%	0.0%	5.3%
Agree	Count	7	4	1	12
	% within position	87.5%	57.1%	25.0%	63.2%
Strongly agree	Count	1	2	3	6
	% within position	12.5%	28.6%	75.0%	31.6%
Total	Count	8	7	4	19
	% within position	100.0%	100.0%	100	100.0%

None of the respondents disagreed with the statement that the (NCPG) is closer to the people of the province, and could respond better to the needs of its citizens than National Government. Except for one respondent who was uncertain, the rest all agreed (63.2%) or strongly agreed (31.6%) with the statement. There was thus overwhelming support for the notion of decentralization of government in the form of sub-national governments, and the rendering of services by sub-national government, rather than by a national government. Decentralization has often been held to increase the responsiveness of government policy to the preferences of citizens (Smart 2007:204). A sub-national government should therefore be able to respond better to the needs of its citizens than what would be the case with a national government.

According to the interviewees, the NCPG is better equipped to understand the needs and complexities of its citizens, and should therefore be able to respond better to those needs than national government. This is in line with the findings of the questionnaire where more than 74% of the respondents agreed that the NCPG can respond better to the needs of its citizens. However, it was mentioned that National Government is better resourced than the NCPG, and can attract more skilled (specialist) personnel. There also exists a closer intergovernmental relationship between national and provincial governments than is the case between provincial and local governments in the Northern Cape. Interviewees mentioned that there should be better communication and improved coordination of services between the provincial and local government, in order to provide a better and more cost effective service to the citizens. Shifting of responsibility also seems to impact on service delivery, and the blame is sometimes shifted to another sphere of government. From a planning perspective, there are good plans in place that are funded through budgets. Implementation of these plans however is an issue, and if implementation is done correctly, the NCPG should be able to be more responsive.

Question 3: Conditions attached to financial transfers received from the National Government limit the Northern Cape Provincial Government's capacity to respond to the unique needs of its citizens.

The existence of a vertical fiscal imbalance results in sub-national governments that are generally dependent on transfers from higher levels of government to perform their services (Bird 1990:278). An important element of South Africa's IGFR is the use of intergovernmental transfers to correct vertical fiscal imbalances. The aim of this question was to assist the researcher in understanding whether the conditions attached to financial transfers by National Government limit the NCPG's capacity to respond to the unique needs of its citizens. Table 5.3 indicates the responses to the question.

Table 5.3

Conditions attached to financial transfers received from the National Government limit the Northern Cape Provincial Government's capacity to respond to the unique needs of its citizens.		Position			Total
		CFO	HOD	SCOPA	
Strongly disagree	Count	0	1	0	1
	% within position	0.0%	14.3%	0.0%	5.3%
Disagree	Count	4	1	0	5
	% within position	50.0%	14.3%	0.0%	26.3%
Uncertain	Count	0	0	0	0
	% within position	0.0%	0.0%	0.0%	0.0%
Agree	Count	1	2	3	6
	% within position	12.5%	28.6%	75.0%	31.6%
Strongly agree	Count	3	3	1	7
	% within position	37.5%	42.9%	25.0%	36.8%
Total	Count	8	7	4	19
	% within position	100.0%	100.0%	100.0%	100.0%

According to the responses in Table 5.3, the majority of respondents (36.8%) strongly agreed, and a further 31.6% agreed that conditions attached to financial transfers limit the NCPG's capacity to respond to the unique needs of its citizens. These findings are in line with, and support, Bird and Smart (2002, n.p.) who state that practical difficulties have led to an array of conditional transfers that are so detailed, complex, and unrelated to the purpose for which they are intended, that their use has led to ineffective sub-national governments as well as a resistance towards the transfers (grants) in many countries. The lack of significant provincial autonomy and flexibility in designing grant frameworks, and altering spending to suit local priorities, is one of the major reasons for resistance to this form of transfer.

The participants interviewed were of the opinion that conditions attached to financial transfers do not limit the capacity of the NCPG to respond to the needs of its citizens. To the contrary, it was mentioned that grants in fact assist provinces to meet their needs. This contradicts the findings of the questionnaire, where more than 68% of the respondents agreed that conditions to financial transfers do in fact limit the NCPG in response to the needs of its citizens. However, it was mentioned that it is a requirement of the annual Division of Revenue Act that the NCPG must demonstrate its capacity to spend conditional grants. The smaller towns in the Northern Cape though, cannot attract the necessary skills to comply with the conditions set forth for the grant, which impacts negatively on the transfer of funds from national government to the NCPG.

Question 4: The Provincial Government of the Northern Cape (NCPG) is more responsive to demands made by National Government than to the needs of its own electorate.

The researcher used this question to establish whether the NCPG is more responsive to demands made by National Government than to the needs of its own electorate. Table 5.4 depicts the responses to the question.

Table 5.4

The Provincial Government of the Northern Cape is more responsive to demands made by National Government than to the needs of its own electorate.		Position			Total
		CFO	HOD	SCOPA	
Strongly disagree	Count	0	1	0	1
	% within position	0.0%	14.3%	0.0%	5.3%
Disagree	Count	4	2	1	7
	% within position	50.0%	28.6%	25.0%	36.8%
Uncertain	Count	2	3	0	5
	% within position	25.0%	42.9%	0.0%	26.3%
Agree	Count	2	1	3	6
	% within position	25.0%	14.3%	75.0%	31.6%
Strongly agree	Count	0	0	0	0
	% within position	0.0%	0.0%	0.0%	0.0
Total	Count	8	7	4	19
	% within position	100.0%	100.0%	100.0%	100.0%

Although the majority of the respondents (42.1%) disagreed with the statement that the NCPG is more responsive to demands made by National Government than to the needs of its own electorate, a significant percentage (31.6%) agreed with this statement, whilst 26.3% were uncertain. Responsiveness means that the demands to which a government is responding are its own, and not that imposed on it by another government, which may for instance be involved in the financial arrangements (Grewal 1995:11). An example of this would be where a national government transfers money to finance a sub-national government such as a provincial government or municipality, but then demands that certain goods and services are delivered as a prerequisite for financing. It is noteworthy that 75% of the members of the Standing Committee on Public Accounts are of the opinion that it is indeed the case that the NCPG is more responsive to demands made by National Government, than to that of its own electorate.

Interviewees were of the opinion that there is a good balance between the two scenarios. This is attributed to the fact that National Government sets national priorities which should receive preference. In the absence of national priorities it is the obligation of the NCPG to state its own priorities through the Provincial Growth and Development Strategy. This also correlates with the findings of the questionnaire, where 42% of the respondents disagreed, 31% agreed while 26% was uncertain.

Question 5: Unfunded mandates imposed by National Government affect the budget of your department and consequently service delivery.

This question was asked to determine whether unfunded mandates imposed by National Government affect the budget, and consequently the service delivery, of departments in the Northern Cape. The next Table (Table 5.5) depicts the responses to the question.

Table 5.5

Unfunded mandates imposed by National Government affect the budget of your department and consequently service delivery		Position			Total
		CFO	HOD	SCOPA	
Strongly disagree	Count	0	0	0	0
	% within position	0.0%	0.0%	0.0%	0.0%
Disagree	Count	0	1	0	1
	% within position	0.0%	14.3%	0.0%	5.3%
Uncertain	Count	0	0	1	1
	% within position	0.0%	0.0%	25.0%	5.3%
Agree	Count	6	3	2	11
	% within position	75.0%	42.9%	50.0%	57.9%
Strongly agree	Count	2	3	1	6
	% within position	25.0%	42.9%	25.0%	31.6%
Total	Count	8	7	4	19
	% within position	100.0	100.0%	100.0%	100%

According to Yilmaz, Beris and Serrano-Berthet (2010: 279) unfunded mandates imposed by national governments on sub-national governments influence the responsiveness of sub-national governments, as it reduces their budgetary autonomy. According to the responses, 57.9% of the respondents agreed and 31.6% strongly agreed with the statement that unfunded mandates imposed by National Government affect their budgets. An alarmingly high percentage of 89.5% of the respondents therefore support this statement. This implies that the budgetary autonomy of the NCPG is influenced by National Government, making it less responsive to the needs of the citizens of the Northern Cape.

Participants for the interviews mentioned that unfunded mandates are not on the priority list of the province, and therefore can affect service delivery in the long run. Due to a decline in the economy, and the rapidness at which certain needs may change, more flexibility is needed in the budget process. There should for instance be a reserve fund to deal with critical needs and unfunded mandates, instead of redirecting funding from other needs when a crisis occurs. However, it was also stated that although provincial governments may in general complain that their budgets are not adequate, they often under-spend on their budgets. Unfunded mandates would, in a scenario where there is adequate funding, not negatively affect service delivery.

Question 6: National Government unduly influences the budget of your department.

The aim of this question was to determine whether the National Government unduly influences the budgets of departments of the NCPG. Table 5.6 depicts the responses to the question.

Table 5.6

National Government unduly influences the budget of your department.		**Position**			**Total**
		CFO	**HOD**	**SCOPA**	
Strongly disagree	Count	0	1	0	1
	% within position	0.0%	14.3%	0.0%	5.3%
Disagree	Count	3	1	1	5
	% within position	37.5%	14.3%	25.%	26.3%
Uncertain	Count	0	0	1	1
	% within position	0.0%	0.0%	25.0%	5.3%
Agree	Count	4	4	2	10
	% within position	50.0%	57.1%	50.0%	52.6%
Strongly agree	Count	1	1	0	2
	% within position	12.5%	14.3%	0%	10.5%
Total	Count	8	7	4	19
	% within position	100.0	100.0%	100.0%	100%

A total of 52.6% of the respondents agreed with this statement, and 10.5% strongly agreed that National Government unduly influences the budgets of departments of the NCPG. The fact that sub-national governments are dependent on national transfers can lead to governments that are unresponsive to the wishes of the population served. If national government funds sub-national governments, the national government can dictate how, and on what, the budgets of sub-national governments should be spent.

Although interviewees did not state specifically that the National Government unduly influences the budget of the NCPG, they commented that National Government indirectly influences the budget of the NCPG by setting national policies, and because national priorities should receive preference. Provincial Governments are implementers of policies, and should therefore implement the policies and priorities of National Government with their budgets. It was furthermore stated that a large portion of the budget of the NCPG is made up of conditional grants, and that the National Government can indirectly influence the budget of the NCPG through restrictions in the conditions of the grants. Between the provincial Health and Education Departments alone for instance, there are 12 grants in place, and according to Block (2014:1) 25.56% of the NCPG's budget is made up of conditional grants.

Question 7: Due to limited financial resources there are needs to which the Provincial Government of the Northern Cape cannot respond

The researcher used this question to determine whether there are needs to which the Provincial Government of the Northern Cape cannot respond, due to limited financial resources. Table 5.7 depicts the responses to the question.

Table 5.7

Due to limited financial resources there are needs to which the Provincial Government of the Northern Cape cannot respond		Position			Total
		CFO	HOD	SCOPA	
Strongly disagree	Count	0	0	0	0
	% within position	0.0%	0.0%	0.0%	0.0%
Disagree	Count	0	0	1	1
	% within position	0.0%	0.0%	25.0%	5.3%
Uncertain	Count	0	0	0	0
	% within position	0.0%	0.0%	0.0%	0.0%
Agree	Count	4	5	3	12
	% within position	50.0%	71.4%	75.0%	63.2%
Strongly agree	Count	4	2	0	6
	% within position	50.0%	28.6%	0.0%	31.6%
Total	Count	8	7	4	19
	% within position	100.0	100.0%	100.0%	100%

An overwhelming percentage (94.8%) of the respondents indicated that there are needs to which the NCPG cannot respond, due to limited financial resources. Of this percentage, 63.2% agreed whilst 31.6% strongly agreed with the statement. This is one of the questions with the highest positive response rates on the questionnaire.

According to Diamond and Morlino (2004:26), government's responsiveness to citizen demands can be constrained by limited financial resources and budget deficits, even in the wealthiest countries. It can therefore be concluded from the questionnaire that a lack of funds impedes the responsiveness of the NCPG.

Interviewees stated that due to the economic problem of scarcity, the need will always outweigh the available financial resources. There are therefore needs that cannot be met, such as housing, as there is still a backlog of houses in the province as well as other infrastructure. However, interviewees expressed the view that a lack of resources is not always bad, as it forces government institutions to plan and prioritise. Limited resources also force government to deal effectively and efficiently with taxpayers' money. It was suggested by one of the interviewees that government can make more investment expenditure than consumption expenditure, as investment expenditure can add to economic growth.

Question 8: If the Northern Cape Provincial Government had a bigger revenue base, its priorities would differ from the *status quo*

This question sought to understand whether a bigger revenue base would result in a change in the priorities of the NCPG. This question stems from questions six and seven, which related to National Government's influence on the budget of the NCPG, the impact of limited financial resources on the budget and consequent responsiveness of the NCPG. Table 5.8 depicts the responses to this question.

Table 5.8

If the Northern Cape Provincial Government had a bigger revenue base, its priorities would differ from the *status quo*		**Position**			**Total**
		CFO	**HOD**	**SCOPA**	
Strongly disagree	Count	0	0	0	0
	% within position	0.0%	0.0%	0.0%	0.0%
Disagree	Count	0	1	1	2
	% within position	0.0%	14.3%	25.0%	10.5%
Uncertain	Count	0	2	0	2
	% within position	0.0%	28.6%	0.0%	10.5%
Agree	Count	6	0	2	8
	% within position	75.0%	0.0%	50.0%	42.1%
Strongly agree	Count	2	4	1	7
	% within position	25.0%	57.1%	25.0%	36.8%
Total	Count	8	7	4	19
	% within position	100.0	100.0%	100.0%	100%

An analysis of the responses indicated that 42.1% of the respondents agreed, and 36.8% strongly agreed, that a bigger revenue base will result in a change of priorities for the NCPG. This can be regarded as serious, as it implies that there are other priorities that should also be addressed by the NCPG, which are not currently addressed. The available revenue bases of provinces are by nature narrowly based, and contribute less than 5% to total provincial budgets (Amusa and Mathane, 2007:271). It is a prerequisite for fiscal decentralization that sub-national governments must control their ’own’ sources of revenue (Mclure & Martinez-Vazquez 2000:2). Sub-national governments should have complete independence and flexibility in setting priorities, and should not be constrained by the categorical structure of programmes and uncertainty associated with decision making at the national government (Shah 2007:15). When sub-national governments lack independent sources of revenue, they can never truly enjoy fiscal autonomy, and may be (and probably are) under the financial thumb of the national government.

According to the interviewees, a larger revenue base will mean that the priorities of the NCPG will change, as departments plan according to their revenue base. If the NCPG has more revenue, they can invest more money in roads and transport. Roads play an important role in the economic growth and development of the province. Interviewees supported the findings of the questionnaire, which indicated that a larger revenue base will result in a change of priorities of the NCPG.

In addition to the above eight questions, a follow up question was asked to interviewees, as follows:

Question 9: What do you think are the major factors impeding the responsiveness of the Northern Cape Provincial Government?

According to the interviewees, one of the major factors that impede responsiveness is inadequate interaction between citizens and the NCPG. Responsiveness implies that the NCPG should determine what exactly the needs of the citizens of the Province are, and how effectively they can execute their priority list. Another impeding factor is capacity and the skills of its personnel. Examples that were cited included the need for engineering, technical, medical and accountancy skills. According to the interviewees, another aspect that should receive attention is the compilation of plans. Plans should be compiled in such a manner that they are implementable by setting realistic targets based on the 'SMART' principle - specific, measureable, realistic and timely.

5.5.2. Questions relating to accountability

This area of the questionnaire had thirteen questions, and was set in order to determine the impact that the existence of a vertical fiscal imbalance may have on the accountability of the Northern Cape Provincial Government.

Question 10: Are Accounting Officers also held accountable for the collection of revenue?

Accounting Officers must account for all expenses incurred by their departments, as well as for the collection of all anticipated revenue. This question was asked to determine whether Accounting Officers are held accountable only for expenditure and the manner in which it was incurred, or whether they are also held accountable for the collection of revenue. Table 5.9 depicts the responses to the question.

Table 5.9

Accountability is a cornerstone of democracy and Accounting Officers must account for all expenses. Are Accounting Officers also held accountable for the collection of revenue?		Position			Total
		CFO	HOD	SCOPA	
No	Count	1	2	1	4
	% within position	12.5%	28.6%	25.0%	21.1%
Yes	Count	7	5	3	15
	% within position	87.5%	71.4%	75.0%	78.9%
Total	Count	8	7	4	19
	% within position	100.0	100.0%	100.0%	100%

Although the majority of the respondents (78.9%) indicated that Accounting Officers are indeed held accountable for the collection of revenue, 21.1% were of the opinion that this is not the case. This count is the highest amongst Accounting Officers themselves, of which 28.6% were of the opinion that they are not held accountable for the collection of revenue. In order to ensure the maximisation of provincial own-revenue, it is important that Accounting Officers account for the effectiveness of their revenue collection methods.

According to the interviewees, Accounting Officers are in general not held accountable for the collection of revenue. Due to the fact that such a large percentage of the total revenue of the NCPG came in the form of national transfers (equitable share and conditional grants), the emphasis is on expenditure and not on revenue collection. Interviewees were of the opinion that the Auditor General and the Standing Committee on Public Accounts also focus their activities more on expenditure than revenue collection. These findings were in contrast to the questionnaire, where the majority of the respondents indicated that Accounting Officers are held accountable for the collection of revenue.

Question 11: Expenditure (money spent) is accounted for in terms of authorised uses only and not in terms of results and outcomes.

The researcher used this question to establish whether expenditure (money spent) is accounted for in terms of authorised uses only, or in terms of results and outcomes as well. Table 5.10 depicts the responses to the question.

Table 5.10

Expenditure (money spent) is accounted for in terms of authorised uses only and not in terms of results and outcomes.		**Position**			**Total**
		CFO	**HOD**	**SCOPA**	
Strongly disagree	Count	0	0	0	0
	% within position	0.0%	0.0%	0.0%	0.0%
Disagree	Count	3	5	0	8
	% within position	37.5%	71.4%	0.0%	42.1%
Uncertain	Count	1	1	1	3
	% within position	12.5%	14.3%	25.0%	15.8%
Agree	Count	4	0	2	6
	% within position	50.0%	0.0%	50.0%	31.6%
Strongly agree	Count	0	1	1	2
	% within position	0.0%	14.3%	25.0%	10.5%
Total	Count	8	7	4	19
	% within position	100.0	100.0%	100.0%	100%

An analysis of the responses to this question indicated that 42.1% of the respondents disagreed with the statement that money is accounted for in terms of authorised uses only, whilst 31.6% agreed and 10.5% strongly agreed. The rest of the respondents (15.8%) were uncertain. There were therefore an equal number of respondents that agreed or disagreed with the statement. This finding is significant in terms of citizens receiving value for money through results and outcomes with limited financial resources.

The interviewees expressed the opinion that expenditure is accounted for mainly in terms of probity and regularity. Although Accounting Officers do report on financial and non-financial indicators in their In-Year Management Reports (IYM) and their Annual Reports, it does not seem as though outcomes are a priority in the process of accountability. Expenditure is accounted for, but the question regarding the cost – versus benefits effect is seldom addressed, and there is no real emphasis on results and outcomes. This is in line with the findings of the questionnaire, where an equal number of respondents, namely 42%, agreed and/or disagreed, whilst 15% were uncertain.

Question 12: If the implementation of a particular policy or programme fails, who is to blame?

It is the responsibility of national government to make policies, determine programmes, and set national norms and standards, whilst it is left to provincial governments to implement policies and programmes according to national norms and standards. This question sought to understand who is to blame, National Government or Provincial Government, when the implementation of a particular policy or programme fails. Table 5.11 depicts the responses to the question**.**

Table 5.11

It is the responsibility of national government to make policies, determine programmes, and set national norms and standards, whilst it is left to provincial governments to implement policies and programmes according to national norms and standards. If the implementation of a particular policy or programme fails, who is to blame? (Select the most appropriate choice from the list provided)		Position			Total
		CFO	HOD	SCOPA	
National Government for setting a poor policy or programme	Count	1	0	0	1
	% within position	14.3%	0.0%	0.0%	5.6%
Provincial Government for not successfully implementing the policy or programme	Count	2	0	0	2
	% within position	28.6%	0.0%	0.0%	11.1%
Both National and Provincial Government	Count	4	7	4	15
	% within position	57.1%	100.0%	100.0%	83.3%
Total	Count	7	7	4	18
	% within position	100.0	100.0%	100.0%	100%

An overwhelming majority of 83.3% of the respondents indicated that both the National and Provincial Government are to blame when the implementation of a particular policy or programme fails. It is interesting that 100% of the members of the Standing Committee on Public Accounts, and 100% of the Accounting Officers, are of this opinion, whilst only 57.1% of the Chief Financial Officers share the same opinion. This may be attributed to the fact that Chief Financial Officers feel less vulnerable in their responses to put blame for failure on their departments or Province, as would be the case with Accounting Officers or members of the Standing Committee on Public Accounts.

According to the interviewees, policy making is a consultative process and although Provincial Governments are responsible for implementation, National Government should assist provinces. If the policies are impracticable, or when there is failure, both National and Provincial Government should be held accountable. This argument was supported by the findings of the questionnaire, where more than 83% of the respondents were also of the opinion that both National and Provincial Government should be blamed.

Question 13: There is ambiguity in the assignment of roles and responsibilities between national, provincial and local governments in the Northern Cape Province.

The aim of this question was to determine whether ambiguity exists in the assignment of roles and responsibilities between national, provincial and local governments in the Northern Cape. Table 5.12 depicts the responses to the question.

Table 5.12

There is ambiguity in the assignment of roles and responsibilities between national, provincial and local governments in the Northern Cape Province.		Position			Total
		CFO	HOD	SCOPA	
Strongly disagree	Count	0	2	0	2
	% within position	0.0%	28.6%	0.0%	10.5%
Disagree	Count	3	2	1	6
	% within position	37.5%	28.6%	25.0%	31.6%
Uncertain	Count	0	1	1	2
	% within position	0.0%	14.3%	25.0%	10.5%
Agree	Count	5	2	2	9
	% within position	62.5%	28.6%	50.0%	47.4%
Strongly agree	Count	0	0	0	0
	% within position	0.0%	0.0%	0.0%	0.0%
Total	Count	8	7	4	19
	% within position	100.0	100.0%	100.0%	100%

The majority of the respondents (47.4%) agreed that ambiguity does exist in the assignment of roles and responsibilities between national, provincial and local governments in the Northern Cape Province. According to Yilmaz, Beris and Serrano-Berthet (2010:279), clear assignment of roles and responsibilities is decisive in shaping accountability relationships, and there should be no room for ambiguity. If the contest over service-delivery responsibilities is not resolved, it can easily constrain the autonomy and accountability of sub-national governments.

Interviewees were of the opinion that, in some instances, ambiguity does exist regarding roles and responsibilities. Economic development was cited as an example in which every sphere of government wants to do a bit, and although a policy framework may exist, it is not clearly defined. Added to this is the public's perception as to who is responsible for what services, and who should be held accountable for what. This lack of clarity results for instance in a protest march against the Northern Cape Provincial Legislature when it is in fact a Mayoral or Local Government issue. This finding was in line with the questionnaire, where the majority (47.4%) of the respondents were of the opinion that there is ambiguity in the assignment of roles and responsibilities between the three spheres of government.

Question 14: The Provincial Government of the Northern Cape can be more responsive and accountable to its citizens if allowed to collect more own revenue by means of taxes or service fees.

This question was asked to determine whether the NCPG can be more responsive and accountable to its citizens if allowed to collect more own-revenue by means of taxes or service fees. Table 5.13 depicts the responses to the question.

Table 5.13

The Provincial Government of the Northern Cape can be more responsive and accountable to its citizens if allowed to collect more own revenue by means of taxes or service fees.		**Position**			**Total**
		CFO	**HOD**	**SCOPA**	
Strongly disagree	Count	0	1	0	1
	% within position	0.0%	14.3%	0.0%	5.3%
Disagree	Count	3	1	1	5
	% within position	37.5%	14.3%	25.0%	26.3%
Uncertain	Count	1	1	0	2
	% within position	12.5%	14.3%	0.0%	10.5%
Agree	Count	4	3	2	9
	% within position	50.0%	42.9%	50.0%	47.4%
Strongly agree	Count	0	1	1	2
	% within position	0.0%	14.3%	25.0%	10.5%
Total	Count	8	7	4	19
	% within position	100.0	100.0%	100.0%	100%

The majority of the respondents (47.4%) agreed, and 10.5% strongly agreed that the NCPG can be more responsive and accountable to its citizens if allowed to collect more own-revenue by means of taxes or service fees. Proponents of fiscal decentralization argue in this regard that, if sub-national governments are responsible for administering their own tax revenues, they will be held accountable by local populations who pay the taxes (Freinkman 2010:117-168). However, if the national government collects the revenue, the citizens will hold national government accountable and not sub-national governments.

The interviewees were of the opinion that, if allowed to collect more own–revenue, the NCPG can be more responsive and accountable to its citizens. It was mentioned that if citizens contribute their taxes directly to the provincial government, instead of to national government, they can hold Provincial Governments more accountable for not delivering a service. Citizens can for instance withhold taxes or service fees (rates boycott) by paying it into a separate account if the provincial government fails to deliver a specific service, or if the service does not meet a required standard. Doing so can result in better service delivery and improved customer satisfaction. This supports the findings of the questionnaire where almost 58% of the respondents were of the opinion that the NCPG can be more responsive if allowed to collect more own revenue.

Question 15: It is not possible for the public to link expenditure to revenue; in other words, to determine if the money for a specific service is coming from provincial own revenue, conditional grants or unconditional grants.

This question sought to understand whether it is possible for the public to link expenditure to revenue, and to determine whether money used to render a specific service is coming from provincial own-revenue, conditional grants or unconditional grants. Table 5.14 depicts the responses to the question**.**

Table 5.14

It is not possible for the public to link expenditure to revenue; in other words, to determine if the money for a specific service is coming from provincial own revenue, conditional grants or unconditional grants.		Position			Total
		CFO	HOD	SCOPA	
Strongly disagree	Count	0	0	0	0
	% within position	0.0%	0.0%	0.0%	0.0%
Disagree	Count	2	0	0	2
	% within position	25.0%	71.4%	0.0%	10.5%
Uncertain	Count	0	0	0	0
	% within position	0.0%	0.0%	0.0%	0.0%
Agree	Count	5	4	3	12
	% within position	62.5%	57.1%	75.0%	63.2%
Strongly agree	Count	1	3	1	5
	% within position	12.5%	42.8%	25.0%	26.3%
Total	Count	8	7	4	19
	% within position	100.0	100.0%	100.0%	100%

The majority of the respondents (63.2%) agreed, and 26.3% strongly agreed, that it is not possible for the public to link expenditure to revenue. The findings are significant in view of Kitchen's (2005:122) opinion that in the provision of sub-national public sector services, accountability is achieved when citizens or taxpayers are able to identify who is responsible for rendering the service, and can link the governing unit responsible for the service directly to its funding. It follows from the aforementioned that citizens (taxpayers) should be able to identify who delivers which functions, and from where the funding for the services will be recovered. It is not possible for citizens in the Northern Cape to determine where the funding for a service comes from, i.e. the form of revenue collected by the NCPG itself, the equitable share or conditional grants.

Interviewees were of the opinion that it is not possible for the public to link expenditure to revenue. The reporting framework for departments does not clearly distinguish between whether an output was produced through conditional grants, unconditional grants or own-revenue. One of the reasons mentioned by interviewees for this was that citizens are not really interested in the oversight function of the Standing Committee on Public Accounts and on its reports. This view supports the findings of the questionnaire, where 63% of the respondents agreed that it is not possible for the public to link expenditure to revenue.

Question 16: With regard to the 2013/14 year's budget, what percentage was spent by your department?

The aim of this question was to determine what percentage of the 2013/14 year's budget was spent by the different departments. At the time when the questionnaires were distributed, the final expenditure outcomes were not yet available, and the researcher therefore used the figures obtained from a presentation made by the Northern Cape Provincial Treasury to the Select Committee on Finance on the previous year's figures. Table 5.15 depicts the 2012/13 expenditure outcomes per department.

Table 5.15

Provincial Budget and Expenditure Summary							
R' 000	Adjusted Budget	Projected Outcomes	Actual as at end March 2013	Actual as percentage of Adjusted Budget	(Over)/ Under	% (Over)/ under Main Budget	% Share of total provincial expenditure
Department of the Premier	156 977	151 212	151 212	96.3%	5 765	3.7%	1.3%
Legislature	135 423	136 596	136 596	100.9%	(1 173)	-0.9%	1.2%
Transport, Safety and Liaison	291 040	281 487	281 487	96.7%	9 553	3.3%	2.5%
Education	4 292 760	4 232 277	4 232 277	98.6%	60 483	1.4%	37.7%
Roads and Works	1 057 490	1 017 325	1 017 325	96.2%	40 165	3.8%	9.1%
Economic Development	235 234	222 883	222 883	94.7%	12 351	5.3%	2.0%
Sport, Arts and Culture	236 689	219 344	219 344	92.7%	17 345	7.3%	2.0%
Provincial Treasury	180 653	151 527	151 527	83.9%	29 126	16.1%	1.3%
Cooperative Governance, Human Settlement and Traditional Affairs	594 511	581 939	581 939	97.9%	12 572	2.1%	5.2%
Health	3 247 233	3167 024	3 167 024	97.5%	80 209	2.5%	28.2%
Social Development	531 995	531 863	531 863	100.0%	132	0.0%	4.7%
Agriculture, Land Reform and Rural Development	732 517	439 325	439 325	60.0%	293 192	40.0%	3.9%
Environment and Nature Conservation	102 748	102 350	102 350	99.6%	398	0.4%	0.9%
Total	**11 795 270**	**11 235 152**	**11 235 152**	**95.3%**	**560 118**	**4.7%**	**100.0%**

Source: Northern Cape Provincial Treasury (2013:14)

From an analysis of the spending by departments on their budgets, it is evident that expenditure varies between a slight over expenditure of 0.9% by the Legislature to an under expenditure of 60% by the Department of Agriculture, Land Reform and Rural Development. One Department, namely the Department of Social Development, managed to spend 100% of its budget. According to the Northern Cape Provincial Treasury (2013:14), the Department of Agriculture Land Reform and Rural Development under-spent on the Comprehensive Agriculture Support Programme Grant by a total amount of R269.815 million. The majority of the under-expenditure is therefore conditional grant money linked to one programme.

Accountability implies that citizens should be able to hold sub-national governments responsible for the way in which grant funds are spent (Kitching 2007:498). The grantor must be accountable for the design and operation of the programme, whilst the recipient must be accountable to the grantor and its citizens for financial integrity and results, that is, improvements in service delivery performance (Shah 2007:15).

Question 17: The Standing Committee on Public Accounts (SCOPA) ascertains whether departments have delivered on spending priorities as set out in the budgets.

The researcher used this question to establish whether SCOPA ascertains if departments have delivered on spending priorities as set out in the budgets. Table 5.16 depicts the responses to the question.

Table 5:16

The Standing Committee on Public Accounts (SCOPA) ascertains whether departments have delivered on spending priorities as set out in the budgets.		Position			Total
		CFO	HOD	SCOPA	
Strongly disagree	Count	0	0	0	0
	% within position	0.0%	0.0%	0.0%	0.0%
Disagree	Count	0	0	0	0
	% within position	0.0%	0.0%	0.0%	0.0%
Uncertain	Count	0	0	0	0
	% within position	0.0%	0.0%	0.0%	0.0%
Agree	Count	6	5	2	13
	% within position	75.0%	71.4%	50.0%	68.4%
Strongly agree	Count	2	2	2	6
	% within position	25.0%	28.6%	25.0%	31.6%
Total	Count	8	7	4	19
	% within position	100.0	100.0%	100.0%	100%

An analysis of the responses received indicates that 68.4% of the respondents agreed, and 31.6% strongly agree (a combined total of 100%), that SCOPA ascertains whether departments have delivered on spending priorities as set out in the budgets. According to Durham and Verwey (2012:43), SCOPA is particularly focused on assessing whether a budget has been implemented as planned, and whether public funds have been spent in a manner which is efficient, effective and economic.

Participants interviewed were of the opinion that SCOPA does not do enough to ascertain whether departments have delivered on their spending priorities. The focus of the Standing Committee on Public Accounts is mainly on irregular and unauthorised expenditure and individual issues of fruitless and wasteful expenditure, instead of on delivery of services and spending priorities. There is a strong emphasis on clean audit reports, which result in a lack of focus on performance. The relationship of audit efforts should ideally be 70% on financial and 30% on performance. Due to the fact that financial aspects such as irregular and unauthorised expenditure are not on standard, the focus is less on performance and more on financial aspects. In addition, SCOPA exercises its oversight function on what the Auditor General and individual departments submit to it. If they do not have the information to ascertain whether departments have delivered on their spending priorities, they will not be able to determine it. The opinion of interviewees was in contrast to the opinion of respondents on the questionnaire, where all the respondents were of the opinion that SCOPA indeed ascertains whether departments delivered on their spending priorities.

Question 18: Grant money is used strictly according to the conditions set forth in the grant.

This question was asked to determine whether conditional grant money received by departments is used strictly according to the conditions outlined in the grant. Table 5.17 depicts the responses to the questions.

Table 5:17

Grant money is used strictly according to the conditions outlined in the grant		**Position**			**Total**
		CFO	**HOD**	**SCOPA**	
Strongly disagree	Count	0	0	0	0
	% within position	0.0%	0.0%	0.0%	0.0%
Disagree	Count	1	1	2	4
	% within position	12.5%	14.3%	50.0%	21.1%
Uncertain	Count	1	2	1	4
	% within position	12.5%	28.6%	25.0%	21.1%
Agree	Count	4	3	0	7
	% within position	50.0%	42.9%	0.0%	36.8%
Strongly agree	Count	2	1	1	4
	% within position	25.0%	14.3%	25.0%	21.1%
Total	Count	8	7	4	19
	% within position	100.0	100.0%	100.0%	100%

An analysis of the responses to this question indicates that the majority of the respondents (36.8%) agreed, and 21.1% strongly agreed, that conditional grant money is spent according to the conditions outlined in the grant. Conditional grants can be utilised to aid the implementation of specific national priorities and policies related to socioeconomic services provided by sub-national governments (Amusa and Mathane 2007:281). National Government therefore prefer earmarked allocations for their priority policy programmes, taking away autonomy and discretion from the provinces, and thus reducing their sense of ownership of the programme and accountability.

Interviewees were of the opinion that grant money is used according to the conditions outlined in the grant. The annual Division of Revenue Act (DORA) makes provision for the grant to be stopped if a department under-spends, or if it does not comply with the Act. This forms part of the national department's oversight role of the provinces. National departments are administrators of the grants and provincial departments are implementers of grants. This finding supports the opinion of 57% of the respondents in the questionnaire, who held that grant money is spent according to the conditions outlined in the grant.

Question 19: Does your department have an internal audit unit in place?

The aim of this question was to determine whether departments of the NCPG do have internal audit units in place. Table 5.18 depicts the responses to the question.

Table 5.18

Does your department have an internal audit unit in place?		Position			Total
		CFO	HOD	SCOPA	
No	Count	1	2	1	4
	% within position	12.5%	28.6%	25.0%	21.1%
Yes	Count	7	5	3	15
	% within position	87.5%	71.4%	75.0%	78.9%
Total	Count	8	7	4	19
	% within position	100.0	100.0%	100.0%	100%

The majority of the respondents (78.9%) indicated that their departments do have an internal audit unit in place. However, 21.1% of the respondents were of the opinion that there is not an internal audit unit in place. According to Fjeldstad

(2001:11), the presence of a fully functional internal audit unit is crucial to ensure the effectiveness of the grant system, and to enhance accountability in as far as conditional grants are concerned.

According to the interviewees, there are internal audit units in place, however they may not always be risk-based. The internal audit units focus mainly on financial issues, and do not identify the strategic and performance risks of the departments. Strategic risks include issues such as the availability of adequate funds, spending of the budget in terms of economy, efficiency and effectiveness, as well as the mandate of the department, and the internal and external factors that impact on service delivery of the department. In addition to this, the audit committees are not strong enough to drive a risk-based performance internal audit function. There is a further lack of capacity, specifically as far as experience is concerned, resulting in a situation where the Auditor General, as external auditor, cannot rely on the internal audit function.

Question 20: There is a proper reporting system in place in the department.

The researcher used this question to establish whether there is a proper reporting system in place in the department. Table 5.19 depicts the responses to the question.

Table 5.19

There is a proper reporting system in place in the department.		Position			Total
		CFO	HOD	SCOPA	
Strongly disagree	Count	0	0	0	0
	% within position	0.0%	0.0%	0.0%	0.0%
Disagree	Count	1	0	3	4
	% within position	12.5%	0.0%	75.0%	21.1%
Uncertain	Count	0	0	0	0
	% within position	0.0%	0.0%	0.0%	0.0%
Agree	Count	7	4	1	12
	% within position	87.5%	57.1%	25.0%	63.2%
Strongly agree	Count	0	3	0	3
	% within position	0.0%	42.9%	0.0%	15.8%
Total	Count	8	7	4	19
	% within position	100.0	100.0%	100.0%	100%

The majority of the respondents (63.2%) agreed, while 15.8% strongly agreed, that their departments do have a reporting system in place. Regarding accountability, Fjeldstad (2001:11) states that grants in many developing countries often suffer from several weaknesses such as poor reporting systems. This makes it difficult to ensure accountability as far as grant money is concerned.

According to information obtained through the interviews, there is a reporting system in place which is prescribed by the National Treasury. This is in line with the requirements of the Public Finance Management Act, 1991. However, interviewees indicated that departments do not always report on their performance, and that reports are not always accurate. The quality of some of the performance reports therefore lack reliability and usefulness.

Question 21: Is there compliance with established financial legislation and prescripts?

This question was asked to determine whether there is compliance with established financial legislation and prescripts. Table 5.20 depicts the responses to the question.

Table 5:20

Is there compliance with established financial legislation and prescripts?		Position			Total
		CFO	HOD	SCOPA	
Strongly disagree	Count	0	0	1	1
	% within position	0.0%	0.0%	25.0%	5.3%
Disagree	Count	1	0	2	3
	% within position	12.5%	0.0%	50.0%	15.8%
Uncertain	Count	1	0	0	1
	% within position	12.5%	0.0%	0.0%	5.3%
Agree	Count	6	5	1	12
	% within position	50.0%	71.4%	25.0%	63.2%
Strongly agree	Count	0	2	0	2
	% within position	0.0%	28.6%	0.0%	10.5%
Total	Count	8	7	4	19
	% within position	100.0	100.0%	100.0%	100%

From an analysis of the responses it is evident that the majority of the respondents were of the opinion that there is compliance with established financial legislation and prescripts. A combined total of 73.7% agreed or strongly agreed with the statement, whilst only 21.1% disagreed or strongly disagreed with it. According to Fjeldstad (2001:11), compliance with established financial legislation and prescripts is crucial in order to ensure accountability.

Interviewees had different opinions on the extent to which the NCPG complies with financial legislation and prescripts. Responses differed from a confirmation that there is compliance, to that of major non-compliance. The non-compliance is confirmed by the General Report on the Provincial Audit Outcomes of the Northern Cape 2012-13 (Auditor General 2014:11), which states that most departments and entities are not complying with the legislation applicable to them. This is evident at 18 auditees (95%) where compliance findings were reported (Auditor General 2014:11).

Question 22: A conditional grant takes independence and discretion away from a provincial government and thus reduces its sense of ownership of the programme and accountability?

This question sought to understand whether a conditional grant takes independence and discretion away from a provincial government, and thus reduces its sense of ownership of the programme and accountability. Table 5.21 depicts the responses to the question.

Table 5.21

A conditional grant takes independence and discretion away from a provincial government and thus reduces its sense of ownership of the programme and accountability		Position			Total
		CFO	HOD	SCOPA	
Strongly disagree	Count	0	2	0	2
	% within position	0.0%	28.6%	0.0%	10.5%
Disagree	Count	1	2	0	3
	% within position	12.5%	28.6%	0.0%	15.8%
Uncertain	Count	0	1	0	1
	% within position	0.0%	14.3%	0.0%	5.3%
Agree	Count	4	1	3	8
	% within position	50.0%	14.3%	75.0%	42.1%
Strongly agree	Count	3	1	1	5
	% within position	37.5%	14.3%	25.0%	26.3%
Total	Count	8	7	4	19
	% within position	100.0	100.0%	100.0%	100%

The majority of the respondents (a combined total of 68,4%) agreed or strongly agreed that a conditional grant takes independence and discretion away from a provincial government, and thus reduces its sense of ownership of the programme and accountability. Manuel (2007:6) argues that a provincial legislature may appropriate its share of the equitable share differently, not necessarily in line with national priorities. National Government therefore prefers earmarked allocations for their priority policy programmes, taking away autonomy and discretion from the provinces, and thus reducing their sense of ownership of the programme and accountability.

Interviewees were of the opinion that conditional grants do not really reduce the sense of ownership and accountability of a Provincial Government. Grants originate from a specific need that was identified, and can only be spent on this need. It is sometimes necessary to ring-fence money for a specific purpose in order to ensure that a specific service is delivered. Provincial governments take full responsibility, and are held accountable for the grant, knowing that the national government can take the grant away if the provincial government does not adhere to the requirements of the DORA. The Division of Revenue Act (DORA) prescribes the responsibilities of the receiving officer, which is the Accounting Officer of a provincial department, and requires that they submit a business plan and report on a monthly and quarterly basis regarding the grant.

In addition to the above 13 questions on accountability, interviewees were asked a follow-up question:

Question 23: What do you think are the major factors impeding the accountability of the Northern Cape Provincial Government?

According to the interviewees, the following are the major factors that impede the accountability of the NCPG.

I. There is not clear communication to the citizens on the deliverables in terms of specific outcomes of the province in order for the citizens to know exactly what it is the NCPG will deliver.
II. Performance reporting by provincial departments to the Standing Committee on Public Accounts (SCOPA) lacks reliability and usefulness and is not done on a regular basis (monthly or quarterly).
III. SCOPA does not have the capacity to do its own research and therefore relies solely on the Auditor General or departments to submit information.
IV. More prominence should be given to Departmental Audit Committees and the advice they provide.

5. 6 RESEARCH FINDINGS

The following paragraphs will present a brief outline of what has been established through the research, and can be described as the research findings. The research findings are based on what the data patterns indicated in the analysis above. The findings will be brief, as synopses of what has been established from the data patterns were given during the data analysis, and this provided the findings as per an analysed item. Therefore, the findings will be based on the selected pertinent subject matter of this thesis, namely to determine the impact of a vertical fiscal imbalance in the Northern Cape Provincial Government on responsiveness and accountability.

5.6.1. Findings pertaining to responsiveness

It was established that citizens of the Northern Cape Province have unique needs that differ from needs of citizens in other provinces. The difference in needs is attributed to the fact that the Northern Cape is the least populated province in South Africa. In terms of the demography, it is the province with the largest geographical area (30%), and the smallest population size (2.12%). The vastness and rural character of the province makes it logistically complicated to deliver services to all the citizens. This has an impact on infrastructure such as roads, clinics and schools as well as the human resource capacity to deliver high quality services. The NCPG is also not in a position to benefit from economies of scale, as it must provide services to rural areas with a low population density and small settlements. However, the Northern Cape Provincial Government is better equipped to understand the needs and complexities of its citizens, and can therefore be more responsive than national government.

The research determines that conditions attached to financial transfers limit the NCPG's capacity to spend grant money, and therefore to respond to the unique needs of its citizens, as it is a challenge to attract the necessary skills in the rural areas. It was determined that the national government does influence the budget of the NCPG, and that unfunded mandates imposed by national government affect service delivery and the responsiveness of the NCPG. A large portion (25.5%) of the budget of the NCPG is made up of conditional grants, and is a way for national government to prescribe specific expenditure. However, conditional grants reduce the NCPG's autonomy to decide on its own budget priorities. Due to limited financial resources, there are needs to which the NCPG cannot respond, and if the NCPG had a bigger revenue base there are other priorities it would have responded to. These findings support the hypothesis that the vertical fiscal imbalance undermines the responsiveness of the provincial governments.

5.6.1 Findings pertaining to accountability

The research established that a form of ambiguity exists in the assignment of roles and responsibilities between the three spheres of government. It is also not possible to link expenditure to revenue, and citizens or taxpayers can therefore not link the governing unit responsible for a service directly to its funding. This impacts on accountability, as citizens pay the bulk of their taxes to National Government although the NCPG would deliver the services in the province. Citizens are more inclined to hold the government to which they pay their taxes accountable. If allowed to collect more own-revenue, the citizens can hold the NCPG more accountable by, for instance, withholding their taxes in instances where there is no service delivery or sub-standard service.

Although respondents to the questionnaire confirmed that SCOPA ascertains whether departments have delivered on their spending priorities, as set out in the budgets, interviewees are of the opinion that SCOPA can do more to ensure accountability by focusing more on the performance of departments. These findings support the hypothesis that the vertical fiscal imbalance undermines the accountability of the provincial governments.

It was further established that Internal Audit Units are in place, but are not always risk based, and focus more on financial issues instead of on the strategic and performance risks of the department. Although departments do have a proper reporting system in place, as prescribed by the National Treasury, performance reports lack reliability and usefulness. There is also not proper compliance with financial legislation and prescripts, which is supported by the findings of the Auditor General. This supports the hypothesis that existing measures to promote responsiveness and accountability are not applied effectively, economically and efficiently.

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5.7 CONCLUSION

This chapter presented the outcomes of the empirical research regarding the vertical fiscal imbalance and its impact on the responsiveness and accountability of the NCPG. The research was conducted by means of self-administered questionnaires and in-depth interviews with selected respondents and interviewees.

The Northern Cape Provincial Government is financially dependent on the National Government to render goods and services to its citizens. As little as 3% of the total revenue budget needed by the NCPG is collected from its own revenue sources. The remaining 97% is transfer payments from the National Government in the form of unconditional- (equitable share) and conditional grants.

The main outcomes of the study indicate that the existence of a vertical fiscal imbalance in South Africa’s intergovernmental fiscal relations undermines both the responsiveness and accountability of the NCPG. Financial transfers reduce the budgetary autonomy and independency of the NCPG, and therefore affect service delivery. It was also established that existing measures to promote responsiveness and accountability, such as the Standing Committee on Public Accounts, the reporting systems, and internal audit units, are not applied effectively, economically and efficiently.

CHAPTER 6

RECOMMENDATIONS AND CONCLUSION

6.1 INTRODUCTION

This chapter of the thesis provides the conclusion to the study as it emanates from the literature that has been reviewed, as well as the empirical research that has been conducted. In addition to the conclusion, the chapter also proposes a set of recommendations that are based on the findings of the study, and if implemented may enhance the responsiveness and accountability of provincial governments.

6.2 GENERAL CONCLUSION

The aim of the study as discussed in Chapter one was to analyse and assess the impact of the vertical fiscal imbalance, brought about by South Africa's unique intergovernmental fiscal relations, on the accountability and responsiveness of provincial governments. This was because provincial governments, as sub-national governments, are responsible for delivering important services such as education, health, and provincial roads, but do not have the revenue raising capacity to fund these services. Provincial governments rely on national government for financial transfers to render these services, and collect as little as 3% from own-revenue sources.

The hypothesis of the study was that the vertical fiscal imbalance that exists in South Africa undermines both the responsiveness and accountability of the provincial governments. It was further hypothesized that existing measures to promote responsiveness and accountability are not applied effectively, economically and efficiently. In terms of the problem statement, there was initial evidence that the existence of a vertical fiscal imbalance has two major implications namely, a potential loss of responsiveness and a potential loss of accountability. It was envisaged that the results of the study would provide a basis for making recommendations that will enhance the responsiveness and accountability of provincial governments in South Africa.

In order to meet the requirements of the aim and hypothesis, the following objectives were stated for the study:

- To analyse the concept of intergovernmental fiscal relations and its underlying theories.
- To establish the relationship in theory and in practice between intergovernmental fiscal relations and accountability and responsiveness.
- To assess the impact of the vertical fiscal imbalance on responsiveness and accountability.
- To find solutions and make recommendations that will enhance the responsiveness and accountability of provincial governments towards their citizens.

To fulfil the above objectives, an extensive literature study was conducted in order to provide a theoretical background and foundation for the study. The literature study was followed by empirical research consisting of self-administered questionnaires distributed to subjects, and selected interviews.

In accordance with the first objective of the study, it was established that in any country where more than one tier of government exists, finances and the assignment of functions to the different levels of government are a key issue of the intergovernmental relations of that country. Intergovernmental fiscal relations generally reflect three common features of a multi-tiered government such as South Africa, namely decentralization of functions, financial transfers from the national government to sub-national governments that are conditional in nature, and thirdly the equalizing nature of financial transfers. Other elements of an intergovernmental fiscal relations system are tax harmonization measures, cooperative agreements among governments, and measures such as mandates or directives, through which the national government induces lower-level governments to incorporate elements of national importance into the design of their programmes. Through an analysis of different definitions provided by various authors on the subject, the researcher formulated the following working definition for intergovernmental fiscal relations. Intergovernmental fiscal relations refers to the systematic structuring of public finances in a state with more than one level of government, where revenue, expenditure and regulatory powers are allocated to sub-national governments, and nationally raised revenue is shared among the different levels of government by means of intergovernmental transfers.

An important feature of the intergovernmental fiscal relations of a country is the existence of a vertical fiscal imbalance (VFI). A VFI is a situation that exists when national government has an excess supply of revenue, while sub-national governments, such as provinces and local governments, have an excess supply of expenditure needs. The reason for this is that countries in general assign more expenditure functions to sub-national governments than can be financed from the revenue sources allocated to those governments. The result of this mismatching of functions and finances is that sub-national governments are generally dependent upon transfers from the higher levels of government.

With regard to the second objective, the results of the study confirmed that there is a relationship between intergovernmental fiscal relations on the one hand, and responsiveness and accountability on the other. It was established that provincial governments can assess and respond better to the unique needs of its citizens, at a reasonable cost. However, provincial governments cannot collect enough own–revenue, which makes them dependent on national transfers to deliver goods and services. In countries where there are large VFIs, responsiveness can be undermined if the national government uses its fiscal supremacy to enact decisions that fail to take into account possible effects on provincial budgets, and consequently, the effects on social spending programmes. The fact that sub-national governments are dependent on national transfers makes them responsive to moral suasion by the national government.

South Africa's intergovernmental fiscal relations system is premised on certain key principles, of which accountability and autonomy are the first. Each sphere of government has specific constitutionally defined responsibilities, and is accountable to its own legislature or council. A corollary of South Africa's intergovernmental fiscal relations is that it is not always possible for taxpayers to identify who delivers which functions, and from where the funding for the services will be recovered. Accountability requires citizens (taxpayers) to be able to identify who is responsible for rendering a service, and to be able to link the governing unit responsible for the service directly to its funding.

The challenge with the current intergovernmental fiscal arrangements in South Africa relates to the fact that the majority of revenue is collected nationally, and redistributed to sub-national governments, to fund both their exclusive and concurrent functions. Accountability requires the sphere of government that has a mandate to deliver services to have the power to raise funding, so it can be held accountable to the local electorate.

As to the third objective, the results also confirmed the hypothesis that a large VFI undermines the responsiveness and accountability of the NCPG. South Africa's VFI in respect of the provinces is unprecedentedly high, and less than 3% of the provinces' budgets are made up of own-revenue. The NCPG transfers from national government amount to more than 97%, of which 72% is made up of the equitable share transfer, and 25.56% conditional grants. This makes the NCPG almost totally dependent on the national government to fund its expenditure, and reduces the flexibility and autonomy of the NCPG in deciding on its own budget priorities. It was further established that existing measures such as internal audit units, reporting systems, and the oversight function of the Standing Committee on Public Accounts are not in all instances applied effectively, economically and efficiently.

Given these findings, it seemed reasonable to conclude that the big vertical fiscal imbalance brought about by South Africa’s unique intergovernmental fiscal relations has a negative impact on the responsiveness and accountability of provincial governments. When sub-national governments lack independent sources of revenue, they can never truly enjoy fiscal autonomy, but are under the financial control of the national government. However, the fact that a large portion of the fiscal transfers to provinces is made up of the equitable share portion (unconditional grants) means that national government impinges less on the autonomy of sub-national governments than would be the case, if total transfers were in the form of conditional grants.

6.3 RECOMMENDATIONS

Regardless of the political or constitutional nature of a country, sub-national governments are almost never financially self-sufficient. Their revenue-raising responsibilities fall short of their expenditure responsibilities, forcing them to rely on financial transfers from the national government. South Africa’s unique intergovernmental fiscal relations system results in a large vertical fiscal imbalance characterised by transfers from national government to provincial governments, in the form of equitable share transfers and conditional grants. However, provincial governments’ dependency on funding from national government, to enable them to deliver services, impacts on the responsiveness and accountability of provincial governments.

In view of the above, the researcher wishes to make some recommendations, which, if taken into consideration, might enhance the responsiveness and accountability of provincial governments.

6.3.1 Value for money through the provision of cost effective services

The size of the province and low population density make the task of ensuring equitable access to services complex and costly, and service delivery may seem less efficient than in other provinces where economies of scale are more possible. In order to provide more cost effective services, there needs to be high-quality communication and exceptional coordination of services between departments as well as between provincial and local governments. It is further important that the NCPG attempts to achieve more value for money by focusing on the following areas:

- Working in partnership towards the delivery of services with other service providers such as local governments and non-governmental organizations.
- Making more effective use of information technology in the management (for instance planning and monitoring) of government activities.
- Focusing on the improvement, and upgrading, of existing assets rather than building new infrastructure wherever possible.
- Benchmarking with other comparable authorities in an attempt to reduce excessive costs and improve poor performance.
- Making more and better use of existing assets.

6.3.2 Integrating strategic planning between spheres of government

Efficient and effective planning in the Northern Cape needs to focus on achieving shared priorities of the three spheres of government. It is therefore important that the strategic plans of the different spheres of government be aligned with each other, and that synergy exists in the strategic planning process. The Northern Cape Provincial Government has to ensure that in their planning processes, national priorities cascade down into provincial strategic plans, and that the Provincial Growth and Development Strategy (PGDS) also accommodates local government priorities as articulated in Municipal Integrated Development Plans (IDPs). In order for this to materialise, it is necessary for the NCPG to engage municipalities on the content of the latter's IDPs, and to demonstrate links between the PGDS and IDPs where appropriate. It needs to be explicitly required by legislation or by a Provincial Treasury Instruction that Provincial Growth and Development Strategies have to take IDPs into account.

6.3.3 Improvement of performance management

Due to the fact that incidences of irregular, unauthorised, fruitless and wasteful expenditure are still high in the NCPG, the focus of the audit process and SCOPA is on regularity of financial transactions with less emphasis on performance. The focus of the NCPG and SCOPA needs to shift from clean audit reports to performance management by measuring outcomes achieved through outputs. In order to ensure value for money, it is important that specific outputs and outcomes be determined by departments, communicated to the public, and that achievements be measured and reported upon. This will also ensure more involvement from citizens if they know beforehand what outputs and outcomes departments envisage to deliver in the forthcoming financial period.

6.3.4 Budget structuring

Unfunded mandates cause additional expenditure for which provision has not been made in the approved provincial budget. Examples of unfunded mandates are those relating to occupation specific dispensation (OSD), as well as other top down directives from national departments. An unfunded mandate implies that a provincial government does not receive adequate revenue from the national government to match the supplementary expenditure brought about by the new directive, subsequently creating undue pressures on the budget of the Provincial Government. The NCPG needs to determine the impact of national policy decisions (e.g. OSD) on their budget, and must agree with the national government on the funding of these policies, prior to acceptance and implementation thereof.

6.3.5 Strengthening the internal audit function

It is the duty of the internal audit unit to provide independent assurance that an institution's risk management, governance and internal control processes are operating effectively. In order to do so, internal audit units need to be risk based, and must focus on the identification of the strategic and performance risks of departments. Strategic risks include issues such as the availability of adequate funds, spending of the budget in terms of economy, efficiency and effectiveness, the mandate of the department, and the internal and external factors that impact on service delivery of the department. In addition to this, the Audit Committees have to drive a risk based performance internal audit function. Lack of capacity, specifically as far as experience is concerned, will result in a situation where the Auditor General, as external auditor, cannot rely on the internal audit function. It is therefore crucial that the internal audit unit be strengthened and the NCPG have fully fledged internal audit units in place.

6.3.6 Strengthening the oversight function of the Standing Committee for Public Accounts (SCOPA)

Oversight and accountability are exercised by the Standing Committee on Public Accounts (SCOPA) on behalf of the Legislature. In order to improve accountability it is important that SCOPA strengthens its oversight function by being allowed to report without fear or favour. However, the manner in which SCOPA functions makes it reactive rather than proactive. In order to improve on this, SCOPA can agree on delivery outputs with Accounting Officers prior to the beginning of the financial year, which are then reported on by Accounting Officers on a quarterly basis. SCOPA can then monitor these quarterly reports and make recommendations within the financial year when changes, if needed, can still be effected. SCOPA further needs to have an independent mechanism to collect information independently and to determine the opinion of citizens with respect to service delivery within its structures. SCOPA can then determine first-hand how satisfied users are with public services.

SCOPA also needs to ensure that resolutions taken are clear as to what Accounting Officers and their departments need to do, and whether progress on the relevant resolutions must be reported back to the legislature, and if so, when and how often. Mechanisms also need to be put in place to ensure and monitor the responses of Accounting Officers to resolutions taken by SCOPA. In instances where there is not sufficient progress, Accounting Officers can be summoned to provide explanations to SCOPA on the failure of their departments. For this purpose, a system for tracking and monitoring responses to legislature resolutions should be established, with records kept of when matters were responded to by the relevant executive authority. Quarterly reports of responses by the executive should be made available to the legislature, so that the information can be fed into the tracking and monitoring mechanism recommended above. This will also allow the Speaker to make informed decisions to invoke his power to summon the members of the executive to the legislature, if so required.

SCOPA further needs to ensure that:

- Its activities become more proactive rather than reactive to documents received from departments.
- It reconciles departmental expenditures with policy priorities, and focuses on the achievement of actual policy priorities.

- It tracks the performance in the different programme areas over a period of time.
- Regular follow-ups on recommendations or performance are done as part of a dedicated strategy to improve performance in such areas.

6.3.7 Increase the skills base in the province

A lack of skills is one of the major aspects that impact on the responsiveness of the Northern Cape Provincial Government. Due to the vastness of the province, and the remote, isolated places where government services need to be rendered, it is often difficult to attract and retain personnel with the required skills at all places. Students who graduate at institutions for higher education and originate from the Northern Cape, also leave the province after graduation, and seldom return to offer their skills to the province. This has led to a shortage of skills and expertise in crucial areas of competence. Without the necessary skilled personnel it is difficult for the NCPG to respond to the needs of its citizens. In order to attract and retain personnel in the more remote areas, consideration should be given to provide fringe benefits such as accommodation and transport. It will also assist to train new entrees in the government, and to retrain existing ones in order to provide for changing conditions. For this purpose, the budget of the NCPG must make provision for the necessary funds to train personnel. Consideration should be given to centralise this item on the budget of the Department of the Premier, where it can be managed centrally.

6.3.8 Growing the economy of the Northern Cape and alleviation of poverty

One of the objectives of government is to eliminate poverty. Provincial Governments have to be responsive to the alleviation of poverty by implementing different programmes and projects that aim to alleviate poverty. One of the strategies employed by governments is through the provision of different types of social grants such as the Child Support Grant, Disability Grant and Grant for Older Persons. The high unemployment rate in the Northern Cape that is mainly due to a decline in the economy, gives rise to high levels of poverty, and many citizens depend on grants to sustain themselves. However, people cannot be fully dependent on grants alone, and need to be put in jobs where they can provide for themselves and their families.

Job creation is dependent on economic growth, and one of the serious challenges facing the NCPG is that of growing the economy of the province. The Northern Cape is rich in natural resources, with the potential for economic growth such as irrigation from the Orange River, minerals and tourism. Economic growth is imperative if the unemployment rate is to be reduced. More investment in the economy of the Northern Cape can lead to job creation. It is therefore recommended that research projects should be enhanced regarding how to attract investments and enrich farming. Trade links should also be established with other countries to create opportunities for the marketing of products.

6.3.9 Separation of politics from administration

The management of contemporary public institutions, such as government departments and public institutions, necessitates highly skilled professional career civil servants who have received extensive training at institutions for higher education. Examples of these include medical practitioners, educators and engineers who manage service delivery departments such as Health, Education and Public Works. Political heads of departments have to meet other criteria, and therefore may not have the same expert knowledge which is required of their officials. It is therefore important that the specific roles and responsibilities of the Head of the Department, vis-ã-vis that of the Political Head (Minister or member of the Executive Council), be made very clear. Political office bearers can play a meaningful role by ensuring that the mandate of the citizens is executed through the planning and budgeting process, and by not interfering in the macro management or day-to-day operations of the department.

6.3.10 Compliance to prescripts

In order to enhance accountability, it is essential that departments comply with prescripts such as the Public Finance Management Act, 1999 (1 of 1999) and the Preferential Procurement Policy Framework Act, 2000 (5 of 2000). Non-compliance to prescripts leads to irregular expenditure, which is an indication of a department's ability to comply with legislation related to expenditure and procurement management. It is recommended that the political leadership (MEC) of a department in the province see to it that the necessary action, including punishment, is taken against responsible officials. Impunity is a contributing factor to irregular expenditure experienced.

6.3.11 Alternative Service Delivery Models

Issues such as the geographical realities facing the NCPG, and the importance attached to service delivery, call for the Northern Cape Provincial Government to move away from the conventional approaches to public service delivery, and to seek alternative ways of delivering services to the public. An example of such an approach is the provision of certain services such as health clinics and libraries by means of a mobile service, such as mobile clinics and mobile libraries. Another option that can be considered is that of electronic service delivery. The information technology revolution is affecting the manner in which government responds to the needs of the public, and has opened new service delivery possibilities mainly by making use of technology such as the internet. An example of such a service is where an x-ray image is sent via the internet from a rural area to a health specialist, such as a radiologist or other medical specialist in a city, for evaluation towards advice on possible treatment. This can increase the speed of service delivery, reduce costs, save lives and promote the overall effectiveness and efficiency of service delivery.

6.4 CONCLUSION

This study has attempted to contribute to the management of provincial governments by considering key questions in relation to responsiveness and accountability in a situation where there is a vertical fiscal imbalance. It is trusted that the consulted literature, as well as the findings of the empirical part of the study, will provide a basis that can contribute to the improved management of provincial governments in South Africa. It is important that provincial governments continuously improve in order to stay responsive to the needs of their citizens, and accountable to their electorate.

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APPENDIX A

QUESTIONNAIRE FOR Ph.D. THESIS: INTERGOVERNMENTAL FISCAL RELATIONS: THE PARADOX BETWEEN THE VERTICAL FISCAL IMBALANCE AND RESPONSIVENESS AND ACCOUNTABILITY IN THE NORTHERN CAPE PROVINCIAL GOVERNMENT

Purpose

This questionnaire seeks to elicit information on the impact of a vertical fiscal imbalance in the Northern Cape Provincial Government on responsiveness and accountability. It forms part of the data-collection processes required for the completion of the researcher's Ph.D thesis.

Instructions to respondents

You are kindly requested to complete this questionnaire as accurately and honestly as possible.

Responses will be treated with utmost confidentiality, anonymity and will not prejudice anyone. Your assistance and cooperation will be highly appreciated. Completing this questionnaire will take approximately between 25-30 minutes of your time.

Please put words in provided space, or use (√) in the appropriate answer box.

RESPONSIVENESS QUESTIONS

To what extend do you agree with the following statements.

1. Citizens of the Northern Cape Province do have unique needs that differ from the needs of citizens in other provinces.

Strongly agree		Agree		Uncertain		Disagree		Strongly disagree	

2. The Provincial Government of the Northern Cape is closer to the people of the province and could respond better to the needs of its citizens than National Government

Strongly agree		Agree		Uncertain		Disagree		Strongly disagree	

3. Conditions attached to financial transfers received from the National Government limit the Northern Cape Provincial Government's capacity to respond to the unique needs of its citizens.

Strongly agree		Agree		Uncertain		Disagree		Strongly disagree	

4. The Provincial Government of the Northern Cape is more responsive to demands made by National Government than to the needs of its own electorate.

Strongly agree		Agree		Uncertain		Disagree		Strongly disagree	

5. Unfunded mandates imposed by National Government affect the budget of your department and consequently service delivery.

Strongly agree		Agree		Uncertain		Disagree		Strongly disagree	

6. National Government unduly influences the budget of your department.

Strongly agree		Agree		Uncertain		Disagree		Strongly disagree	

7. Due to limited financial resources there are needs to which the Provincial Government of the Northern Cape cannot respond.

Strongly agree		Agree		Uncertain		Disagree		Strongly disagree	

8. If the Northern Cape Provincial Government had a bigger revenue base, its priorities would differ from the *status quo*.

Strongly agree		Agree		Uncertain		Disagree		Strongly disagree	

ACCOUNTABILITY QUESTIONS

9. Accountability is a cornerstone of democracy and accounting officers must account for all expenses. Are accounting officers also held accountable for the collection of revenue?

Yes	No

10. Expenditure (money spent) is accounted for in terms of authorised uses only and not in terms of results and outcomes.

Strongly agree		Agree		Uncertain		Disagree		Strongly disagree	

11. It is the responsibility of national government to make policies, determine programmes, and set national norms and standards, whilst it is left to provincial governments to implement policies and programmes according to national norms and standards. If the implementation of a particular policy or programme fails, who is to blame? (Select the most appropriate choice from the list provided):

a) National Government for setting a poor policy or programme

b) The Provincial Government for not successfully implementing the policy or programme

c) Both National and Provincial Government ☐

12. There is ambiguity in the assignment of roles and responsibilities between national, provincial and local governments in the Northern Cape Province.

Strongly agree		Agree		Uncertain		Disagree		Strongly disagree	

13. The Provincial Government of the Northern Cape can be more responsive and accountable to its citizens if allowed to collect more own revenue by means of taxes or service fees.

Strongly agree		Agree		Uncertain		Disagree		Strongly disagree	

14. It is not possible for the public to link expenditure to revenue; in other words, to determine if the money for a specific service is coming from provincial own revenue, conditional grants or unconditional grants.

Strongly agree		Agree		Uncertain		Disagree		Strongly disagree	

15. With regard to the 2013/14 year's budget, what percentage was spent by your department? (CFO) only…………%

16. The Standing Committee on Public Accounts (SCOPA) ascertains whether departments have delivered on spending priorities as is set out in the budgets.

Strongly agree		Agree		Uncertain		Disagree		Strongly disagree	

17. Grant money is used strictly according to the conditions set forth in the grant.

Strongly agree		Agree		Uncertain		Disagree		Strongly disagree	

18. Does your department have an internal audit unit in place?

Yes	No

19. There is a proper reporting system in place in the department.

Strongly agree		Agree		Uncertain		Disagree		Strongly disagree	

20. There is compliance with established financial legislation and prescripts?

Strongly agree		Agree		Uncertain		Disagree		Strongly disagree	

21. A conditional grant takes independence and discretion away from a provincial government and thus reduces its sense of ownership of the programme and accountability.

Strongly agree		Agree		Uncertain		Disagree		Strongly disagree	

APPENDIX B

INTERVIEW FOR Ph.D. THESIS: INTERGOVERNMENTAL FISCAL RELATIONS: THE PARADOX BETWEEN THE VERTICAL FISCAL IMBALANCE AND RESPONSIVENESS AND ACCOUNTABILITY IN THE NORTHERN CAPE PROVINCIAL GOVERNMENT

Purpose

This interview seeks to elicit information on the impact of a vertical fiscal imbalance in the Northern Cape Provincial Government on responsiveness and accountability. It forms part of the data-collection processes required for the completion of the researcher's Ph.D thesis.

Instructions to respondents (interviewee)

You are kindly requested to participate in this face to face interview and to respond to questions as accurately and honestly as possible.

Information obtained from the interview will be treated with utmost confidentiality, anonymity and will not prejudice anyone. Your assistance and cooperation will be highly appreciated.

[redacted]

RESPONSIVENESS QUESTIONS

1. Do you think that the citizens of the Northern Cape Province do have unique needs that differ from the needs of citizens in other provinces?

2. According to you can the Provincial Government of the Northern Cape (NCPG) respond better to the needs of its citizens than National Government?

3. Do you think that conditions attached to financial transfers received from the National Government limit the NCPG's capacity to respond to the unique needs of its citizens?

4. Is the NCPG more responsive to demands made by National Government than to the needs of its own electorate?

5. Do you think that unfunded mandates imposed by National Government affect the budget of the NCPG and consequently service delivery?

6. Do you think that National Government unduly influences the budget of the NCPG?

7. Do you believe that due to limited financial resources there are needs to which the NCPG cannot respond?

8. If the NCPG had a bigger revenue base, do you think its priorities would differ from the *status quo*?

9. What do you think are the major factors impeding on the responsiveness of the Northern Cape Provincial Government?

10. To your opinion what can be done to make the NCPG more responsive to the needs of its citizens.

ACCOUNTABILITY QUESTIONS

11. Are accounting officers in the NCPG also held accountable for the collection of revenue?

12. Do you think expenditure (money spend) is accounted for in terms of probity only – i.e. authorised uses – and not in terms of results and outcomes?

13. Who do you think is to blame if the implementation of a particular policy or programme fails, National Government, Provincial Government or both National and Provincial Government?

14. Do you think there exists ambiguity in the assignment of roles and responsibilities between national, provincial and local governments in the Northern Cape Province?

15. Can the Provincial Government of the Northern Cape be more responsive and accountable to its citizens if allowed to collect more own revenue by means of taxes or service fees?

16. Do you think that it is possible for the public to link expenditure to revenue; in other words, to determine if the money for a specific service is coming from provincial own revenue, conditional grants or unconditional grants?

17. Do you think that The Standing Committee on Public Accounts (SCOPA) ascertains whether departments have delivered on spending priorities as is set out in the budgets?

18. Do you think Grant money is used strictly according to the conditions set forth in the grant?.

19. Are of you of the opinion that there are internal audit units in place?

20. Do you think that there is a proper reporting system in place?

21. Is there compliance with established financial legislation and prescripts?

22. Do you think that cconditional grant takes autonomy and discretion away from a provincial government and thus reduces its sense of ownership of the programme and accountability.

23. What do you think are the major factors impeding on the accountability of the Northern Cape Provincial Government?

24. What to your opinion can be done to enhance the accountability of the NCPG?