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# **Cross-Boundary Development Coordination in the Karoo: A Bio Regional Basis for Transaction Cost Reducing Institutions**

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## OUTLINE

1. The Case
2. Analytical Approach
3. Theoretical Framework
4. Applying the Framework
5. Proposals and Summary



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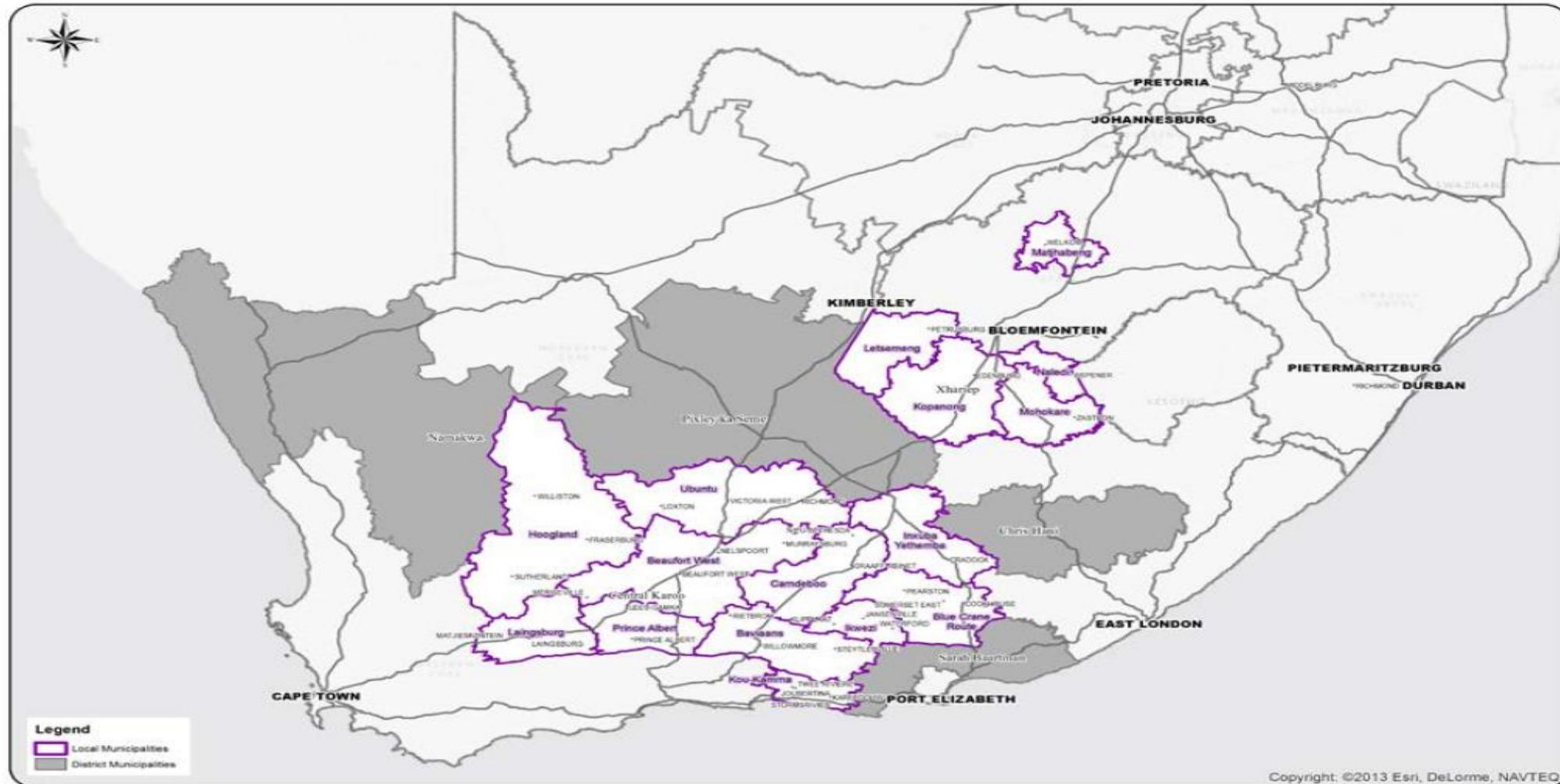
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## THE CASE

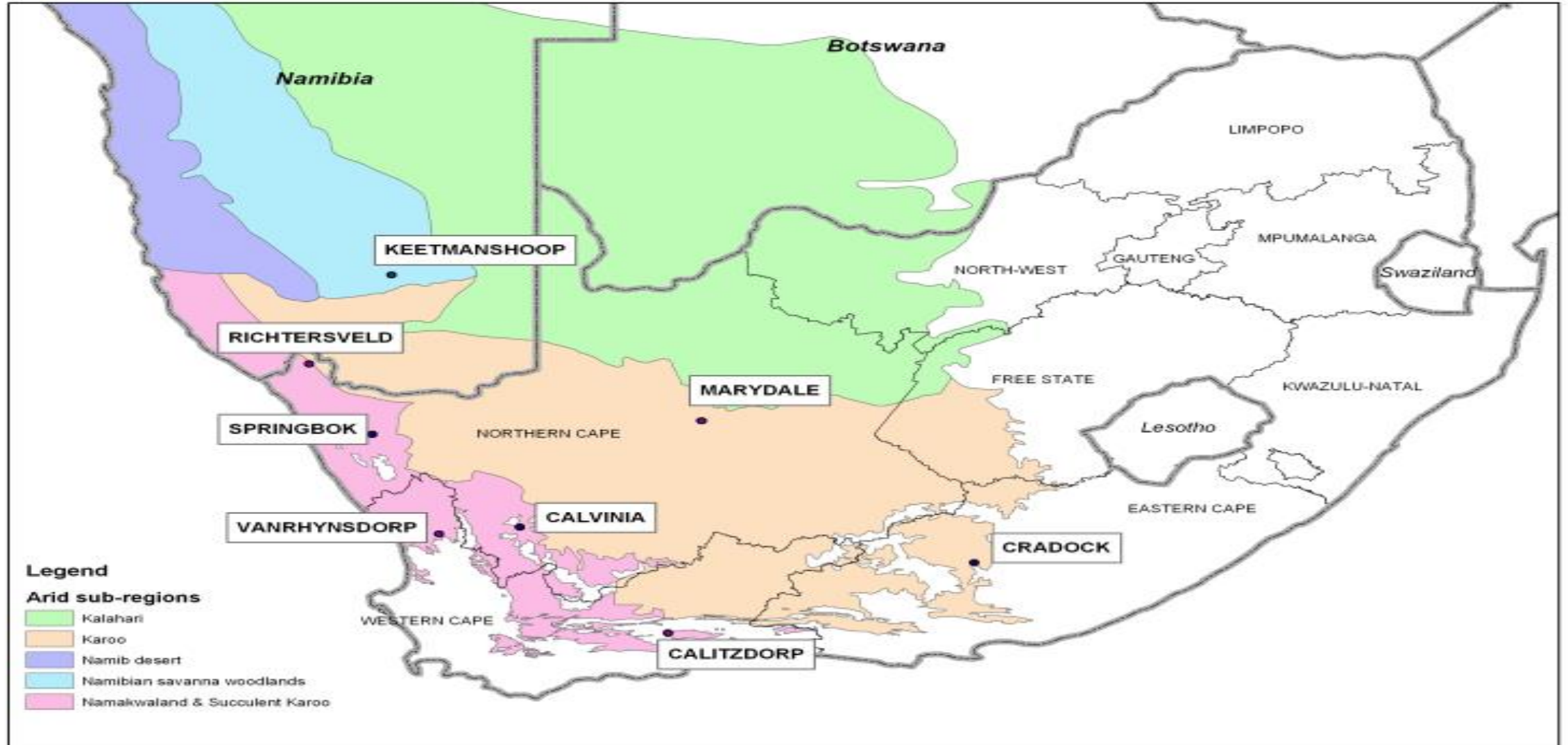
- **Background and Context**
- SALGA drives a Small Towns Regeneration Programme
- Inaugural Small Towns Conference 22 October 2016, Mangaung
- Municipalities with small/medium sized towns (mining, tourism, agriculture, transit) were the focus
- As a result, Central Karoo DM requests SALGA to host a Small Towns Regeneration ‘conference’ for the Central Karoo
- SALGA presents the concept to CKDM District Coordinating Forum
  - Decision to host ‘initiative’ in Beaufort West April 2016
- Decision to broaden participation to districts and the LMs within broader central Karoo – due to common issues

# GEOGRAPHICAL AREA WITH MUNICIPAL BOUNDARIES



GREATHER KAROO INITIATIVE

# KAROO BIO REGIONS AND SUB REGIONS - KAROO DEVELOPMENT FOUNDATION



# LOCAL GOVERNMENT CONFERENCE REPRESENTATION

- Local Municipalities (35 rep.)
- District Municipalities (7)
- Provincial Sector Departments
- National Sector Departments

## WESTERN CAPE

### CKDM

Beaufort West Municipality  
Laingsburg Municipality  
Prince Albert Municipality  
Oudtshoorn Municipality  
Kannaland Municipality  
Breede Valley Municipality  
Witzenberg Municipality

## EASTERN CAPE

### Sara Baartman District Municipality

Baviaans Local Municipality  
Camdeboo Local Municipality  
Kou Kamma Local Municipality

### Chris Hani District

### Inxuba Yethemba District

## NORTHERN CAPE

### Namakwa District Municipality (Northern Cape)

Karoo Hoogland Municipality

### Pixley Ka Seme District Municipality

Ubuntu Local Municipality

## FREE STATE

### Xhariep District Municipality

Kopanong LM – Edenburg  
Mohokare LM – Zastron  
Letsemeng LM – Petrusburg  
Naledi LM – Wepener  
Matjhabeng LM – Welkom

## CONFERENCE THEME AND OBJECTIVES

- **Theme: “Small Towns, New Futures”**
  - Tourism, Agriculture
  - Infrastructure and Transport
  - Uranium Mining, Shale Gas, Renewables
- **Objectives:**
- **Organising a Platform**
  - Decision making & Technical
- **Understanding the Region**
  - Trends, Opportunities, Threats/Risks
- **Strategy and Planning**
  - Spatial (RSDF), Economic (REDP)
- **Share**
  - Best Practice, skills knowledge
- **Coordinate**
  - Strengthen IGR between provinces, municipalities and national government;



## CONFERENCE RESOLUTIONS

- The imperative for **intergovernmental planning and cooperation** in order to enhance regional spatial planning, regional economic development, regional infrastructure planning, regional investment initiatives and regional priorities;
- That all Municipalities in the Karoo Region **formally consider their participation** in a Inter Municipal Cooperation ... to start the discussions on regional spatial planning and economic development Framework;
- That the Declaration be tabled at the Municipal Councils in the Karoo region for adoption;
- That the geographic area to be defined as the Karoo region be discussed and finalized;
- Supporting the **intergovernmental institutional arrangement** for the Karoo Region in line with the Intergovernmental Relations Framework Act and the Intergovernmental Fiscal Relations Act;

## PROGRESS AND NEXT STEPS

- Two national task teams in 2016
  - Strategic Action Plan – Institutional and Technical Process (Dr C Madell)
  - Status quo document
- Most municipalities have adopted the resolutions in Council
  - Engage New political leadership
- Next conference June 2017 Northern Cape
  - Political representatives decide fundamentally between **2 options**:
  - objectives and form of cooperation
    - a) **Opportunistic Planning** and Thematic **coordination/consultation?????**
    - b) **Formalised Strategic Planning** and **capital investment coordination**
- Informed by Status Quo Document (Whats at stake) :
  - Economic Opportunity, Threats/Risks, Environmental, social preservation
  - Cost-Benefit analysis
- In the context national debates regarding:
  - ‘neo’ spatial targeting vs space neutral planning (Todes & Turok, 2015)
- Interim Phase
  - SALGA facilitates cooperation
- Planning and Implementation Phase
  - Legislative Provisions
    - a) IGR
      - Municipal Implementation
    - b) SPLUMA, IGR and
      - Municipal Implementation
      - Systems Act/Other Agencies – Delivery Entity

## INSTITUTIONAL CONTEXT- CONSTITUTIONAL PROVISIONS

- Ch 3, s40 - Three Spheres of Government, distinctive, interdependent, interrelated
- Ch 5 s104 (b) – pass legislation within its domain in schedule 4, 5
- Executive authority in the Premier/Exco
- Ch 7 s s151 – right to govern, LG affairs subject to national, provincial legislation. executive and legislative function resides in Council
  - accountable government, Services
  - Safety and environment, Inclusivity (of civil society)
  - Promote social and **economic development**
- Schedule 4 and 5 B
  - regional planning and development
- Legislative and executive divisions along
  - Provincial boundaries
  - Municipal boundaries
    - Metropolitan Municipality (Category A)
    - Local Municipality (Category B)
    - District Municipality (Category C)

## INSTITUTIONAL CONTEXT-COOPERATION AND PLANNING LEGISLATION

- IGR Act (Act 13 of 2005)
  - Managing consensus and coordination section 28, intermunicipal forums
  - Section 22, 28, 30, 'consult on matters of mutual interest'
  - S-32 -decisions not binding (inter provincial/ municipal forums)
- SPLUMA (act 16 of 2013)
  - Planning framework
  - Comprehensive development framework
- Systems Act (32 of 2000 and 2003 amendment)
  - Implementation agent
  - Coherent implementation,
  - Continued commitment and decision making through 'board' (governance structure)



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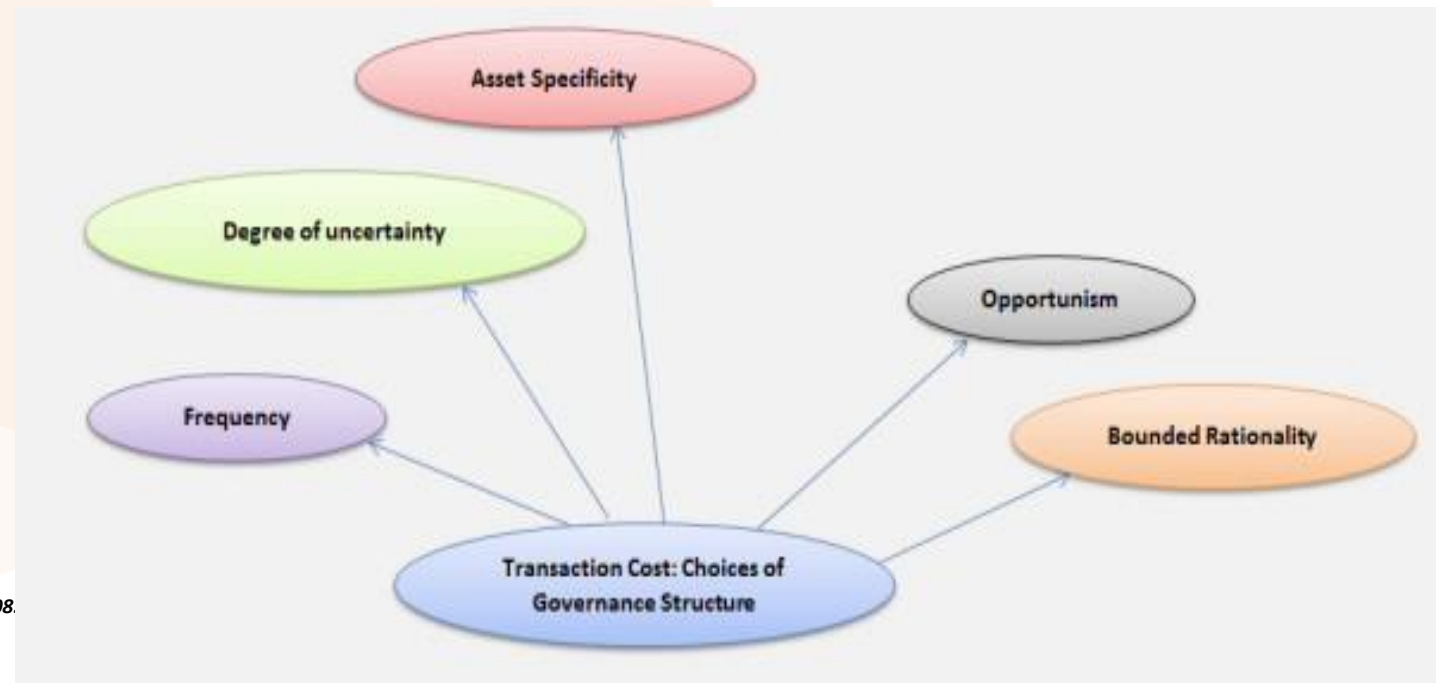
**ANALYTIC APPROACH**

## ANALYTICAL APPROACH – TRANSACTION COST ECONOMICS (TAC)

- One could view the decision, the choice in ‘regional economic and spatial policy’ in transaction cost terms
- Coase (1937) – why do firms exist?
  - Economy not ‘frictionless’
  - Economise on transaction costs governance structure not merely a production function
    - Markets, hierarchy, firms
  - Such as search costs, contracting, monitoring performance and contract enforcement
- North (1990), Dixit (1996)
  - Applied TAC to polity- Transaction Cost Politics
- Politicians are making a political transaction among one another at present at a given point, but It is also an intertemporal transaction, between politicians today and in the future

## ANALYTICAL APPROACH CONT.

- Williamson (1989)
  - Assumptions
    - Bounded rationality
    - Opportunism (self interest, moral hazard, agency)
  - Dimensions
    - Asset specificity (sunk cost)
    - Uncertainty (future)
    - Frequency (interaction, reputation)



• Source: Slangen, Loucks & Slangen, *Institutional Economics and Economic Organisation Theory*, 2008.



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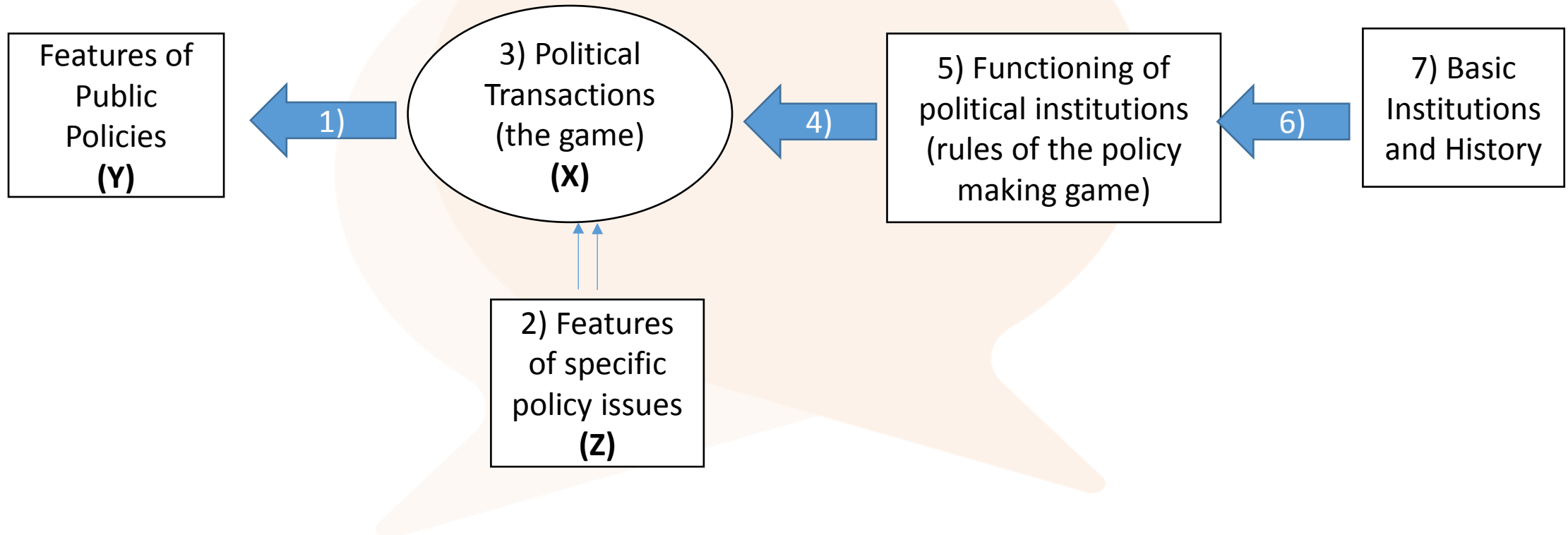
# THEORETICAL FRAMEWORK



- **An Intertemporal Transactions Cost Approach :  $Y \leftarrow (X) + (Z)$** 
  - Certain aspects of policy (not so much what the policy deals specifically with but the ‘outer’ features) are determined by the ability of political cooperation over time.
  - Political institutional environments determine the degree of cooperation
  - Cooperative outcomes lead to public policy that is flexible and sustainable and meeting the public good rather than narrow interests
  - Where cooperation is not achieved, policies direction will oscillate (volatility), or be rigid and unresponsive to a changing socio-economic environment.
  - The main question is whether cooperative outcomes are facilitated by the political institutions
  - This preliminary study examines the possibility of
    - **(Y)** – the features of public policy
    - Which are determined by political transactions over time
    - The transactions are influenced by the rules and incentives of the policy making game/the political institutions **(X)**
    - These are set in place by more fundamental institutions such as the constitution, path dependency or history
    - The nature of what is being transacted or decided upon (‘inner features’), does influence the ‘outer features’ of policy **(Z)**

# AN INTER-TEMPORAL TRANSACTION COST POLITICS FRAMEWORK

- Spiller, Stein, Tommasi (2003, a)



## POLICY FEATURES – THE DEPENDENT VARIABLE (Y)

- In a cooperative political game the equilibrium should result in:
  - **Stability** vs volatility (over time)
  - **Adaptability/flexibility** vs. rigidity (to changing environment/economic shocks)
  - **Coordination/coherence** (across geography/spheres)
  - **Public vs. private regardedness** (narrow vs. broad distribution of benefits)
  - **Investment related qualities/capacities** (upfront costs and long term benefits)

## SPECIFICS OF THE POLICY ISSUE – INNER FEATURES OF POLICY (Z)

- What is being exchanged also determines ease/difficulty of transaction
  - Waste Treatment facility vs Regional Economic Plan
    - Number and cohesiveness of political actors
    - Asset specificity – sunk costs, single purpose assets, irreversible investments
    - Inter-temporal Payoffs or incentives of the actors (short term deviation attractive?)
    - Duration of policy exchange (total time, generally the longer the better, e.g. monetary policy, housing policy)
    - Ease of observing deviation (certain policy aspects are hard to measure/observe, certain actions by actors are hard to observe, likewise changes in the environment)
    - Degree to which policy benefits the public, broad vs narrow interests (diffuse costs, concentrated benefits)

- First play of the game – the Constitution
- First-best policies are those that would be agreed upon in a complete contract, i.e. as per a benevolent planner
  - 2<sup>nd</sup> Best are policies developed in cooperative game
  - (The ‘best’ policies would be complete and moderate and flexible and would politically would be able to sustain the policies.)
- Risk of opportunism (after contracting) yields rigid policy to protect against opportunism
- Where cooperation can be achieved, repeatedly, pre-contract rigidity will not be preferred
- When the cost of implementing safeguards (enforcement, judiciary or bureaucracy) are low, but shifts in the economic environment cannot be verified, pre-contract rigidity pertains.
  - Best pre-contract policies may be rigid policies, but deliver lower welfare
  - When enforcement of inter-temporal exchange is weak one can expect volatile or policy lock-in
- When the cost of safeguards are high, policies will respond to political shocks.

## WHAT FACILITATES COOPERATION

- Incentive or payoff from deviating (from policy agreements) is small (time dependent/i.e. discount rate)
- Small group of political actors (number of muni's/spheres)
- Repeated interaction among political players (tenure, party whipper, electoral system)
- Deviations (from policy agreements) are easily observed (formality and institutionalisation of transacting arenas)
- Delegation to independent bureaucracy, individual with interests mid-way between political players
- Enforcement mechanisms are effective (judiciary/professional bureaucracy)
- The arenas where political exchange takes place is transparent and place facilitates the above



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# APPLYING THE FRAMEWORK

- **Factors association with the ‘object’ being exchange that influence the transaction cost**
  - Economic policy (includes spatial policy -long term time horizon for benefits)
  - Fluctuating and uncertain economic environment, not easily verifiable
  - Economic and spatial plans, infrastructure investment, high upfront costs (asset specific)
  - High upfront costs with long term benefits
  - Lengthy policy exchange
    - planning phase and implementation,
  - Multiple governments, different spheres – multiple players with diverse interests
    - prone to distributional conflict (and possibly narrow interests)
    - Including ward level
    - In certain instances diffuse benefits in a highly unequal society
  - Short term deviation problem electoral cycle, risk of political shocks high, economic shocks not easily verifiable, weak LG bureaucracies
  - High incentive for narrow interests distributional incentives (provincial, local and national)
  - Factors combine to make relatively high levels of **asset specificity** requiring long term investment, **uncertainty** about future economic states with opportunity for **deviation**



# APPLYING THE THEORY: THE INSTITUTIONS AND THE GAME – (X)

- History and First play of the game – Constitution
  - History – exclusion, lack of representation, disenfranchisement
  - Constitution – 3 spheres, electoral system
- Local Government
  - Executive and legislative power
  - Wall to wall local government
  - Categories of LG
  - Functions: accountability, inclusivity, Economic development
    - planning function,
    - services
- Provincial
  - Executive and legislative power
  - Coordinating and oversight role
  - Provincial Planning,
  - Certain infrastructure
- National
  - Executive power, policy making
  - Regional Planning Legislation
  - Veto player (minister)
  - Delegation function
- Electoral System -
  - Geographical scale of representation, yields multiple players, distributional conflict
    - Party system
    - 5 year terms, high turn over
    - Skills, lack of investment incentives at local level
    - Staggered elections
- OLG
  - Unitary national organisation with provincial footprint
  - Cooperation Consensus building



## APPLYING THE THEORY: THE POLITICAL GAME – COOPERATIVE?

- Is the game cooperative?
  1. Short run payoffs
    - National, Provincial – somewhat longer term payoff structure
    - LG, non-cooperation might yield higher pay offs (especially as shadow of election looms)
  2. Number of political actors
    - Large number of actors
  3. Inter-temporal linkages
    - National and provincial Provincial – higher degree (electoral system)
    - Local – tends to change (electoral, ward system, accountability more direct)
  4. Policy and political moves observable
    1. National and provincial – obscure (distance)
    2. LG – obscure (accountability/information asymmetries and professionalism of bureaucracy)

## APPLYING THE THEORY: THE POLITICAL GAME – COOPERATIVE?

5. Delegation
  - Currently to national minister
  - Implementation agent/municipal entity
6. Enforcement
  - Judiciary independence
  - Political interference – accountability of deviation to political parties and public is weak
7. Arena
  - Currently informal (facilitated by OLG)
  - IGR provisions, non-binding

## APPLYING THE THEORY: OUTER FEATURES OF THE POLICY - EQUILLIBRIUM (Y)

### **Formal Planning**

- Stable policy (veto player)
- Rigid policy (formally, but high levels of opportunism)
- Coherent plans but implementation coordination challenges remain
- High levels of investment required
- Public Regarded (conditional on veto player)

### **Incomplete Planning**

- Volatile
- Adaptive to changing environment and opportunity
- Incoherent across region
- Low levels of investment
- Greater opportunity for distribution to narrow interests



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# PROPOSALS AND SUMMARY

# PROPOSALS FOR INSTITUTIONAL FRAMEWORK SUPPORTING CROSS BOUNDARY (BIO) REGIONAL COOPERATION

- Primary Institutional Reform
  - Electoral system
  - Scale of representation at LG level
- Secondary Institutional Reform
  - Regional councils
  - Creates transparent arena
  - PG and Regional Councils (possibly agency below) satisfy intertemporal consistency.
- Support formal planning process
  - Require LG with PG consensus and proclamation, NG veto
  - Sub-regions and/or select thematic focal areas
    - Smaller number of players
- Professionalization of Government Sector
  - All Spheres
- Role for OLG
  - Consensus building
  - Restructure to operate more nimbly across provincial boundaries
- Delegate to entity
  - political representation on governance structure
  - Similar commitment problems
  - Dedicated funding source, NG

## IN SUMMARY

- No Shortcuts
- Game is in Play
- Biggest area of cooperation facilitation is the type and level of planning, reducing the number of players
  - Planning and Implementation Entity (co-funded)
  - OLG (intertemporal facilitator, political and technical planning)
- Longer Term Interventions
  - Improve accountability (party and constituency)
  - Consider increasing geographical size of local government political representation
  - Professionalise the Administration

THANK YOU

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