



INNOVATIONS FOR SUCCESSFUL SOCIETIES

RESTRUCTURING SERVICE DELIVERY: JOHANNESBURG, SOUTH AFRICA, 1996 – 2001

SYNOPSIS

In mid-1997, Johannesburg faced a fiscal meltdown. Management problems, low tax compliance and a fragmented system of municipal budgeting and expenditure put the city's budget in deficit. As Johannesburg's core services deteriorated, a series of moves by the provincial government paved the way for robust reforms designed to ease the city's financial problems. Under the leadership of newly appointed City Manager Ketso Gordhan, transformation manager Pascal Moloji, and a team of reformers, the city embarked on "Igoli 2002," an effort to make municipal service provision more cost-effective by corporatizing its service providers. Although the new structure greatly improved the financial position of the city, the need to redistribute resources, coupled with a narrow tax base, led to recentralization of decision making in some areas and caused the experiment to depart from other "New Public Management" initiatives in other parts of the world. Setting up a workable regulatory structure also proved difficult. This case study describes the work of Gordhan and his team, demonstrating how the long-term success of municipal reforms depends not only on design but also on implementation.

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INTRODUCTION

In 1997, top officials on the Greater Johannesburg Municipal Council realized that their city faced an impending fiscal crisis. Management problems, a narrow tax base, and a shifting and fragmented system of municipal government had undermined the city's ability to deliver services. South Africa's auditor general had repeatedly attached disclaimers to its audits, a sign that all was not well. Banks were unwilling to

extend loans to cover infrastructure investments. Mike Moriarty, a long-time leader of Johannesburg's main opposition party, the Democratic Alliance (DA), recalled, "The city's finances were so bad that they [the city government] couldn't pay the bulk electricity supply... and they were three months away from not being able to pay salaries." When South Africa's national electricity supplier, Eskom, asked the city to pay its US\$60 million electricity bill in

mid-1997, leaders conceded that the city would be unable to meet its financial obligations.

Other cities faced similar problems, but Johannesburg—or “Joburg”—was an especially important economic center. It had over 2.8 million residents at the time.¹

In 1998, the national government enacted new legislation to consolidate municipal councils into “unicities,” on the theory that fragmentation was part of the problem. Gauteng, the province to which Johannesburg belonged, took steps to implement the new law and help overcome other challenges the city faced. The provincial minister for local government negotiated with the area’s Metropolitan Local Councils, creating a powerful citywide committee to oversee financial reform and transform the way Johannesburg was governed.

Johannesburg’s city manager, Ketso Gordhan, was in charge of developing a plan to restructure the city’s administration in order to deliver services on a more cost-effective basis. The core of this three-year plan, which came to be known as “Igoli 2002,” sought to corporatize Johannesburg’s municipal service providers, turning them into quasi-independent units that would have clear delivery targets and significant flexibility in organization and operations, much like private companies. Igoli was the informal name of Johannesburg and a Zulu term meaning “place of gold,” referring to the gold mines that had long formed the basis of the city’s economy.

This case study discusses the effort to transform Johannesburg’s municipal service providers, focusing on how Gordhan’s team organized these reforms, made critical decisions about institutional design and structure, and sought to heighten accountability.

THE CHALLENGE

Like other South African cities, Johannesburg underwent a series of transformations after the introduction of majority

rule in 1994. During the apartheid era, when racial discrimination was enshrined in national law, the Johannesburg metropolitan area was segregated into 16 separate municipalities. Wealthier white municipalities had better revenue bases and could afford high-quality services. Black and “colored” residents (people of mixed race) lived in poorer municipalities and received few services.

In an effort to establish a fair system, the ruling African National Congress created a system of municipal governance based on the principle of “one city, one tax base,” which meant that the city was to be administered by one local government whose unified revenue base could better address problems of inequality across Johannesburg’s municipalities. Negotiations in the mid-1990s produced the first steps toward this objective and merged Johannesburg’s 16 municipalities into four Metropolitan Local Councils, governed by a citywide body, the Greater Johannesburg Municipal Council. The Municipal Council was weaker than the Metropolitan Local Councils it purportedly oversaw. Spending authority and revenue generation remained loosely coupled.

The pressure to rectify urban inequalities was enormous. The new local government that came to power in 1995 was eager to transform the lives of its poorer black constituents. At the same time, there were fiscal constraints. Pascal Moloï, chief executive officer of Johannesburg’s Northern Metropolitan Local Council at the time, explained: “The entire revenue of the city was raised in four central business districts and was spent there and benefited a few people who were official residents” of those districts. “All of a sudden we were faced with huge expenditure requirements in order to expand infrastructure to Soweto and Alexandra [poorer black areas of Johannesburg], without changing the revenue base much.” Within 18 months of the 1995 elections, the city’s leaders realized they faced a looming financial crisis.

Moriarty, the opposition Democratic Alliance leader, had a front-row seat for these events as a member of the Greater Johannesburg Municipal Council, and he largely agreed with Moloï's assessment. Moriarty said the ANC "expanded the staff complement enormously" and "started spending an awful lot of money." But the high cost of rectifying inequality was just one reason for the financial crisis. Under the two-tiered system of municipal administration, the four Metropolitan Local Councils had no incentive to limit expenditures. The Greater Johannesburg Municipal Council had sole responsibility for producing an overall balanced budget, supposedly by offsetting deficits in some areas with surpluses in others. According to Moloï, this lack of coordination led to runaway spending because CEOs of the four Metropolitan Local Councils "had to meet objectives, and they would do it at the expense of the others; there was no center for integration."

While spending lacked control, revenues also lagged. Although the Municipal Council was responsible for providing water and electricity, Local Councils were responsible for collecting payments from users. Because they had no incentive to balance their budgets—and because they were on the front lines in a delicate political moment—the Local Councils often declined to take action against those who didn't pay their bills; they also failed to budget for bad debts. The resulting revenue shortfalls were passed to the Greater Johannesburg Municipal Council, which then was unable to pay suppliers and creditors.

The country's transition to majority rule raised expectations for better service delivery to residents who were less well-off. However, not only did the capacity of these households to pay for those services lag, but the inclination to do so sometimes also fell short. During the struggle against apartheid, many residents had declined to pay taxes and fees to protest their

disenfranchisement. After constitutional changes brought majority rule, people did not automatically adjust their behavior. In 1995, the transitional government announced a program called "Let Us Build Together" to help rekindle civic engagement, including a sense of obligation to contribute financially for services received, but tax compliance in some of the formerly black townships remained low, ranging from 3% to 25%.²

In 1996, tax rates rose. For some, the rate change was modest, but many wealthier residents saw their bills double or triple, while the services they received deteriorated. The increase triggered a property tax revolt based in the well-off community of Sandton, where a homeowners association encouraged residents to withhold payments for two years in protest. The city stood to lose about US\$4.5 million per month if the boycott won support.³ Although most citizens pursued remedies through legal channels instead—requesting review of home valuations, for example—the backlash further limited the ability of Metropolitan Local Councils to collect revenues that the Municipal Council needed. It also heightened racial tension.

Within the ranks of local governments, there was a dawning realization that the difficulties were serious, according to Rashid Seedat, who then headed community development in the Western Municipal Local Council and later became head of strategy for the reform team. "We were spending on the assumption the money was there, but the loans weren't coming in.... People began to think, 'Maybe there's a cash flow problem, there's a little squeeze, people are spending too quickly.'"

A main culprit was the structure of municipal government. "It was clear the two-tier system was not working," Moloï explained. "It had failed completely."

FRAMING A RESPONSE

As Johannesburg's fiscal morass deepened, local pressures and national-level concerns came together to force action.

The ANC's national leaders could not afford the collapse of Johannesburg. The city was the largest local economy in South Africa and accounted for 16% of South Africa's total gross domestic product.⁴ More than 10% of national employment centered in Johannesburg. With a deficit totaling over US\$90 million in fiscal year 1996-7, fear grew that the city would have to raid its capital budget to pay operating expenses and that by 2002, nothing would be left for infrastructure investment. Finance Minister Trevor Manuel privately pushed the Gauteng provincial government act before the fiscal crisis worsened.

The ANC-led provincial government followed through. In October 1997, Gauteng helped organize a task team to trim the city's roughly US\$1.6 billion operating budget and its US\$560 million capital budget.

The executive council of the province also negotiated a memorandum of understanding among all the Metropolitan Local Councils and the Greater Johannesburg Municipal Council to form a "Committee of 10" to complete the process of institutional transformation mandated by national law. The Committee of 10 included the heads of the executive committees for each of the four Metropolitan Local Councils and the Greater Johannesburg Municipal Council, as well as their finance chiefs. Kenny Fihla, the deputy chairman of the Municipal Council, was selected to lead the Committee of 10. Although many had ANC affiliations, some members came from other parties.

Working with technical experts from the auditing firm Deloitte, the committee was able to make the cuts in the allotted time. The reductions came mainly from operations as the auditors eliminated wasteful expenditure. Additional

savings came from a hiring freeze. The Development Bank of South Africa also approved a loan to help pay arrears to the power company and improve cash flow. These cuts were followed by further restraints on spending and some aggressive (and unpopular) efforts to recover unpaid fees from residents. The city's capital budget, which was used to fund infrastructure projects and improvements, fell from about US\$560 million in fiscal year 1996-7 to roughly US\$60 million in 1997-8. Spending on new infrastructure projects shrank to zero.

Although the 10-member Committee managed to stabilize the city's immediate fiscal situation, more action was needed. Moloi said, "It soon became clear to us that the financial problems are just a symptom of much bigger systemic and institutional problems." Moloi believed that "if we don't intervene now, and do certain things in a drastic way, we would have a capital budget of zero by 2002."

In meetings with the Committee of 10 throughout late 1997, Moloi and other senior city officials proposed a radical overhaul of Johannesburg's governmental structure. They argued that Johannesburg needed a single-tier, fully integrated system of governance. This would require a single metropolitan council, later dubbed the "unicity" council, led by a mayor who would serve as the political executive and a single city manager who would be responsible for day-to-day operations. Institutional and financial reorganization demanded a complete merger of the various service providers across the four Metropolitan Local Councils.

Fihla and the Committee of 10 largely supported the proposal. The Committee's work in slashing expenditures and freezing hiring demonstrated what a citywide body could accomplish if it had greater authority than the two-tier system permitted. Yet the Committee's legal mandate was limited to financial matters. It would take another intervention by the province

to grant the Committee the power to restructure the city. Moloï said, “We couldn’t do anything because we were prohibited by law. Legislation had created these five silos [Greater Johannesburg Municipal Council and the four Local Councils], and to force people to cooperate and coordinate, we thought that the best way would be to invite a proclamation from the province.”

The provincial government was happy to cooperate, especially because national legislators were already discussing a proposal that would unify metropolitan areas countrywide. Johannesburg was to be a trailblazer. As Moloï remembered, “We chose to ignore what was going on at the national level, and put our flag in the ground.”

Although dominated by the ANC, the newly empowered Committee of 10 tried to bolster relationships with senior opposition figures. Moriarty of the DA acknowledged the effort. “For the first time, we were getting good, quality information,” he said. “Even though we weren’t party to the decisions, we were at least informed of what was going on. ... We got the sense that some of our opinions on matters were being entertained.”

The Committee’s size expanded as its mandate grew to include municipal restructuring. In late 1998, the Committee of 10 held an *indaba*, a conference retreat at the Shangri-la Hotel, with about 50 people present. As a result of the retreat, the Committee expanded its membership, creating a body that could coordinate activity across executive committees for each of the four Metropolitan Local Councils and the Greater Johannesburg Municipal Council. The expanded committee would take a hard look at the key governance and financial issues facing the city. The new 15-member committee became known as the “transformation *lekgotla*”—the Tswana term for “meeting place.” Although representation of opposition parties expanded, the majority of members belonged to the ANC, many did.

In late 1998, the transformation *lekgotla* chose Ketso Gordhan to become Johannesburg’s new city manager, a post that had no real statutory basis but would support the transition to the unicity. The transformation *lekgotla* offered Gordhan a two-year independent services contract, beginning in January 1999, and assigned him the task of consolidating the four separate Metropolitan Local Councils into a unitary municipal structure. As a former organizational secretary of the ANC, Gordhan had the confidence of ANC stalwarts in the city and around the province. Furthermore, during his tenure as director general of the Department of Transport, Gordhan had overseen the creation of the South African National Roads Agency Ltd. (SANRAL) as a public corporation and had acquired a reputation as an expert in institutional transformation. Gordhan had just returned from the United States, where he had earned a business degree from the Wharton School. According to Anthony Still, whom Gordhan later appointed executive director of Johannesburg Water, “If you want a job done, you put Ketso in there. He just needs the freedom to operate.”

Moloï, who had significant expertise as the former CEO of Johannesburg’s Northern Local Council, was brought in as the city’s “transformation manager,” effectively functioning as Gordhan’s deputy on matters related to the city’s institutional restructuring. Reporting directly to the transformation *lekgotla*, the two men were given 16 months to complete the process. Like Gordhan, Moloï had a two-year contract, timed to expire with the election in 2000, when further changes in municipal structure would occur. Gordhan and Moloï were expected to make sufficient progress in restructuring and building new institutions that a management team a newly elected government would appoint could finish the process. The acting CEO of the Johannesburg Metro, Mavela Dlamini, would work closely with the transformation team and

sign off on commitments, since Gordhan had no statutory power as city manager to do so. Three other team members came from the existing city administration: Leila McKenna (Development Planning), Phindile Nzimande (Legal), and Rashid Seedat (Strategy).

The *Financial Mail*, one of the country's major newspapers, described the challenge incisively. "This week the restructuring—some might call it the rescue—of Johannesburg has begun, involving probably the most radical change in style of government since the ANC came to power in 1994," wrote reporter Peter Honey. "Gordhan and his new transformation manager Pascal Moloi...have been contracted for the next two years to systematically break down the firewalls between the existing council administrations and redeploy resources and staff to make municipal service provision more efficient, equitable and—crucially—self-sustainable."⁵

Gordhan's plan, "Igoli 2002," called for restructuring some of the city's service providers into quasi-independent agencies that would formally register as companies under South African law. Under this "corporatization" policy, these agencies would have their own balance sheets, with their own revenue streams and budgeted expenditures. By increasing financial responsibility, corporatization aimed to reduce the chance for mismanagement and bolster the city's fiscal position. The new municipal service providers would have their own boards, but the city would be the sole shareholder—a crucial difference from public companies. Gordhan's plan built on popular New Public Management theories of public sector governance, which emphasized the merits of decentralization and managerial autonomy for inducing better performance within government institutions.

The change in structure also promised economies of scale. Seedat observed, "Ketso was basically seeing a couple of things that we couldn't

see because he was coming from outside. He said: 'Take a service like water—it's four councils plus one—and it's also vertically segmented. Bring it all together, you create economies of scale and you have a balance sheet that makes it possible to raise capital.'

After a series of meetings with the transformation *lekgotla* and meetings brokered by Moriarty with local, provincial and national leaders of the opposition, members of the transformation *lekgotla* accepted Gordhan's corporatization proposal.

Gordhan now turned to the task of implementation. He vowed that within 16 months, he would create independently functioning municipal service providers that could "write their own checks."

GETTING DOWN TO WORK

Gordhan knew he first had to build a strong team. He appointed three others to join Moloi, turning to the provincial government and organized labor to round out his team. He appointed Gauteng's head of finance and economic affairs, Roland Hunter, to handle financial matters and Pindian Zamane to handle regulatory issues. Recognizing that corporatization was often unfairly viewed as synonymous with privatization and could generate substantial opposition from unions, Gordhan enlisted Makgane Thobejane, the organizing secretary of the public sector union NEHAWU, as his point person for labor relations.

Gordhan and Moloi quickly recognized that the creation of quasi-independent municipal service providers could not be a top-down process. Senior management lacked the necessary knowledge and expertise, and a lack of consultation with middle and lower level managers could lead to resistance. To head off this problem, Gordhan and Moloi decided to reassign talented people from the four Metropolitan Local Councils into eight Joint

Operating Centers. Each center was responsible for designing the structures and business processes of one or more new corporatized units. One of the Centers was responsible for designing the regular line departments of Johannesburg's central administration, which included emergency services, for example. The eight Centers had broad discretion over design within the parameters of Gordhan's general corporatization model.

Each Joint Operating Center consisted of about 60 people and was headed by a "transformation champion" who was drawn from the senior ranks of the various Metropolitan Local Councils. Some of these individuals were former members of a South African non-governmental organization called Planact, which was created by progressives in the mid-1980s and had served as the de facto urban policy arm of anti-apartheid groups like the United Democratic Movement and the ANC. An incubator of talent, Planact had attracted people who had the technical skills to work in government but had earlier refused to do so because of their opposition to apartheid. By 1999, former Planact members were spread across Johannesburg's four Metropolitan Local Councils; Gordhan recruited many for his cause. This strategy ensured a certain familiarity and esprit de corps within the senior and middle ranks of Gordhan's transformation team, as well as a common set of political beliefs. According to Moloji, "Most of the people you talk to that were involved in the transformation of Johannesburg, a sizeable number were from Planact.... Planact was a huge, huge, learning institution."

Gordhan and his team also recruited talented people based on demonstrated expertise—and in order to ensure broad representation of city workers, each Joint Operating Center also included employees from the lower ranks of the Metropolitan Local Council bureaucracies.

According to Moloji, the decision to create the Joint Operating Centers was crucial. "This is

where we won the trust of most senior managers," he said. "Most of them were saying, 'You know what? We've had these ideas about how we can run our functions, but no one ever asked us.' ... So we brought them into the process."

Many within the Joint Operating Centers later became managers of the corporatized municipal units that Gordhan and his team would eventually create. This continuity meant that those who initially ran these corporatized units actually understood their design and functions. The Joint Operating Centers were also responsible for selecting transitional boards, which provided expert advice during the design and transition phases and gave managers a chance to learn how to interact with a board. Many transitional board members became board members of the new corporatized municipal units, ensuring further continuity between those who helped create the units and those who later managed them. According to Igoli 2002, the incoming citywide mayor would select board members on the basis of applications, and elected officials could not serve.

Holding the Joint Operating Centers accountable was a key preoccupation of the city's senior management team. With 16 months to complete the transformation process, the Joint Operating Centers had to work quickly. Gordhan and his team established what they called a "transformation college," or regular opportunities for the people leading the reforms to say what they had accomplished and win help in addressing tough problems." At quarterly meetings, managers of the Joint Operating Centers reported on their progress in designing new structures and business processes. Senior managers of city services and a team of 20 consultants evaluated the progress and helped set new targets. The consultants supported the Joint Operating Centers in achieving these targets. Because the consultants had the skills to evaluate the pace and quality of design progress, Gordhan was able to ensure all

eight Joint Operating Centers were on time and on target.

Gordhan's team operated in parallel with the city's normal day-to-day operations. The delegation of responsibility for reform to the transformation *lekogtla* and the Igoli 2002 team was unprecedented, but the arrangement provided continuity and allowed the reform leaders to focus their work. The German Organization for Technical Cooperation (GTZ) and other donors defrayed most of the expense of the team for a two-year period, at a cost of about US\$4 million.

Structure and design

One finding of the institutional design process was that not all of the newly corporatized municipal units could be truly self-sufficient. In fact, Gordhan and Moloji envisioned three types of organizations, each with a different type of revenue stream and a business process. The first type included utilities that provided for-fee services: Johannesburg Water, City Power and Pikitup, which dealt with waste collection. Earlier these "big three" organizations had consumed more than 70% of the city's budget. However, they also generated revenue, and because they could use that revenue to run their own operations, the city could spin them off as self-sufficient semi-autonomous agencies. Under statute, the city council would set the fees these agencies could charge residents. Service delivery agreements negotiated between the heads of these agencies and regulatory boards gave the city a role in devising the agencies' business plans, including revenue targets and expenditure limits. The second type of organization included agencies that provided critical services but generated insignificant revenue, such as the Johannesburg Roads Agency. The final type was so-called "corporatized entities," which generated some revenue but not nearly enough to be self-sustaining—for instance, the Johannesburg Zoo. While all were designed to be quasi-independent

companies, the latter two categories would receive some financial support from the central administration.

Although they had a clear vision of what was needed, Gordhan, Moloji and others had to be flexible. Major labor and business interests had significant reservations about aspects of Igoli 2002, and, by necessity, the new structures evolved through negotiation.

"I knew I would have to deal with labor," Gordhan said. "It was unavoidable." Trying to preempt labor opposition to the restructuring process, Gordhan declared that no jobs would be lost for three years. Initially he had planned that just as private companies had the ability to determine wage structure, each corporatized unit would separately negotiate wages with new employees. However, in order to win labor support, he agreed to allow wage negotiations to proceed centrally, through negotiations with the major unions. This adjustment increased labor's bargaining power and meant a standardization of terms of service such as salaries.

Concessions were made to business as well. Large corporations in central Johannesburg worried that they would lack a champion within the newly integrated and broadened metropolitan government. Gordhan turned the Greater Johannesburg Municipal Council Inner City Office into the Johannesburg Development Agency. The development agency would handle planning and infrastructure projects in central Johannesburg exclusively for two years. It became the only corporatized municipal unit that had a minority shareholder, the Central Johannesburg Partnership, an alliance of business interests in central Johannesburg. The Partnership's chairman, Neil Fraser, became a Johannesburg Development Agency board member.

Capacity issues also influenced the design and structure of the new corporatized organizations. For instance, Gordhan felt that Johannesburg Water lacked experienced managers

with the skills to operate the company well. There were some young managers on the horizon, but they needed time to develop their skills. He toyed with the idea of hiring a private company to manage the utility under a long-term contract. “It was a capacity question,” Gordhan recalled thinking. Igoli leaders decided to vest policy responsibility in the utility’s executive director, Anthony Still, while contracting with a private firm to run day-to-day operations. A French company, Suez Lyonnaise des Eaux, won the contract, valued at US\$40 million, in an open bidding process. The company had to meet key performance targets and Johannesburg Water staff, gradually phasing out its own staff during the five-year contract period.

Conversely, where Gordhan identified an overabundance of skilled workers who could operate an institution at a profit, he was willing to corporatize a noncore function he may have been inclined to privatize. For instance, while the management of city-owned properties was not a core function of the city government and could have been outsourced easily to a private company, there was enough talent across the four Metropolitan Local Councils to build an effective, corporatized organization called the Johannesburg Property Company. By re-organizing property operations in this way, without privatizing them, Gordhan helped to ensure that Igoli 2002 did not create major employee dislocations and retrenchments.

An adequate regulatory system was crucial to the success of the corporatized system of municipal service delivery. Because the city was the sole shareholder of most newly created municipal agencies and these units produced critical public goods and services, a strong oversight system was essential to ensure accountability. Gordhan created a mayoral committee posts—a cabinet-level position in the mayor’s office—to provide oversight and ensure that the agencies had a voice at the highest levels.

Gordhan’s strategy was to build an interlocking web of regulators. A few months after the corporatization plan went into effect, Gordhan established the Contracts Management Unit. This body, which reported directly to the city manager, developed key performance indicators in collaboration with each agency. These indicators then served as the basis for a performance management agreement between the city and the service provider, and as a rough guide for the agency’s strategy. The Contracts Management Unit was the chief monitoring and compliance agent of this agreement. In order to ensure flexibility and capitalize on employee and institutional learning, key performance indicators were revised annually to account for new problems. In 2001, the city further refined the Contracts Management Unit by splitting it in two. A new Shareholders Unit focused on legal and financial oversight, while the Contracts Management Unit focused solely on performance management and service delivery.

The public service companies had the authority to raise and manage their own revenue. However, the new system departed from the models of analogous “New Public Management” programs in other places in two ways, in addition to lack of control over wage-setting. First, the Johannesburg approach allowed for cross-subsidization. That is, after a company had paid its expenses and used its revenues to make necessary investments in its own operations, the surplus (the equivalent of profit, in a private firm) could be transferred to other functions that needed capital. The Fresh Produce Market and the water and power companies sometimes did so. If the Fresh Produce Market needed to invest in refrigeration units, it could still do so, but if it made profits over and above what it required for investment, it would pay a dividend to its shareholders, namely the city. Seedat, charged with Strategy for Gordhan’s team, noted that there were limits, however: “Of course, you don’t

kill the goose that lays the golden egg by squeezing it dry.” Second, although the companies deposited revenues in separate bank accounts and kept separate balance sheets, each evening the city finance department swept all the accounts, depositing funds in those that might go into temporary deficit overnight and drawing funds for those that covered their expenses and had extra. By taking this step, the city lowered the interest it paid to banks and saved millions of rand. The accounts were readjusted the next day, so no agency lost money as a result of the computerized nighttime sweeps, but the city’s overall financial position improved as a result of this cash flow management practice.

Laila Smith, the head regulator for Johannesburg Water at the Contracts Management Unit, noted that there were unresolved tensions in priority-setting. For example, because the new corporatized units, particularly the utilities, were supposed to be self-sustaining, management’s main interest was to generate revenue. Yet the goal of the Contracts Management Unit in developing key performance indicators was to ensure that the units also respected a “pro-poor service delivery philosophy.” Even if certain expenditures didn’t yield optimum returns, the Contracts Management Unit had to push managers to increase service delivery to underserved populations. Smith recalled that her drive for a more coherent strategy in dealing with indigent citizens was a source of debate with Johannesburg Water officials and a tension in her job.

Additional oversight came from the provincial and national levels. South Africa’s auditor general annually conducted audits of local governments and other government agencies, including the new units set up under Igoli 2002. It made its reviews public.

Fihla and the transformation *lekgotla* also closely monitored Gordhan’s work. Gordhan met monthly with the transformation *lekgotla*, and he and his team met with Fihla more often.

According to Moloï, the meetings were rigorous, and “[t]he debates were always hard... The level of interrogation was very high.” Members of the senior management team had different responsibilities at the meetings. Gordhan would explain restructuring proposals for the municipal organizations, Moloï would do the same for the city’s line departments, Hunter would outline the financial implications of these proposals, and Thobejane would discuss the labor-relations implications.

After South Africa’s municipal elections on December 5, 2000, the newly created Johannesburg unicity council voted unanimously to endorse the new structures Ketso Gordhan and his team had put in place. Gordhan stepped down at the end of the year, when his contract concluded. While the country’s other five metropolitan areas struggled to develop a process that would allow them to migrate assets, liabilities and staff from many smaller municipal authorities to unities, Johannesburg had a plan and municipal units ready to operate. It had a solid platform to continue its operations from January 2001 onward. The reorganization of the city had taken place in record time. However, making the new structure of municipal services work would still pose challenges.

OVERCOMING OBSTACLES

Despite Gordhan’s overtures to organized labor, unions feared that Igoli 2002’s corporatization plan was the first step towards the privatization of the city’s core service providers. Left-leaning members of the ANC in the old Metropolitan Local Councils and the Greater

Johannesburg Municipal Council also opposed the plan, as did local members of the ANC's coalition partner, the South African Communist Party.

The manner in which the Igoli 2002 plan was carried out also elicited objection in some quarters. Instead of openly debating pending fiscal and structural reforms within the city council, the province had created an unelected "Committee of 10." The Committee, in turn, was not headed by the chairman of the Greater Johannesburg Municipal Council, as custom mandated, but by the chairman's deputy, Fihla, whom ANC leaders at the provincial and national level perceived as more in tune with Igoli-type reforms. Once up and running, the Committee often made policy through fiat, without reference to the elected representatives on the city council.

In addition, many councilors were upset by the unilateral citywide budget cuts that initiated the process of reform. In 1995, the council had started a process of community budgeting, in which Local councilors held public forums in their wards designed to identify spending priorities. Final budgets required the approval of community forums and large civic organizations in a process that lasted months. The unilateral budget cuts had rendered this process moot and ignored local priorities. Local councilors appeared powerless to their communities.

In the end, fear generated by the looming financial crisis helped quell council opposition, while the support of provincial and national government helped keep in line recalcitrant members within the local ANC and South African Communist Party.

This political strategy facilitated short-term progress on Igoli 2002, but it pushed dissenters into the streets, where the debate was more difficult to control, putting long-term sustainability of the reforms at risk. Several disaffected members of the ANC and the South African Communist Party left their organizations and joined with labor factions to form a group

opposing privatization efforts. The Anti-Privatization Forum helped to coordinate public strikes and protests, and became the focal point for opposition to Igoli 2002.

Gordhan and Moloi had always intended to drive a hard transformation process and then step down at the conclusion of their terms. In December 2000, Amos Masondo, a member of the Gauteng legislature who had no part in the Igoli 2002 reforms, took over as mayor of the newly restructured Johannesburg "unicity." However, several members of the Gordhan team stayed on. Moloi was persuaded to replace Gordhan as city manager, to ensure the new administration would retain a degree of continuity and familiarity with the newly created municipal structures. He respected the new mayor, who had been a cell mate during the apartheid era. Roland Hunter remained as the Chief Financial Officer. Kenny Fihla became a member of the mayoral committee, the committee for finance. The three men continued to drive the reform process.

ASSESSING RESULTS

Making Igoli 2002 a reality took enormous effort on the part of many people. Seedat recalled, "We were working incredibly hard. It was an invigorating process. There was a sense that in this post-apartheid period a malaise was setting in. We were moving to arrest it."

The Igoli 2002 corporatization program achieved clear results. In 16 months, Gordhan and his team designed and implemented a new model of municipal service delivery. The effects on the city's finances were dramatic. In 2002, Johannesburg ran a surplus of 23.8 million rand—about US\$4.5 million.⁶ The city's credit ratings also rose. Accounting practices improved, but the process of standardizing accounting policies across units remained incomplete, so that by 2002 there was still no consolidated balance sheet.

By 2002, the power utility had exceeded its billing and payment targets. It generated a large

dividend for the city (over US\$30 million), although it still had an accumulated deficit that it worked to eliminate. It conducted a consumer satisfaction survey and at residents' request created a call center to receive questions and complaints. Although the water utility did not control metering and billing at the end of the period, in 2002, it found ways to reduce the amount of unaccounted water use by 5 percentage points, from 42% to 37%. By 2005–2006, its annual revenue exceeded its operating budget. The waste collection program, Pikitup, created a call center, installed photometric monitoring, and built a hazardous waste facility. In the first years it continued to experience budget problems; like the water utility it did not control billing. However, its budget balanced by 2005–2006.⁷ The utilities and many of the other new units used attrition to make modest reductions in staff size.

Concurrent with these successes were many difficulties. The first few years highlighted how hard it was to transform the ideas behind the “New Public Management” into reality, within an already existing system. Gordhan had to back off of some important elements of the model, including autonomy in wage-setting. With a limited budget and high public expectations for improved services, Gordhan also prioritized the staffing of the providers over their regulation. Some of the regulatory units, designed to help oversee the corporatized public services, remained mere shells, as a result. For example, the Contracts Management Unit lacked enough skilled people to provide effective oversight and help guide policy. Johannesburg Water's executive director, Anthony Still, contended that the Contracts Management Unit “had no idea how to develop key performance indicators,” and “was way behind.” In Still's view, the sheer number of indicators—95 at one count—reflected a lack of focus and policy drift within the regulatory body that stemmed from low bureaucratic capacity and

limited expertise. Burnout among the people staffing the unit became a problem. The end result was that the new municipal units were in position to dictate the criteria by which the city would hold them accountable.

The inability of the Contracts Management Unit and later the Shareholders Unit to regulate the newly corporatized municipal service providers effectively led to a series of financial problems in the initial years. Siva Pillay, who became managing director of Pikitup in 2004, recalled, “The short story is, I walked into the company ... and found that the company was insolvent. It was the biggest shock of my life.” According to Pillay, Pikitup's finance consultant informed him, “I have nothing but bad news for you.” The company was running a deficit of 62 million rand (about US\$7.5 million) in that financial year. Moreover, the Shareholders Unit had no idea that Pikitup was in such a difficult situation. In Pillay's words, “I could not understand how they [the former management of Pikitup] got through all those regulatory hoops.”

Further, the boards that provided oversight sometimes wrangled with managing directors over aspects of policy, including payment structures. Laila Smith of the Contracts Management Unit recalled, “There was always this tension of who determines policy. Does the Contracts Management Unit determine policy because it is closest to the data in terms of oversight of service delivery? But then who is driving policy if all the expertise in the city around particular sectors is moved out to the utilities? Utilities are supposed to be implementing. They shouldn't be shaping policy. But then who will shape policy amongst those left in the city...you have to really know a sector to shape policy. So there was a big, big policy gap.”

Finally, Moloi noted the persistent troubles in improving billing collection. Gains in this area required three things: the right technology, the

right business practices, and the right people. However, Moloji said the city struggled to put all three in place at the same time.

Managing directors still had responsibilities to deliver services even if rate structures and billing practices did not allow them to expand revenues to cover operating costs. A national municipal-finance law implemented in 2004 restructured the finances of municipalities and municipal corporations, placing restrictions on their ability to incur short-term and long-term debt. From the perspective of the new municipal companies, it was an impossible situation. For example, when Pillay asked the city to help bail out Pikitup, “They said they didn’t have the money,” he recalled. “In fact, I asked, ‘Can I use the assets of this company to raise a loan?’ But there was a point-blank refusal. ... They said, ‘This is not a private company.’”

Shifting political winds meant that by 2004, Johannesburg’s new agencies no longer possessed the degree of autonomy Gordhan had intended to create. Opponents raised doubts about whether the new corporatized structure had actually improved the quality and availability of public services. Indeed, Rashid Seedat, a former member of Gordhan’s team who later became the head of the Johannesburg Central Strategy Unit (a 15-member municipal “think tank” created in 2006 within the mayor’s office to advise on strategy and other matters), indicated he was “not convinced” the new corporatized units were preferable to regular line departments in terms of performance. As planned—and as political pressure demanded—the focus shifted to measuring and improving the quality of services people received.

REFLECTIONS

Ketso Gordhan felt that an additional year to effect the transformation would have helped sustain the reforms. He had always intended to step down, but as the end of his contract neared, he suggested that a little more time would be a

good idea: “I said, ‘I need one more year to bed down these changes.’ I knew other people could do it, but when you’ve built up momentum over two years, and you’ve built up an institutional knowledge base, it’s hard to replicate that, ... But they said no.” Once Gordhan was gone, the corporatized structure was watered down and service provision partly recentralized, despite Pascal Moloji’s continued efforts to institutionalize the reforms.

Internal and external communication merited more attention than it received—one of the lessons learned. Tactically, Gordhan also felt that he should have pursued a different bargaining strategy with opponents, particularly labor interests: “Since labor leaders want to be seen to struggle, I should have said, ‘There would be X number of retrenchments.’” Rather than making broad initial concessions, Gordhan could have engaged in tough bargaining, later backing off of the proposed retrenchments to create the impression that labor had achieved something significant.

There were also tradeoffs between creating multiple oversight bodies and building a workable regulatory system with clear role definitions and adequate capacity. The latter might have been more vulnerable to political whim, yet also more effective than the approach the reform team initially tried.

Moloji felt that structural issues remained, many of them a legacy of apartheid, but economic development would gradually allow the city to work its way out of many of these challenges.

There were many positive lessons as well. Carrying out a change agenda while also conducting the day-to-day business of local government would have over-burdened officials, who already had much to do. The city’s creation of a transformation team helped make real change possible. Second, the transition architects thought hard about incentives and how to build accountability into the system. Although some of

their changes did not stick, others did. The discussion persisted after Gordhan left. More people began to think in terms of specific, measurable results as a result of the Igoli campaign. Third, the reform team had reached

out for expertise and assistance throughout its term. “If you can’t do it yourself, ask for help!— that was a big change and it was one of the most important things we learned,” Gordhan concluded.

Endnotes

¹ City of Johannesburg. *Joburg. Annual Report 2001-2*, p. 5

² Suzanne Daley. “Country Club in Revolt Over Post-Apartheid Taxes,” *The New York Times*, January 8, 1997.

³ Suzanne Daley. “South African Neighbourhood Suffers through Taxing Times,” *The Globe and Mail*, January 9, 1997, accessed via ProQuest, July 25, 2011 at <http://search.proquest.com/docview/384913406?accountid=13314>.

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⁵ Peter Honey, “Up and Away for Gotham? Johannesburg Metropolitan Management,” *Financial Mail*, January 8, 1999, p. 22.

⁶ “Executive Mayor’s final report: December 2000 – January 2006. Reflecting on a solid foundation: Building developmental local government,”

⁷ City of Johannesburg. *Joburg. Annual Report 2001-2*.

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