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## Can Fiscal Decentralization Address Water and Sanitation Infrastructure Backlogs in South Africa: The Case Study of Municipal Infrastructure Grant in Mahikeng and Thulamela Local Municipalities

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### ABSTRACT

Fiscal decentralization as it was conceptualized in South Africa about twenty years ago was meant to transfer some powers to the third sphere of government. At the beginning of the fiscal decentralization, it was thought that if the centres of decision making would be closer to the people, service delivery and poverty reduction would easily be addressed. The structure of intergovernmental grant regime as well as the capacity of under-resourced municipalities where the need for basic services is the highest has not really given local government the autonomy to do this effectively and efficiently. This is apparent in terms of the implementation of Municipal Infrastructure Grant (MIG), for example. This paper profiles specifically the provision of water and sanitation using the MIG as a means of delivering such services to the communities at the local government level. MIG is a consolidated grant mechanism that replaced capital grants for municipal infrastructure. The methodology used to assess the impact of fiscal decentralization at the local level was through key informants' interviews and service level satisfaction opinions of the local people at the municipal level in Mahikeng Local Municipality in NgakaModiri District Municipality and Thulamela Local Municipality in Vhembe District Municipality in the North West and Limpopo Provinces respectively.

**Keywords:** Fiscal Decentralization, Municipal Infrastructure Grant, Water and Sanitation, Backlogs, Poverty.

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### INTRODUCTION

According to an article by Oates (1999: 1121), the idea of fiscal decentralisation by government was aimed at ensuring that service delivery is effectively financed at the local government level. In South Africa, the promulgation of the Municipal Finance Management Act, (No 56 of 2003) read with other intergovernmental legislative directives, Municipal Systems Act, (No. 32 of 2000) and Intergovernmental Fiscal Relations Act (No. 97 of 1997) among others, were expected to facilitate the financing of water and sanitation infrastructure, but many Water Services Authority (WSA) municipalities still grapple with service delivery backlogs in the sector. This explains why Ekpo, 2008 indicated that fiscal decentralisation alone without accountability, cannot effectively deliver services to the local people. On the other hand, others for example, Shah, 2006: 138; Besley and Smart, 2007 cited in Porcelli, 2009: 4-6 are of the opinion that, accountability to address backlogs, is a key component of service delivery in the water and sanitation sector at the municipal level, as citizens are empowered to be involved in local decision-making.

To illustrate the effectiveness of fiscal decentralisation on the reduction of water and sanitation infrastructure backlogs, the implementation of Municipal Infrastructure Grant (MIG) was looked at in

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**Peter Bikam et al. “Can Fiscal Decentralization Address Water and Sanitation Infrastructure Backlogs in South Africa: The Case Study of Municipal Infrastructure Grant in Mahikeng and Thulamela Local Municipalities”**

an attempt to both set a scene for the study as well as discuss the challenges that recipients of MIG experience on the field. The case for choosing the water and sanitation sector<sup>1</sup> stems from the impact this sector has on not only health, but also economic development.

We put forward the argument that under-resourced municipalities cannot fully access their MIG allocation and attain the capacity to implement the MIG because municipal expenditure falls short of eradicating service delivery backlogs in the water and sanitation sector. The paper also argues that under-resourced municipalities lack the tax base to supplement their revenue base thus, compounding the service delivery backlog concerns. It also questions the MIG allocation formula because sometimes it does not consider the human capital, geographical extent and the poor revenue base of some of the local municipalities. In our view, failure of the MIG allocation formula to address geographical extent of the municipalities, human capital and the revenue base contributes to the failure of fiscal decentralization and the inability to provide services in the water and sanitation sector.

The purpose of fiscal decentralization as it was conceptualized in South Africa about twenty year ago was meant to transfer some powers to the third sphere of government. However, local government still grapples with the operationalization of fiscal decentralization. At the beginning of the fiscal decentralization, it was thought that because the centres of decision making would be closer to the people, service delivery and poverty reduction would be easily addressed. The structure of the intergovernmental grant regime as well as the capacity of under-resourced municipalities where the need for basic services is the highest has not really given local government the autonomy to do this effectively and efficiently. This is apparent in terms of the implementation of Municipal Infrastructure Grant (MIG), for example.

The main problem this study sought to investigate is how fiscal decentralisation (specifically the formula used for MIG allocations) has impacted on water and sanitation backlogs and the state of water and sanitation infrastructure in the country. There is a growing trend that illustrates the inadequacy of MIG to address the national development agenda of reducing inequalities and poverty. On the one hand, some municipalities continue to underspend as they do not have the capacity to comply with the onerous reporting mechanism and the required business planning to access funding. Whilst on the other hand, other municipalities overspend but there is no demonstrable evidence with regard to the reduction of backlogs (Josie, 2008: 10).

## **METHODOLOGY**

The methodology used to assess the impact of fiscal decentralization at the local level was through key informants interviews and service level satisfaction opinions of the local people at the municipal level in Mahikeng Local Municipality in Ngaka Modiri District Municipality and Thulamela Local Municipality in Vhembe District Municipality in the North West and Limpopo Provinces respectively.

Both primary and secondary data collection methods were utilized to undertake this study. Primary data sources comprised of the researcher's participation observation as she works in the financing of infrastructure development; key informant interviews (practitioners' views included); as well as self-administered questionnaires. Data collection followed a random sampling procedure where certain wards with MIG-funded water and sanitation projects were selected. Literature review that included both local and international literature on the performance of decentralisation in general and fiscal decentralisation in particular, was used as secondary data. This included books, journal articles, published and unpublished government documents and relevant resources from the internet.

## **CONCEPTUAL FRAMEWORK**

The study outlined fiscal decentralization within both classical (fiscal federalism) theories and second generation theories. The two schools of thought do not radically depart from each other - the second generation theory begins to exhibit the all-important principle of accountability of public office bearers, as well as the empowerment of citizens to have a meaningful role in the planning of their areas, as well as implementation of government programmes. It has been argued that fiscal decentralisation increases allocative efficiency since local government is the closest government to

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<sup>1</sup> The law governing the water services is the Water Services Act, No. 108 of 1997.

the people and thus more responsive to their needs and local preferences (Golem, 2010: 63, Ekpo, 2008). The latter further argues that decentralizing the financing of public services increases competitive pressure among different government departments and results in reduction of inefficiency and waste (ibid). However, fiscal decentralisation needs to be coupled with own revenue source in order to make a meaningful impact and avoid asymmetric effect (Golem, 2010:63).

### **Fiscal Federalism**

Tiebout's (1956) model of local public good provision purports that local governments compete on the provision of a mixed product offering (basket of tax and public goods) and local citizens vote with their feet (cited in Porcelli, 2009: 2 and Ekpo: 2008: 5). On the other hand, Oates's (1972) Decentralisation Theorem is premised on the assumption that the main aim of governments is to maximize social welfare to cater for different preferences and reduce spill-over effects (cited in Porcelli, 2009: 2).

### **Second Generation Theories**

Contrary to the classical theory, the second generation theory is premised on the assumption that governments only want to maximize their own objective, which does not translate into the maximization of social welfare (Porcelli, 2009: 3). On the one hand, the decentralisation theorem in a political economy contest, is based on the inefficient outcome of the centralized decision-making process rather than on the benefit [trade off] "between preferences matching and externalities typical of the original version of the Oates' theorem [fiscal federalism]" (ibid: 4). Secondly, in the principal agent models of electoral accountability (where the electorate are the principals and the politicians are the agents), the primary reason for inefficient government's performance is the asymmetric information between them (Ekpo, 2008: 7 and Porcelli, 2009: 4). It is argued that this information asymmetry can be alleviated by a decentralisation regime as it can create tax competition<sup>2</sup> among municipalities and the electorate can then hold politicians accountable which can translate into a more efficient government (Besley and Smart, 2007 cited in Porcelli, 2009: 4-6). Shah's views in relation with transfer of performance based grants (PBGs), resonates with this assertion. He argues that these grants empower principals (citizens) by increasing their information base and reducing the concomitant costs in demanding action (Shah, 2006: 138).

In addition, Ekpo (2008: 7) alludes to the concept of 'exit and voice' where the former involves customers taking their business elsewhere, namely, voting with their feet (mainly pertaining to private market transactions) and the latter involving voicing their opinion directly to providers (more prevalent in the public space).

### **Intergovernmental Transfers (IGTs)**

As intergovernmental transfers are integral to fiscal decentralisation, the above theoretical frameworks are aligned to the forms of decentralisation as adapted from (Dafflon & Madiés, 2011: 9). Whilst both theoretical frameworks have at their core the principles of allocative efficiency and good governance, it is the second generation approach that highlights the importance of political accountability. In addition, classical theories emphasise the importance of transfers for mitigating vertical and horizontal imbalances, whilst second generation theories' emphasis is on the significance of incentives generated by local tax generation for enhancing local economic performance (Weingast, 2006: 13).

The other model to assist in unpacking forms of decentralisation is the one used by Dafflon & Madiés (2011) where they differentiate between top-down form where the centre's preferences dominate and the more bottom-up in which local autonomy dominates. They further argue that the former "shift fiscal constraints to the local level (transfer of costs rather than devolution of powers) -increase national wellbeing (better match of supply to demand) by maintaining the minimal standards of available decentralized public policies" (Dafflon & Madiés (2011: 9). The more desirable form

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<sup>2</sup>Tax competition, where local government compete over tax rates in order to attract tax base, that in the spirit of Leviathan hypothesis should reduce local government taxing power, improving voters' welfare only if officials were rent-seeking, otherwise "the race on the bottom" would have a high probability of reducing social welfare as a consequence of undersupply of public goods.

advanced in this study enhances local-level innovation potential and maintains the diversity of local public goods, namely local financing (taxes or user charges) combinations allowing one to “vote with one’s feet” (ibid).

On the other hand, the lack of flexibility in traditional grant models that emphasize input conditions, defeats the purpose of achieving grant objectives. As Huther, Roberts and Shar (1997) put it (cited in Shah, 2006: 142) “experience has shown that there is no one-to-one link between increases in public spending and improvement in service delivery performance.” Shah further categorizes grant design into four types of transfers<sup>3</sup>. The most relevant form to the current MIG formula is the “Command and Control transfers” where conditions on inputs are emphasised and is said to be tantamount to micro-management and interference in local decision-making (Shah, 2006: 146).

### **ANALYSIS AND FINDINGS**

The findings were presented in terms of the broader community survey in the 8 wards in Mahikeng LM (4 wards) and Thulamela LM (4 wards) of the survey. The community survey responded to three themes, namely under-resourced municipalities’ inability to access their full MIG allocation and inadequate capacity to implement MIG owing to limited income streams to eradicate service delivery backlogs in the water and sanitation sector.

From the survey, it can be deduced that the level of access to water and sanitation services is better in Mahikeng LM than Thulamela LM. This could be linked to the North West Water and Sanitation intervention that has facilitated more funding in the North West Province to specifically improve water services provision. Also the wards that were sampled in Mahikeng LM were direct beneficiaries of the North West Water and Sanitation Programme. What exacerbated the poor water and sanitation situation in Thulamela LM are the remoteness of the areas (as they are located in tribal/traditional areas) as well as general problems of water supply due to water scarcity. Therefore, there will invariably be more infrastructure capital expenditure in the Mahikeng LM wards than areas in the peripheral wards within Thulamela LM.

#### **Access to Water Services in Mahikeng and Thulamela Local Municipalities**

Whilst the North West Water and Sanitation Programme is not without problems, it seems it is making inroads in reducing backlogs in beneficiary municipalities in the North West Province. This can be seen from the better water and sanitation services and satisfaction levels as well as payment levels thereof. Thus it can be argued that Mahikeng LM’s respondents have better access to water services than their Thulamela LM counterparts. The survey results showed that there are more communal taps in Thulamela LM (48 per cent) than from Mahikeng LM (21 per cent). The dire situation with regards to water and sanitation in Thulamela (specifically the area targeted for this study) has been corroborated by a DWA document that indicates 54 per cent and 70 per cent water and sanitation backlogs respectively (2011, 5 -8). In addition, other water users (e. g. irrigation plots) that have cropped up in the area, exacerbate the low levels of water storage in Middle Letaba dam (ibid: 5).

The under-resourced municipalities lack the employed rates payers and viable firms (job providers) and thus various incomestreams to supplement their revenue base. This compounds the growing service delivery backlog challenges. This state of income streams was partially illustrated by the rate of unemployment of respondents in Mahikeng LM (56 per cent) and Thulamela LM (50 per cent), coupled with high rates of unknown sectors in Mahikeng LM (64 per cent) and Thulamela LM (43 per

3

Types of grants that influence negative perception on intergovernmental transfers:

- Passing the buck transfers – general revenue-sharing programs used in Argentina, Brazil, India & Philippines;
- Asking for more trouble grants that fund subnational deficits and further exacerbates deficits in the process. Used in China, Hungary & India;
- Pork barrel transfers which are politically opportunistic grants that were used in Brazil & Pakistan; and
- Command and control transfers used to micromanage and interfere in local decision-making (Shah, 2006: 145 - 146).

**Peter Bikam et al. “Can Fiscal Decentralization Address Water and Sanitation Infrastructure Backlogs in South Africa: The Case Study of Municipal Infrastructure Grant in Mahikeng and Thulamela Local Municipalities”**

cent) that could be attributed to the general trend of the intensification of informal activities. The implications are that the municipalities have fewer people who were able to pay for services provided and number of indigents is increasing.

**Payment Levels for Water and Sanitation**

The payment levels for water and sanitation services of respondents were better in Mahikeng LM (52.5 per cent) than in Thulamela LM (11.5 per cent). If we couple this with the involvement of the respondents in budgetary and planning process, it can be argued that those who are empowered about their right to access services can hold politicians to ransom by withholding their responsibility (i.e. paying as users). The payment levels explain the need for municipalities to be capacitated both institutionally with the necessary expertise to collect from the growing population who use their services and to be geared to expand their water and sanitation. They also have to maintain existing infrastructure by optimally utilising fiscal allocations in line with funder’s requirements as well as responding to local challenges posed by a growing population. The authors are mindful of the limited tax base that can only contribute so much to the municipalities’ fiscal effort, but enlisting the available government resources to plan properly in order to unblock fiscal allocations will go a long way in reducing backlogs. On the other hand, the municipalities need to implement the revenue enhancement strategies that were alluded to in interviews to cut down water losses (as well as electricity losses).

**Residents Levels of Satisfaction with Municipal Projects**

This could also be linked to the low satisfaction levels on the performance of municipal projects. For instance (Table 1) shows that 25 per cent of respondents in Mahikeng LM were both not satisfied with the provision of water and deemed the projects unsuccessful and 40 per cent of respondents in Thulamela LM (Table 2). Similarly, with sanitation services, about 22 per cent of respondents in Mahikeng LM (Table 3).said they were both not satisfied with sanitation services and felt the projects were unsuccessful and 43 per cent of respondents in Thulamela LM (Table 4).

**Table1.** Relationship between performance of municipal projects and level of satisfaction of Mahikeng LM respondents on water provision

Performance of Municipal Projects	Level of Satisfaction of Respondents				Total	
	Satisfied to highly satisfied		Not satisfied			
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Average to highly successful	6	18.80%	11	34.40%	17	53.10%
Unsuccessful	7	21.90%	8	25.00%	15	46.90%
<b>TOTAL</b>	<b>13</b>	<b>40.60%</b>	<b>19</b>	<b>59.40%</b>	<b>32</b>	<b>100.00%</b>

**Source:** Authors’ field data, 2014

**Table2.** Relationship between performance of municipal projects and level of satisfaction of Thulamela LM respondents on water provision

Performance of Municipal Projects	Level of Satisfaction of Respondents				Total	
	Satisfied to highly satisfied		Not satisfied			
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Average to highly successful	8	20.00%	14	35.00%	22	55.00%
Unsuccessful	2	5.00%	16	40.00%	18	45.00%
<b>TOTAL</b>	<b>10</b>	<b>25.00%</b>	<b>30</b>	<b>75.00%</b>	<b>40</b>	<b>100%</b>

**Source:** Authors’ field data, 2014

**Table3.** Relationship between performance of municipal projects and level of satisfaction of Mahikeng LM respondents on sanitation provision

Performance of Municipal Projects	Level of Satisfaction of Respondents				Total	
	Satisfied to highly satisfied		Not satisfied			
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Average to highly successful	8	25.00%	9	28.10%	17	53.10%
Unsuccessful	8	25.00%	7	21.90%	15	46.90%
<b>TOTAL</b>	<b>16</b>	<b>50.00%</b>	<b>16</b>	<b>50.00%</b>	<b>32</b>	<b>100.00%</b>

**Source:** Authors’ field data, 2014

**Peter Bikam et al. "Can Fiscal Decentralization Address Water and Sanitation Infrastructure Backlogs in South Africa: The Case Study of Municipal Infrastructure Grant in Mahikeng and Thulamela Local Municipalities"**

**Table4.** Relationship between performance of municipal projects and level of satisfaction of Thulamela LM respondents on sanitation provision

Performance of Municipal Projects	Level of Satisfaction of Respondents				Total	
	Satisfied to highly satisfied		Not satisfied			
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Average to highly successful	8	20.00%	14	35.00%	22	55.00%
Unsuccessful	2	2.50%	16	42.50%	18	45.00%
<b>TOTAL</b>	10	22.50%	30	77.50%	40	100.00%

**Source:** Authors' field data, 2014

In assessing the respondents' knowledge of municipal budgetary planning processes (as summarised in Table 5), the capacity challenges in the study are also proved by the principal-agent model of accountability discussed under second generation theory of fiscal decentralisation. For example, the inclusivity of budgetary and planning processes in Mahikeng LM (20%) and Thulamela LM (66%) indicates that the institutions are not necessarily responsive to their constituent communities. The principals were the electorate (communities) and the agents were municipal administration (officials and politicians).

**Table5.** Knowledge of municipal budgetary process

Frequency = respondents who answered "Yes"	Sample	Knowledge of IDP process (C1)	Knowledge of Municipal Projects (C6)	Knowledge of Project Funding (C9)	Composite Percentage (C1, C6 & C9)
Mahikeng LM Respondents	39	14 (28%)	7 (18%)	5 (13%)	20%
Thulamela LM Respondents	40	12 (30%)	37 (93%)	30 (75%)	66%
<b>Total Respondents</b>	<b>79</b>				

**Source:** Authors' field data, 2014

The study showed that even with the current level of fiscal decentralisation (driven by a myriad of fiscal transfers to local government); the principals are still not empowered in terms of information base of planning of their areas - hence the need to review the current design of MIG to make it responsive to the electorate.

### Respondents Perception on Water-Borne Diseases

The study results indicate that in Mahikeng LM, 44 per cent of respondents perceived water provision as satisfactory ('satisfied' and 'highly satisfied'). Those experiencing waterborne diseases ('often' to 'very often') were at 40 per cent which is less than those who rarely experience it (61 per cent). There was no statistical significant association between the 'Occurrence of Water-borne Diseases' in respondents' households and the satisfaction of 'water service delivery' in Mahikeng municipality.

Furthermore, Table 6 shows a slight percentage difference in the level of satisfaction (not satisfied) with the provision of water services reported across all categories of the occurrence of water-borne diseases in respondents' households. These differences provide statistical evidence to suggest a strong relationship (Chi-square=3.2732; p=0.0704) between the categories of the occurrence of water-borne diseases and the level of satisfaction with water provision reported by respondents. For instance, only 29 per cent of those who were not satisfied with the provision of water services indicated a frequent (often to very often) occurrence of water-borne diseases in their households as opposed to only 26 per cent of those who experienced water-borne diseases rarely (seldom). The blue drop status (water supply quality) and green drop certification (waste water supply quality) that is below the regulators requirements could be the reason for this occurrence of water-borne diseases as alluded to above.

The study showed a huge percentage differences in the level of satisfaction with the provision of water services reported across all categories of the occurrence of water-borne diseases in the

**Peter Bikam et al. “Can Fiscal Decentralization Address Water and Sanitation Infrastructure Backlogs in South Africa: The Case Study of Municipal Infrastructure Grant in Mahikeng and Thulamela Local Municipalities”**

respondents’ households in Thulamela LM (Table 7). However, there were notably, no statistically significant number of respondents (2.5 per cent) who frequently (often to very often) had someone experiencing water-borne diseases in their household, that were also not satisfied with the water service delivery. On the contrary, a huge percentage (72.5 per cent) of those who were not satisfied with the provision of water services seldom experienced water-borne diseases. It can be deduced that the poor level of water provision in Thulamela LM does not necessarily impact negatively on the health of the residents.

Contrary to the situation in Mahikeng LM, although respondents from Thulamela LM reported a dire situation of 75 per cent and 76 per cent for water and sanitation provision respectively, their rate of waterborne diseases experienced ‘often’ was low (3 per cent). Furthermore, the statistical test illustrating the relationship between ‘Occurrence of Water-borne Diseases’ and the satisfaction with ‘water service delivery revealed no statistical significant association’ in Thulamela municipality. According to the Department of Water Affairs’ (DWA) Blue Drop Provincial Performance Log, Vhembe District Municipality, Thulamela’s Water Service Authority (WSA) is one of the most improved institutions in terms of blue drop status. For instance, their municipal score increased from 34.4 per cent in 2010, to 82.63 per cent in 2011 and an impressive 92.84 per cent in 2012 (DWA).

**Table6.** Relationship between the occurrence of water-borne diseases and water provision in Mahikeng LM

Occurrence of Water-borne Diseases	Level of Satisfaction of Respondents					Total
	Satisfied to highly satisfied		Not satisfied			
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Often to Very Often	4	10.50%	11	29.00%	15	39.50%
Seldom	13	34.20%	10	26.30%	23	60.50%
<b>TOTAL</b>	<b>17</b>	<b>44.70%</b>	<b>21</b>	<b>55.30%</b>	<b>38</b>	<b>100.00%</b>

**Source:** Author’s field data, 2014

**Table7.** Relationship between the occurrence of water-borne diseases and water provision in Thulamela LM

Occurrence of Water-borne Diseases	Level of Satisfaction of Respondents				Total	
	Satisfied to highly satisfied		Not satisfied		Frequency	Percentage
	Frequency	Percentage	Frequency	Percentage		
Often to Very Often	0	0.00%	1	2.50%	1	2.50%
Seldom	10	25.00%	29	72.50%	39	97.50%
<b>TOTAL</b>	<b>10</b>	<b>25.00%</b>	<b>30</b>	<b>75.00%</b>	<b>40</b>	<b>100.00%</b>

**Source:** Authors’ field data, 2014

**KEY INFORMANTS PERCEPTIONS OF WATER AND SANITATION PROJECTS**

As successful implementation of water and sanitation projects depends on the capacity of the implementing agent (the municipality), the study sought to look at the municipal readiness for the implementation of MIG to address water and sanitation services backlogs. Key informants, Chief Financial Officer (CFO), the Director of Planning, Integrated Development Planning (IDP) Manager, the Director of Technical Services, the Performance Management Unit (PMU) Managers, Provincial MIG Office as well as officials from National Treasury) within the decentralisation and fiscal control space were interviewed to have a balanced view of the performance of MIG on the reduction of water and sanitation infrastructure backlogs. Firstly, the responses from the municipal officials were summarised based on the following categories:-

- Strategic planning capability in terms of Integrated Development Plans (IDPs);
- Capacity for project planning & project implementation;
- Statutory reporting that influences the municipalities chances of accessing fiscal allocations;
- Funding availability;

**Peter Bikam et al. "Can Fiscal Decentralization Address Water and Sanitation Infrastructure Backlogs in South Africa: The Case Study of Municipal Infrastructure Grant in Mahikeng and Thulamela Local Municipalities"**

- Revenue generation, which is critical to boost own funding so that municipalities are able to build their assets and not only focus on the reduction of backlogs;
- Reliable data for the indigent register help municipalities to access increased equitable share which is an unconditional grant; and
- Payment of services improves municipality's income and resources to execute operations and maintenance to increase the lifespan of infrastructural assets.

### **Budgetary Constraints and Project Planning Challenges**

Budgetary constraints were raised as an issue affecting the Mahikeng municipality from executing its function of water and sanitation adequately. In addition, it was indicated that MIG in its current form does not adequately respond to backlogs' eradication. The municipality is clearly heavily dependent on grants as revenue collected is less than 10 per cent owing to the rural character of the area & limited portfolio of services offered at their local municipalities. Even if there is little room to increase revenue generation, it was felt that empowering legislation allows for flexibility in raising own funding. To assist the municipalities, Water Services Providers (WSP) with revenue enhancing strategies, the NMMDM's are planning to take over the function of Bulk water Provision. Thus municipalities (Mahikeng LM inclusive) will purchase bulk water from the District and develop a revenue generation enhancement strategy. The municipality's indigent register was said to be unreliable and this affects their equitable share allocations. Municipal officials illustrated low levels of payment for water and sanitation services. Cost recovery is also affected by external factors such as the high unemployment rate and the exodus of economically active people from the area in search of better opportunities, given the fact that the area is underdeveloped both socially and economically (Ngaka Modiri Molema DM Annual Report, 2012: 20).

The Thulamela municipal officials indicated that over and above the identification of projects through the IDP process and annual local assessment, monitoring of service delivery protests is crucial as it influences the prioritization of local needs. The latter illustrated the prevalence of dissatisfaction among community members, which was expressed through service delivery protests. The municipality indicated that they have adequate capacity to roll out MIG projects. Thus, project planning was not indicated as a problem as they reiterated that when funds were transferred all identified and budgeted projects were ready for implementation. This was contrary to the district municipality's Water Service Development Plan (WSDP)'s view about the general lack of capacity to address water and sanitation backlogs. VDM, by its rural nature struggles to attract requisite skills into the area as there is a general mobility of prioritised skills to areas rendering better remuneration. However, the adequacy of the technical capacity might be drawn from their Project Management Unit which is supported by a Municipal Infrastructure Support Agency (MISA) employee at the Vhembe DM level.

Statutory reporting is said to be adequate and is confirmed by submission of Section 71 reports, oversight reports, Service Delivery Budget Implementation Plan (SDBIP) and annual reports, as required. This was corroborated by the fact that projects are done within the ambit of the IDP and in line with funder's requirements. In general, the officials indicated having seen an improvement in reduction of water and sanitation backlogs since the inception of MIG. The indigent register could not be relied on as it did not properly capture the change in population growth. However, this had not affected the DM's conditional grant allocations, which had been growing annually as indicated in Tables 8 by the position of local government transfers. The same cannot be said about the equitable share, as it is informed by the number of poor people in the relevant municipal jurisdiction. There was very low revenue generation from water sales, rates and taxes. There was agreement that more fiscal allocations discourage the municipality to improve their revenue generation capacity. It was felt that the central government's MIG guidelines are not responsive to the current reality, as the guidelines did not allow certain projects which advocated local priorities.

### **Challenges Related to Revenue Allocation**

On a more higher level, the analyses from National Treasury and Provincial MIG Office were informed by Intergovernmental Fiscal Review and Division of Revenue Act (DORA) which tables the budget and is a constitutional requirement in the budget process and grouped the questions and categorized them under the following themes:-

**Peter Bikam et al. “Can Fiscal Decentralization Address Water and Sanitation Infrastructure Backlogs in South Africa: The Case Study of Municipal Infrastructure Grant in Mahikeng and Thulamela Local Municipalities”**

- Institutional arrangements
- Performance of MIG
- Revenue Generation
- Review of grant regime

The respondent reiterated the adequacy and progressive nature of the South African legislative framework in relation to governing fiscal allocations and management thereof. To this end, public institutions are compelled by law to comply with these myriad of legislative directives in order to access funding from approximately eighteen infrastructure grants (MIG is but one of them) that enables them to deliver on their mandate. National Treasury is no exception and has over the years perfected their institutional and governance framework to better support sector departments and municipalities.

Table 8, reveals the dominance of MIG in the infrastructure transfers to local government. It is also clear that MIG has grown over the years since its inception and it is estimated that it will continue growing at 13.5 per cent per year over the medium term (NT, 2011: 53). Notwithstanding the growth of infrastructure transfers to local government, the issue of own revenue raising powers is a constitutional & legislative provision (see Table 9 on LG sources of funding). Hence the division of nationally raised revenue is integral to the budget process.

The replacement of the Regional Service Cost (RSC) levy with the general fuel levy sharing with metros saw a slight decrease in ‘transfers recognised’ (ibid). Notably, revenue emanating from service charges were the largest source of municipal revenue (ibid), thus the importance of credit control measures and revenue enhancement for better debtor management. National transfers are the second largest source for local government revenue (ibid: 61). This is necessary for the rural municipalities<sup>4</sup> targeted in my study as they have very limited tax base and thus own revenue.

**Infrastructure Transfers to Local Governments**

There is existing excel-based monitoring mechanisms (these includes including Section 71 reports, oversight reports, Service Delivery Budget Implementation Plan (SDBIP), and annual reports) to verify monitoring reports required from municipalities on their MIG expenditure by National Treasury . Individual municipal submission is sent back for verification before being published on the NT website. When NT started with the monitoring system in 2005 only 43 municipalities complied with the reporting, but currently all municipalities report quarterly (although with differences in quality of submissions).

**Table8.** Infrastructure transfers to local government, 2006/07 – 2012/13

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	% Ave annual	
R million	Outcome			Revised Estimate	Medium-term estimates			2006/07 - 2009/10	2009/10 - 2012/13
<b>Direct transfers</b>	<b>7,447</b>	<b>15,127</b>	<b>17,095</b>	<b>16,609</b>	<b>19,038</b>	<b>22,072</b>	<b>24,792</b>	<b>31.40%</b>	<b>9.20%</b>
Municipal Infrastructure Grant	5,938	8,754	9,091	11,107	12,529	15,069	18,322	23.20%	13.50%
National electrification programme	391	462	589	933	1,020	1,097	1,151	33.60%	4.10%
Public transport infrastructure & system grant	518	1,174	2,920	2,418	3,699	4,425	4,125	67.10%	3.70%
Neighbourhood development partnership grant	0	41	182	551	1,030	1,190	1,182	0.00%	4.70%
2010 FIFA World Cup stadia development grant	600	4,605	4,295	1,661	302	0	0	40.40%	0.00%
Rural transport services & infrastructure grant	0	0	9	10	10	11	12	0.00%	6.30%
Electricity demand side management	0	0	0	175	220	280	0	0.00%	0.00%

<sup>4</sup>Thulamela Local Municipality; NgakaModiriMolema and Vhembe District Municipalities are rural municipalities, except Mahikeng LM which is a large town, However, Mahikeng is surrounded by numerous dispersed villages which puts it on par with Thulamela LM in terms of the high cost of providing infrastructure to dispersed settlements with no economic base or financial muscle to pay for the services rendered.

**Peter Bikam et al. “Can Fiscal Decentralization Address Water and Sanitation Infrastructure Backlogs in South Africa: The Case Study of Municipal Infrastructure Grant in Mahikeng and Thulamela Local Municipalities”**

Municipal drought relief grant	0	91	9	54	228	0	0	0.00%	0.00%
<b>Indirect transfers</b>	<b>943</b>	<b>1,334</b>	<b>1,928</b>	<b>2,775</b>	<b>2,978</b>	<b>4,014</b>	<b>4,618</b>	<b>43.30%</b>	<b>15.70%</b>
National electrification programme	893	973	1,148	1,478	1,752	1,770	1,914	18.30%	3.00%
Neighbourhood development partnership grant	50	61	54	111	125	100	105	30.50%	-5.60%
Regional bulk infrastructure grant	–	300	450	612	893	1,675	1,849	–	27.50%
Backlogs in water & sanitation in clinics & schools	–	–	186	350	–	–	–	–	–
Backlogs in electrification in clinics & schools	–	–	90	149	–	–	–	–	–
Electricity demand side management	–	–	–	75	109	119	–	–	–
Rural household infrastructure grant	–	–	–	–	100	350	750	–	–
<b>Total</b>	<b>8,390</b>	<b>16,461</b>	<b>19,023</b>	<b>19,684</b>	<b>22,017</b>	<b>26,086</b>	<b>29,410</b>	<b>32.90%</b>	<b>10.10%</b>

Source: National treasury: 2011:54

Table9. Sources of local government funding

Source of local government funding	Constitutional Provisions	Governing legislation
<b>Municipal own revenue sources</b>	Section 229 & 227(2)	Municipal Property Rates Act
Rates on property	Section 229 & 227(2)	Municipal Fiscal Powers & Functions Act
Surcharges on fees for services provided by or on behalf of municipality	Section 229 & 227(2)	Municipal Systems Act Municipal Finance Management Act Electricity Act & Electricity Regulation Act National Water Act Provincial land use planning ordinances
Service charges/fees		Municipal Fiscal Powers & Functions Act
Other taxes, levies or duties	Section 229 & 227(2)	Municipal Systems Act
Administrative fees		Municipal Systems Act
Fines		National Road Traffic Act
Borrowing	Section 230 (A)	Municipal Finance Management Act
Credit control & debt collection		Municipal Systems Act
<b>Transfers from national and provincial government</b>		
Local government equitable share of nationally collected revenues	Section 214 & 227	Intergovernmental Fiscal Relations Act The annual Division of Revenue Act
Fuel levy sharing with metropolitan municipalities	Section 229 (1) (b)	The annual Taxation Laws Amendment Act
Conditional grants from national government	Section 214 (c), 226 (3) & 227 (1) (c)	Intergovernmental Fiscal Relations Act The annual Division of Revenue Act The annual National Appropriation Act
Conditional grants from provincial government	Section 226	The annual Division of Revenue Act The annual Appropriation Act of the relevant province

Source: National treasury: 2011: 36

The respondent believes the feasibility and efficiency of the intergovernmental system is adequate and efficient. He said this is because of the existing legislative framework which provides tools to guide municipalities (e.g. MFMA circulars) as it is captured in the following statement: “The purpose of section 152 (2) is to direct municipalities to use their available resources to realise the objects of local government. However, a municipality must do so ‘within its financial and administrative capacity’”. (National Treasury, 2011: 32).

There are Project Management Units (PMUs) established, in conjunction with MISA from DCOGTA to capacitate municipalities, specifically with technical capacity to support MIG implementation. Mention was made of the need to properly formulate SDBIPs and the need to come up with smarter monitoring mechanisms from departments rather than the onerous processes. This is crucial, given the continued under-spending of municipalities by approximately R30 billion in the Local Government Revenue and Expenditure: Second Quarter 91 July – 31 December 2013 Local Government Section 71 Report (National Treasury, 2014). This, combined with lack of fiscal effort is of great concern to NT as municipalities complain about insufficient budget but cannot spend their allocated resources and make no effort to manage their consumer debtors effectively to enhance their revenue base. NT’s

**Peter Bikam et al. “Can Fiscal Decentralization Address Water and Sanitation Infrastructure Backlogs in South Africa: The Case Study of Municipal Infrastructure Grant in Mahikeng and Thulamela Local Municipalities”**

position is that resources must be used smartly because, where there is no revenue raised, there is no financial sustainability. To this end, the respondent indicated the following as impacting negatively on debtor management and thus growing dependence on fiscal transfers:-

- i. Incorrect budgeting;
- ii. Appointment of the wrong people – inappropriate skills in municipalities result in challenges;
- iii. Political problems; and
- iv. Lack of capacity to plan.

**Grant System and Decentralization**

Grant systems and forms of decentralisation from other countries (inter alia Ghana, Uganda, China, Philippines, Former Socialist countries) outlined several crucial lessons for South Africa’s embryonic fiscal decentralisation system. Firstly, decentralisation in general and fiscal decentralisation in particular is an incremental process and will have to be reviewed as needs change. This process is informed by the form of government system in place that will either decide to have a constitutional provision or a legislative decree. Also important is the supporting machinery that must accompany the fiscal transfers to ensure that they accomplish their objective. Within the group of support machinery is the institutional capacity support to spend the funding to achieve a set of outputs that were originally agreed upon with adequate involvement from constituent communities. This is contrary to more input conditions where the conditional funding cannot be accessed because of onerous compliance procedures, where funding departments end up micromanaging the sub-national government (like the current MIG approach). Furthermore, it was indicated that whilst some sub-national governments (depending on regional disparities), cannot provide services to their populace, increasing public spending can discourage the sub-national government from collecting own revenue instead of enhancing their ability to provide infrastructure services to more people and thereby reducing backlogs. To this end, PBGs were shown as better able to address local priorities as they provide more local autonomy and its criteria looks at the demographic data to inform current and future allocations (as outlined in Table 10).

**Table10.** Model of traditional and performance-based conditional grants

Feature	Traditional Grant	Performance-based Grant
Grant objectives	Spending levels	Quality and access to public services
Grant design and administration	Complex	Simple and transparent
Eligibility	Recipient government department/agency	Recipient government provides funds to government and nongovernment agencies
Conditions	Expenditure on authorised functions and objects	Outputs-service delivery results
Allocation criteria	Programme or project proposals approved with expenditure details	Demographic data of potential clients
Compliance Verification	Higher level inspection and audits	Client feedback and redress, comparison of baseline and post grant data on quality and access
Penalties	Audit observations on financial compliance	Public censure, competitive pressure, voice and exit options for clients
Managerial Flexibility	Little or none. No tolerance for risk and no accountability for failure	Absolute. Rewards for risks but penalties for persistent failure
Local government autonomy and budget flexibility	Little	Absolute
Transparency	Little	Absolute
Focus		
Accountability	Hierarchical to high-level government controls on inputs and process with little or no concern for results	Results-based, bottom-up, client-based

**Source:** Shah, 2006: 141

In the final analysis, South Africa as a late entrant in the democratisation of local governance has an opportunity to keep the good features and omit what the failures of grant systems and forms of

**Peter Bikam et al. “Can Fiscal Decentralization Address Water and Sanitation Infrastructure Backlogs in South Africa: The Case Study of Municipal Infrastructure Grant in Mahikeng and Thulamela Local Municipalities”**

decentralisation from other countries (inter alia Ghana, Uganda, China, Philippines, Former Socialist countries).

The community survey assisted in determining the actual access levels to water and sanitation services, as well as their perceptions on the quality of services provided by the municipalities in the study area. The results on the access to the highest levels of water and sanitation services indicated better access levels for both services in Mahikeng LM rather than Thulamela LM. For instance, access levels to household/yard tap were 82 per cent and 58 per cent in Mahikeng LM and in Thulamela LM respectively and access levels to a flush toilet were 59 per cent and 45 per cent in Mahikeng LM and Thulamela LM respectively. One of the reasons for generally better access levels and payment levels in Mahikeng LM could be attributed to it being a large town with more urban settlements that enable easier infrastructure development, compared to the more sparse rural settlement patterns in Thulamela LM which increase the cost of the provision of services.

Whilst infrastructure provision has improved, in general, since the dawn of democracy, the high unemployment and poverty levels have made it difficult for municipalities to collect commensurate service charges from clients. The clients are also not meeting their obligations (in respect to municipal services consumed) as they claim not to be satisfied with the level of service as shown in the study. Information from municipal officials on their institutional and technical capacity is not in line with official government information pertaining to poor planning, budgeting processes, skills gap etc. These challenges in implementing infrastructure projects have been confirmed by the National Treasury respondent as well as Provincial MIG Office. They are also well documented and are in the public domain. The municipal officials did allude to the problem of insufficient funding (grants and own revenue) as impediments to provide services (instead of institutional and technical capacity problems).

The two municipalities and their WSAs (DMs) have experienced service delivery protests in recent times and respondents indicated unresponsive institutions where redress is not being taken seriously. However, the current review of the grant regime and the continual interventions (such as MISA and capacity building grants) from government will go a long way in reducing infrastructure backlogs and improving the quality of life of affected communities.

National Treasury and Provincial MIG also acknowledged the problem of MIG in its current design and thus the current review of the grant system that is underway. However, NT believes if resources are used in a smart way and municipalities improve their debtor management (including demand management strategies to deal with non-revenue water and electricity losses), they will be in a better financial position to deliver services and reduce overreliance on fiscal allocations.

### **The Need to Review MIG Allocation Formula**

First, the current review of the MIG design must include elements of a performance based grant system that will allow municipalities to address local objectives in line with the IDPs. Whilst the funder's requirements must also be addressed, they must not be the main feature of the grant system as it penalizes municipalities that have limited capacity to address them. The study has shown that the design of conditional grants transfer in fiscal decentralisation is crucial if fiscal decentralisation is to achieve allocative efficiency and reduce services backlogs in general and water and sanitation infrastructure backlogs in particular. To this end, a performance-based grant transfer system was recommended to replace the input-based, often onerous grant transfer system.

The capacity of the municipality, both in terms of the institutional readiness as well as financial resources was indicated as important if municipalities are to spend smartly and within budget. The poor institutional and financing capacity renders municipalities unable to achieve the stability and continuity needed to incrementally improve on their service-rendering mandate through proper planning as well as operations and maintenance of existing assets. Thus there is a need to ensure that the right people, especially in the crucial operational levels, are appointed in order to achieve the objectives of a developmental local government in general and the MIG in particular.

In addition, assessing institutional arrangements to be able to plan and implement the municipalities' capital infrastructure programmes is crucial as this will enable the municipalities to access more funding for implementation. To this end, the existing PMUs in the two local municipalities must work

**Peter Bikam et al. “Can Fiscal Decentralization Address Water and Sanitation Infrastructure Backlogs in South Africa: The Case Study of Municipal Infrastructure Grant in Mahikeng and Thulamela Local Municipalities”**

in conjunction with their DMs’ PMUs to achieve economies of scale during planning and implementation phases in order to complement the constrained resources and to transfer skills. Also important is the roll-out of performance contracts to levels beyond the fixed term contract employees in line with SDBIPs. This will enable municipal officials at lower levels to also take ownership of the projects and/or programmes they are responsible for. Importantly, this must be aligned to PBGs that are recommended in the mix of the grant system to be implemented

The reason for the high levels of grant dependency is due a myriad of reasons ranging from high unemployment rate and therefore higher prevalence of indigents (this might be higher since the findings have shown inaccurate demographic data). The study has demonstrated that there is a basic problem of the accuracy and reliability of their demographic data in relation to indigents register. This hampers the municipalities’ ability to access requisite funding as they normally use outdated information. Given the continuing influx of people from different areas into other areas perceived to have better opportunities, municipal demographic data, especially the poor needs periodic updating. The municipal audits with regards to blue drop and green drop needs a concerted effort to be addressed so as to eradicate the prevalence of water-borne diseases as reported by some respondents in Mahikeng LM.

This research has brought to the surface many issues that warrant further study.

- There is need assess how institutional arrangements (specifically for the reduction of water and sanitation backlogs) can be geared towards an integrated planning, funding and implementation model of the noble ideas and recommendations in respect of the embryonic intergovernmental system outlined in many government publications referred to throughout the report.
- In addition, there is need to investigate how the central government can incentivize municipalities to exploit revenue enhancement mechanisms in their areas of jurisdiction, so that they can increase own revenue to adequately operate and maintain existing infrastructure whilst building new one for both the reduction of backlogs and economic enhancing assets.

Lastly, a broader reflection on the impact of the government’s infrastructure grant package might be necessary, to align the various programmes in order to make a meaningful input in the reduction of underdevelopment as well as breaking the frontiers of poverty.

## **CONCLUSIONS**

From the community survey and expert interviews, it can be concluded that the capacity of under-resourced municipalities makes it difficult for them to optimally utilise MIG to eradicate water and sanitation infrastructure backlogs. This was illustrated by the low revenue base owing to high unemployment rates the culture of non-payment for services rendered amidst the growing number of indigents. This meant that municipalities end up with no additional income streams to complement grant transfers to build economic infrastructure that can grow their assets and thus their revenue base.

The negative outcome of the implementation of MIG in the study area was also thought to be purely a design problem as the MIG allocation formula was considered to have failed dismally in focusing on local preferences by addressing geographical extent of municipalities, human capital and revenue base that essentially contribute to the failure of fiscal decentralisation and the inability to address water and sanitation sector in the study area. This was confirmed by the two local municipalities and the provincial MIG Official.

The results of the survey, couples with the input conditionality model of the MIG formula further illustrated a more top-down form of decentralisation in the study area. Even though the South African cooperative governance principle enshrined in the Constitution purports that the three spheres of government are autonomous, local government is subjected to a myriad of conditions from various government departments in order to access their fiscal allocations. This form of decentralisation lends itself more top-down and as a result not adequately geared to achieve the local outputs as informed by local preferences. Thus our argument and support for calls to simultaneously use any system that is ultimately chosen with a performance based grant system that also takes local preferences and conditions into consideration.

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**Peter Bikam et al. “Can Fiscal Decentralization Address Water and Sanitation Infrastructure Backlogs in South Africa: The Case Study of Municipal Infrastructure Grant in Mahikeng and Thulamela Local Municipalities”**

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