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April, Mvuyisi Sibongile Mkhululi

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THE EFFECTS OF FISCAL DECENTRALIZATION ON THE PROVISION OF BASIC SERVICES IN EMALAHLENI LOCAL MUNICIPALITY

BY
MVUYISI SIBONGILE MKHULULI APRIL

31 MARCH 2016

DEDICATION

This entire Master's degree is dedicated to my mother who has carried me since conception. She was there with me after her two elder sons died from unfortunate circumstances at the hands of her mother in law of which I miraculously survived because of God's grace. She was there for all of us when our father was murdered on the streets of Umtata – a case that was never solved nor killers ever found. Till this day, she is still there as a lone widow that never hesitated to offer help, advice and encouragement when life came up hard on us and our children.

I can never thank you enough as words cannot express nor quantify the amount of love that pours out from your heart towards us your children, every day in all these decades. Even if it meant that we become fugitives and grew up living with relatives away from home, hard as it was, we have achieved the things you wanted for us – a better education and a better life – so that we can come back home to give you rest from your toiling. May this really bring you comfort and joy during the remaining days of your life.

I love you and always will.

ACKNOWLEDGMENTS

I would like to thank God Almighty for affording me this opportunity to be able to get to this academic level in life. A few years ago it was impossible and therefore I never even dreamt of it, yet He alone knew the plans He had for me, those of goodness and a future.

To my grandmother, MaMgcina, Thyopho, Nokwindla, ndlezana yentombi yaseMaNgwevini, mfaz'omhle kaTshiphile, usithwele sonke ngemibele yakho ebonxileyo yonke leminyaka. Alukho nolunye usuku elake ladlula ungazange wavuka, walala ngapandle komthandazo uthandazela zonke ezi zizukulwana zingaka. Enkosi MaQwathi, ingakumbi Mhana ngokundithanda nangokundikhuthaza kwakho mihla nezolo.

Secondly I would like to thank my mother, Nomsa April for all the dedication and support she gave me throughout my life. Enkosi MaMqwathi, Dikela, Noni, Ntswayibane. Imisebenzi yakho yokusinika eli lifa iyakuhlala ihleli nakwesizayo isizukulwana.

My wife has always been a pillar of my life through all life's' difficulties. Often I would make decisions and push them through as I did with these studies, leaving her with all the children but she would not complain but support me knowing that this is for the best of us all. Enkosi MaNzotho, Maphango, Nyelenzi. All the proceeds of this investment are yours.

To my one and only sister who always believe in me, thanks Amish. Nakuwe silindile!

Without my employer, the South African Local Government Association (SALGA) I would not have been able to finance these studies. Thank you SALGA for being the employer of choice. This is one of many knowledge products to come in support your mandate of ensuring fiscal equity and sufficiently funded municipalities across the republic.

My Honourable Mayor of Emalahleni Local Municipality Councillor Nomveliso Nyukwana enkosi MaBhayi kuwe, uSomlomo weBhunga uCouncillor Nolitha Lali naakwiiNkokheli zonke zaloMasipala wasekhaya, Dr Sithembele Wiseman Vatala, my Municipal Manager, enkosi mphathi. Ndibamba ngazo zozibini kuwe nakuwo wonke amasekela wakho aphethe amasebe kamasipala.

To my colleague and friend, Honourable Executive Mayor of Lukhanji Local Municipality Councillor Nozibele Makanda. Inkxaso yakho kubomi bam bempangelo buyinto yonke!

Last but not least, I can proudly call myself a specialist in Public Policy all of which are direct outcomes of the coaching by my lecturers at the WITS School of Governance, especially Professor Pundy Pillay for teaching me Macroeconomics and Public Finance. This is out of your investment in lecturing and supervising my studies. Thanks to you all.

Uyabulela ke uBhayi, uKhetshe, uMvundle, uGobhozi! Ndithi phambili Mz'ontsundu!!

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LIST OF ABBREVIATIONS

ELM	Emalahleni Local Municipality
CHDM	Chris Hani District Municipality
EC	Eastern Cape
SA	South Africa
SALGA	South African Local Government Association
CoGTA	Department of Cooperative Governance and Traditional Affairs
ACMS	African Centre for Migration and Society
StatsSA	Statistics South Africa
FFC	Finance and Fiscal Commission
NT	National Treasury
MFMA	Municipal Finance Management Act
IDP	Integrated Development Plan
SDBIP	Service Delivery and Budget Implementation Plan
HDI	Human Development Index
MTEF	Medium Term Expenditure Framework
FBS	Free Basic Services
LGES	Local Government Equitable Share
DORA	Division of Revenue Act
SACN	South African Cities Network
IUDF	Integrated Urban Development Framework
SMME's	Small, Micro and Medium Enterprises
MBD	Municipal Demarcation Board
MIG	Municipal Infrastructure Grant
RBIG	Rural Bulk Infrastructure Grant
INEP	Integrated National Electricity Programme
DPLG	Department of Provincial and Local Government

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DECLARATION ON PLAGIARISM

Course code	PADM 7204
Name of course	Research Report
Potential Supervisors	Professor Pundy Pillay
Assignment question	The effects of fiscal decentralization on the provision of basic services in Emalahleni Local Municipality
Report Submission Date	31 March 2016
Student Name	MSM APRIL
Student Number	893982

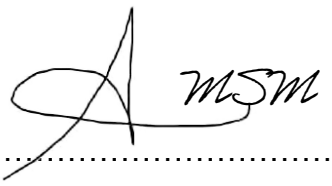
I **Mvuyisi S. April** Student number: **893982** am a student registered for MM-PP in the year 2014 - 2015.

I hereby declare the following:

I confirm that the work I will submit for all assessment for the above course is my own unaided work. I have followed the required conventions in referencing the thoughts and ideas of others. **I am aware that the correct method for referencing material and a discussion on what plagiarism is are explained in the P&DM Style Guide and these issues have been discussed in class during Orientation.**

I am aware that plagiarism (the use of someone else's work without their permission and/or without acknowledging the original source) is wrong. I understand that the University of the Witwatersrand may take disciplinary action against me if there is a belief that this is not my own unaided work or that I have failed to correctly acknowledge the source of the ideas or words in my writing.

Signature: **Date: 31/03/2016**



……

MSM APRIL

ABSTRACT

Fiscal decentralization is defined as the degree of autonomy and responsibility given to subnational governments. Fiscal decentralization looks at the assignment of functions to different levels of government and the appropriate fiscal instruments for carrying out these functions. Fiscal decentralization implies a level of autonomy given to sub-national governments. Through decentralized budgeting, local governments are tasked with the responsibility of ensuring that service delivery to communities is effective and efficient.

Unfortunately the subnational spheres of government are more dependent on the national allocations as a result of a more centralized revenue collection system. The national budget is then shared vertically across the three spheres of government using the equitable share formula. The Local Government Equitable Share (LGES) is mainly allocated for the provision of basic services to local communities. The equitable share is also complemented with various conditional grants aimed at the reduction of infrastructure backlogs and other national priorities like water and electricity. However, the outcomes have been uneven across municipalities with some seen as excellent and others as dysfunctional.

The South African Twenty Year Review Report indicates that challenges with the quality and functionality of municipal services in municipalities have led to backlogs and unevenness in the quality of service delivery which has contributed to deep-seated dissatisfaction in some communities, as evidenced by the steep rise in service delivery protests. This is an indication of how municipalities are not able to match the revenue they receive from the National Treasury and from collections made through rates and taxes with the amount of services expected from them.

In a decentralized model of governance where national and provincial government are able to assign and delegate their responsibilities to local government, funding must then follow these functions. In doing do this will ensure that the responsibilities municipalities are tasked with are backed up by the sufficient budgets and other necessary resources from national or provincial governments. Unfortunately this is not the case in South Africa as seen in the multiplicity of ‘unfunded and underfunded mandates.”

This clearly shows that the local government sphere has not been receiving sufficient revenue from the Fiscus to deal with the growing demand for services propagated by increased populations. This is a direct result of the failures of the fiscal framework that governs the allocation of funds to local government resulting in the smaller and rural municipalities being unable to deliver services to their communities.

The Local Government Equitable Share formula also does not ensure equity among the citizens, hence most rural communities are still without basic services, including lack of sanitation and refuse collection in all the villages of the country. Even if the LGES was sufficient to ensure that basic services are catered for other functions of local government would not be covered and therefore compromising the principle of horizontal equity among the citizens of South Africa who are entitled to equal benefits, privileges and rights within the boundaries of the republic.

CHAPTER 1

INTRODUCTION AND BACKGROUND

1.1 Introduction

This Research Report is part of the requirements towards the fulfilment of the Master of Management in Public Policy (MM-PP) degree within the School of Governance at the University of Witwatersrand. The field of study for the research is public policy focusing on the effects of fiscal decentralization on the provision of basic services by Emalahleni Local Municipality in the Eastern Cape Province of South Africa. It aims at understanding the instruments that enable or disable the institution to fulfil its developmental mandate within the fiscal framework they are operating within. Qualitative Research was used as the most appropriate methodology for the study.

Fiscal decentralization as a unit of analysis is defined as "the degree of autonomy and responsibility given to subnational governments" (Helmsing et.al, 1996:50). South Africa has a decentralized system of governance that constitute three spheres of government – national, provincial and local – all with their individual responsibilities. Unfortunately the subnational spheres of government are more dependent on the national allocations as a result of a more centralized revenue collection system through the South African Revenue Services (SARS). The national budget is then shared vertically across the three spheres of government using the equitable share formula. The Local Government Equitable Share (LGES) is mainly allocated for the provision of basic services to local communities. The equitable share is also complemented with various conditional grants aimed at the reduction of infrastructure backlogs and other national priorities like water and electricity. However, the outcomes have been uneven across municipalities with some seen as excellent and others as dysfunctional as pointed out by the Department of Cooperative Governance and Traditional Affairs (CoGTA) in the their Back to Basics programme outline (CoGTA, 2014:4).

This clearly shows that there is a huge disjuncture between the developmental local government the White Paper on Local Government (1998) envisioned and the current state of municipalities in the country. Critical to this is the effect of the current fiscal decentralization model on the ability of municipalities to fulfil their developmental goals.

The study was underpinned from a Critical Theory or Social Transformation paradigm and will thus use qualitative research methods to reflect on the past experiences of local government since their formation and attach meaning to the current state of affairs as pointed out by various institutions. An inductive reasoning approach was used to critically analyse the case of the proposed tool of analysis which is the municipality under review by obtaining data from various government reports including CoGTA; the National Treasury; the Auditor General; Statistics South Africa; Municipal Annual Reports and even interviews with municipal officials and communities in order to answer the research question posed.

Through content analysis the research has validated the theory of fiscal federalism (Oates, 1972) that if South Africa wants to go further on the developmental path, greater fiscal powers needs to be given to local government (Helmsing, 1996:50). This should necessitate the country to relook at the determinants of fiscal decentralization and how local government, aimed at ensuring better local services, has not succeeded due to "its failure to ensure sufficient human capital, local accountability and social equity" as the preconditions for successful decentralization" (Pillay, 2009:147).

1.2 Problem Statement

"Over the past 20 years, remarkable achievements have been made in increasing access to a basic level of essential municipal services, especially for communities deliberately excluded by apartheid" (The Presidency, 2010: 24). The South African Twenty Year Review Report also indicates that challenges with the quality and functionality of municipal services in municipalities have led to "backlogs and unevenness in the quality of service delivery which has contributed to deep-seated dissatisfaction in some communities, as evidenced by the steep rise in service delivery protests" (The Presidency, 2010: 33).

This is an indication of how municipalities are not able to match the revenue they receive from the National Treasury and from collections made through rates and taxes with the amount of services expected from them. The recent “Audit Outcomes” by the Auditor General of South Africa (AGSA) coupled with the spate of service delivery protests by communities is an indication that the fiscal model and how its implementation needs to be improved to ensure that local government is efficient and effective in delivering its mandate. As Makwethu states (2014: online) “This is a goal within reach and a key ingredient in building trust in the credibility and accountability of local government”.

The Emalahleni Local Municipality in the Eastern Cape has over the years received varying reports on its expenditure including its own assessment of development. The Municipal Integrated Development Plan (IDP) for 2014/2015 states that “municipalities are required by legislation to test the level of development in the municipal area on an annual basis so as to ensure that plans and resource allocations respond to the needs of the communities” (Emalahleni, 2014:19). In their own assessment through environmental scanning of all their areas, the municipality reports a series of developmental challenges that it is grappling with in relation to the provision of service delivery.

In addition to these socio-economic challenges, the municipality has the fourth largest population within the Chris Hani District Municipality, extends over 3 840 square kilometres with more than 200 rural villages and comprises 17 wards (Emalahleni, 2014:19). The low level of economic activity coupled with a low revenue base makes it difficult for the municipality to provide basic services to its communities. Its IDP for 2014/2015 articulates that when it comes to sanitation, the picture is worse compared to others in the district and province and thus pit latrines have been consistently used since 1995 with very little progress to eradicate them.

Formal waste collection is limited to urban areas while rural areas are not serviced at all. In addition, the municipality has only four roads while the rest of the 200 villages remain with gravel roads, poor storm water drainage and thus lots of mobility challenges during the rainy seasons.

This is a typical picture of most local municipalities in the country and is a structural challenge that many of them are unable to deal with by themselves.

1.3 Research Objectives

1.3.1. Primary research objective

The primary objective of the study is:

- To evaluate the effects of fiscal decentralization in the provision of basic services in Emalahleni Local Municipality.

1.3.2 Secondary research objectives

The secondary objectives are:

- To identify the extent to which the budget allocations have assisted local government in the provision of basic services to their communities;

- To identify the successes achieved by the Emalahleni Local municipality in the provision of services during since the inception of the current local government system; and

- To identify the challenges experienced by the municipality in the provision of services and how those have impeded it in delivering on the developmental goals.

1.4 Research Questions

1.4.1 Primary research question

The research will aim to answer the following main question in order to achieve its objectives as indicated below:

- What are the effects of fiscal decentralization on the provision of basic services in Emalahleni Local Municipality?

1.4.2 Secondary research questions

- What were the key deliverables that the municipality aimed to achieve for the period as expressed in its Integrated Developmental Plan (IDP) for the past years?

- What were the successes achieved by the municipality in the provision of services during this period?
- What were the challenges experienced by the municipality in the provision of services during the period?

1.5 Conclusion

Local government has shown varying outcomes in their ability to function and deliver on their mandate of providing basic services to communities. Once of the contributing factors has been the current fiscal decentralization model on the ability of municipalities to fulfil their developmental goals.

The study has underpinned from a Critical Theory or Social Transformation paradigm and will thus use qualitative research methods to reflect on the past experiences of local government since their formation and attach meaning to the current state of affairs as pointed out by various institutions.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This section assessed the various published document on fiscal decentralization beginning from the foundational theories, definitions, contemporary practices as well as the pros and cons of fiscal decentralization in both developed and developing countries. This will also review how this model of governance has been applied including allocation of fiscal resources to sub-national government, especially local government. The objective of literature review is to benchmark with other countries and set a context for the South African case through the work of other scholars. The case of Emalahleni Local Municipality will also be contextualized through the literature review.

2.2 Fiscal Decentralization in South Africa

Fiscal decentralization looks at "the assignment of functions to different levels of government and the appropriate fiscal instruments for carrying out these functions" (Oates, 1999:1121). Fiscal decentralization implies a level of autonomy given to sub-national governments. Through decentralized budgeting, local governments are tasked with the responsibility of ensuring that service delivery to communities is effective and efficient. Oates (1999:1120) argues that "fiscal decentralization is very fashionable such that both developed and developing countries are transferring their functions to local government in order to improve service delivery". South Africa is no different from this worldwide occurrence. The Constitution of the Republic of South Africa puts an enormous amount of responsibilities on the lowest sphere of government to be developmental by managing its administration and budgeting to give priority to the basic needs of the community. Assignment of functions by national and provincial government to any municipality is provided for by Section 156(4) of the Constitution of the Republic of South Africa and process outlined in Chapter 3 of the Municipal Systems Act (2000). This is an indication of a decentralized model of governance.

The challenge, as Oates (1999:1120) further contends, is “aligning responsibilities and fiscal instruments with the proper levels of government”. In a decentralized model of governance where national and provincial government are able to assign and delegate their responsibilities to local government, funding must then follow these functions. In doing do this will ensure that the responsibilities municipalities are tasked with are backed up by the sufficient budgets and other necessary resources from national or provincial governments. Unfortunately this is not the case in South Africa as seen in the multiplicity of ‘unfunded and underfunded mandates’. Only local government has these challenges and no other sphere of government.

Over the past years local government in the country has been performing several functions listed in the Constitution as responsibilities of national and provincial government including library services, but the bulk of the national Fiscus has not found its way to municipalities. This is evident in the allocation of the Equitable Share where the Budget Allocation by the National Treasury for the 2015/2016 financial year with 49.7% allocation to national government; 43.1% to provincial government and 9% to local government (Davis, 2015: online). This has been the trend since the dawn of democracy.

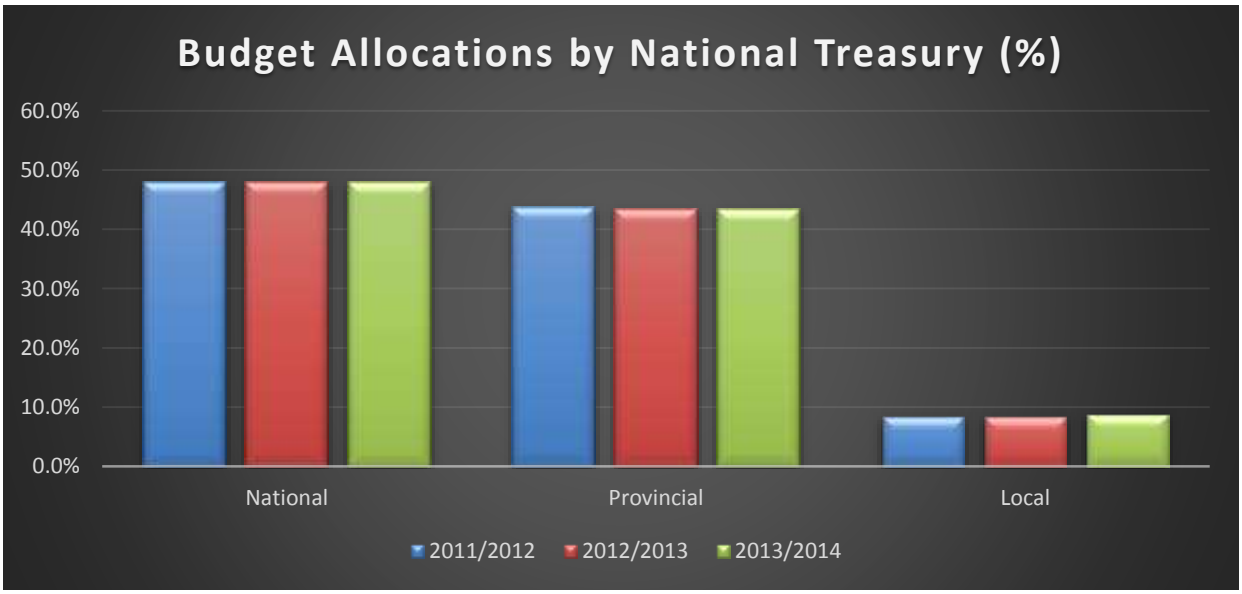


Figure 1: Budget Allocations by National Treasury (2011 – 2014)

The graph above clearly shows that the local government sphere has not been receiving sufficient revenue from the Fiscus to deal with the growing demand for services

propagated by increased populations. This is a direct result of the fiscal framework that governs the allocation of funds to local government resulting in the smaller and rural municipalities being unable to deliver services to their communities.

As a country with a history of exclusion and economic marginalization of the majority of the population due to apartheid laws, “South African society is characterized by large socioeconomic backlogs and under servicing across social groups and regions” (Yemek, 2005: 2). Yemek (2005) argues that “despite improvements over the past few years, the country is still confronted with poverty; unemployment; high living costs; sicknesses and diseases, which all lead to the ability of the country’s fiscal decentralization system to deal with the plight of the poor being questioned.” Most rural municipalities including the Emalahleni Local Municipality is one of those directly affected by this fiscal decentralization model in South Africa, leaving it in dire budget constraints and inability to deliver on its mandate including basic services to its communities.

Fiscal Policy which is aimed at guiding government in dealing with the macroeconomic challenges it is confronted with, seems not be in line with the aspirations of the ruling party nor the Freedom Charter it professes to be guided with in its policy directives. The South African Local Government Association (SALGA) has made to the National Treasury through the Budget Forum, that the fiscal model currently being implemented in the country is unfavourable to local government and therefore it will never assist them to deal with its service backlogs nor create a conducive environment for the development of its citizens. Schoeman (2006) argues that the fiscal decentralization process in the country has been inundated with problems of its own. These include accusations that “national government uses municipalities as a dumping ground for politicians who can’t make it to the national level; corruption and malpractices as well as lack of electoral accountability” (Schoeman, 2006:111).

Pillay (2009) also concurs with these arguments that for decentralization to succeed local government needs to meet its basic requirements of having sufficient human capital and accountability. Unfortunately these are not the issues local government is excelling at, or making headlines for. National and provincial government has also not built the necessary

capacity in the sphere to deal with the numerous challenges it is facing. Instead all municipalities who are deemed financial unsustainable by national government are closed down and merged with others – without dealing with the roots of the problems but rather transferring those to another Municipal Council.

Therefore hopes that the sphere will be better off under this fiscal framework are very slim. Mayors and Municipal Managers need to deal to find ways of improving its capacity to carry out its developmental duties including better fiscal management.

2.3 Assignment of functions within a decentralized system

According to Oates (1999:1121) “Decentralized levels of government have their raison d’etre in the provision of goods and services whose consumption is limited to their own jurisdiction”. Parts A of Schedules 4 and 5 of the Constitution of the Republic list the concurrent functions of national and provincial government while Parts B of Schedules 4 and 5 lists the responsibilities of local government. The Constitution also makes provision for the assignment of functions to local government by the two higher levels of government based on mutual agreement. The process of assignment of functions by other spheres of government is outlined in Chapter 3 of the Municipal Systems Act (Act 32 of 2000).

Whether it is by choice or inherently historical in the system, some of these functions from national or provincial government have not left local government nor communities better off due to funding not following the function, leading to unfunded or underfunded mandates. These include libraries which is a function of provincial government.

2.3.1 Provision of basic services by local government

The legacy of apartheid in South Africa is so huge that the majority of previously disadvantaged communities are still struggling to meet their basic needs. These include water, sanitation, electricity and refuse collection. These four services have been defined as the most basic services that local government should provide to all its communities. The Constitution of the Republic also stipulates that that there three categories of

municipalities would work hand in hand in the provision of these based on their jurisdiction. While the Metropolitan municipalities have much more responsibilities including the provision of human settlement, district municipalities are responsible for the provision of bulk infrastructure and services to their local municipalities, including water and electricity. This leaves local municipalities with the day to day operations.

2.3.2 Funding for basic services

The Constitution of the Republic of South Africa puts an obligation to the local government sphere to conduct its business in order to meet the basic needs of their communities. Section 227(1)(a) further puts and enormous responsibility that it's fiscal allocation from national government will mainly be for the provision of basic services. The concept of basic services was further clarified by the then Department of Provincial and Local Government (DPLG) in 2005 through its National Framework for Municipal Indigent Policies and Guidelines. The framework listed these free basic services as water, electricity, sanitation and refuse collection.

Through their indigent policies municipalities develop a register for all those members of the community who cannot be able to afford basic services needed for their survival and dignity. The National Treasury through the LGES formula incorporates these household subsidies into the fiscal allocations of each municipality in the country. Indigent communities are then entitled to 6000 litres of water, 50 kilowatts or even full subsidy in extreme cases as well as R50 subsidy for sanitation and refuse services per month.

The Constitution of the Republic of South Africa sets the framework for the allocation of fiscal instruments to sub-national government in line with the decentralized model of governance. As the main revenue source, the Constitution mandates national government to provide local government with a portion of the equitable share for the provision of basic services, to perform its functions as well as fulfil any other national or provincial objective allocated to it by means of conditional or unconditional grants. The challenge is whether these functions are sufficiently funded and what are the effects of the fiscal model practiced on local municipalities with no revenue of their own.

2.3.2.1 The Local Government Equitable Share Allocation

The LGES is an unconditional grant given to all municipalities by the National Treasury in compliance with the provisions of the Constitution. These allocations have over the years increased parallel to the increase in the amount of national budget.

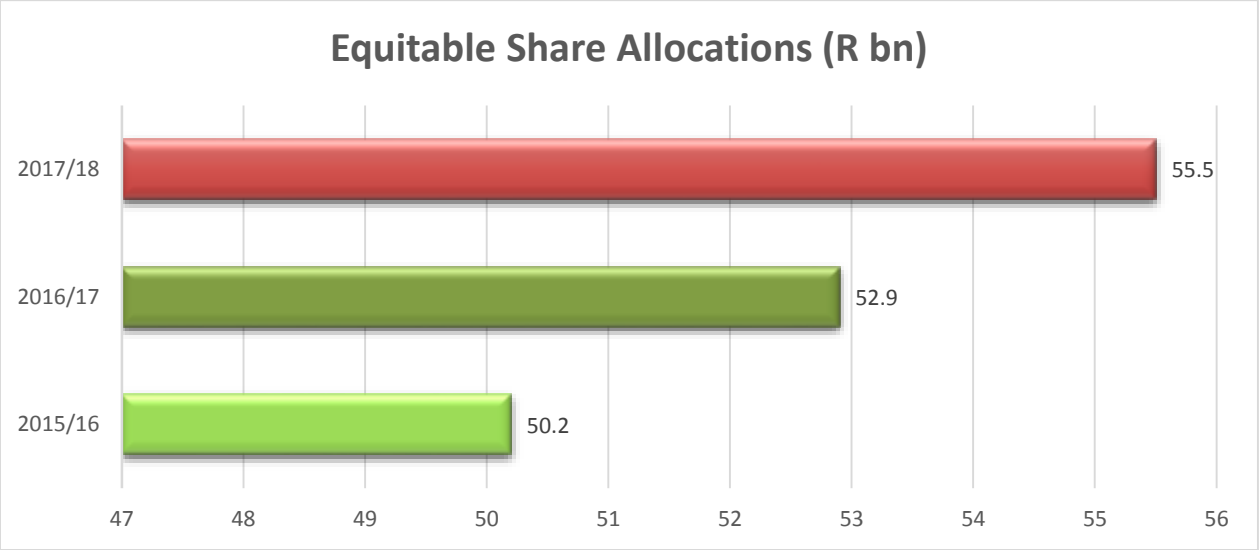


Figure 2: Equitable Share Allocations over the 2015 MTEF

The National Treasury in the 2015 Budget Review reported that the total equitable share allocations for local government have increased to R158.6 billion (NT, 2015:34). These amounts include provision for basic services (74.9%), administration and governance (10%) as well as the correction and stabilizing factor (15%) aimed at ensuring that there is proper planning over the MTEF cycle.

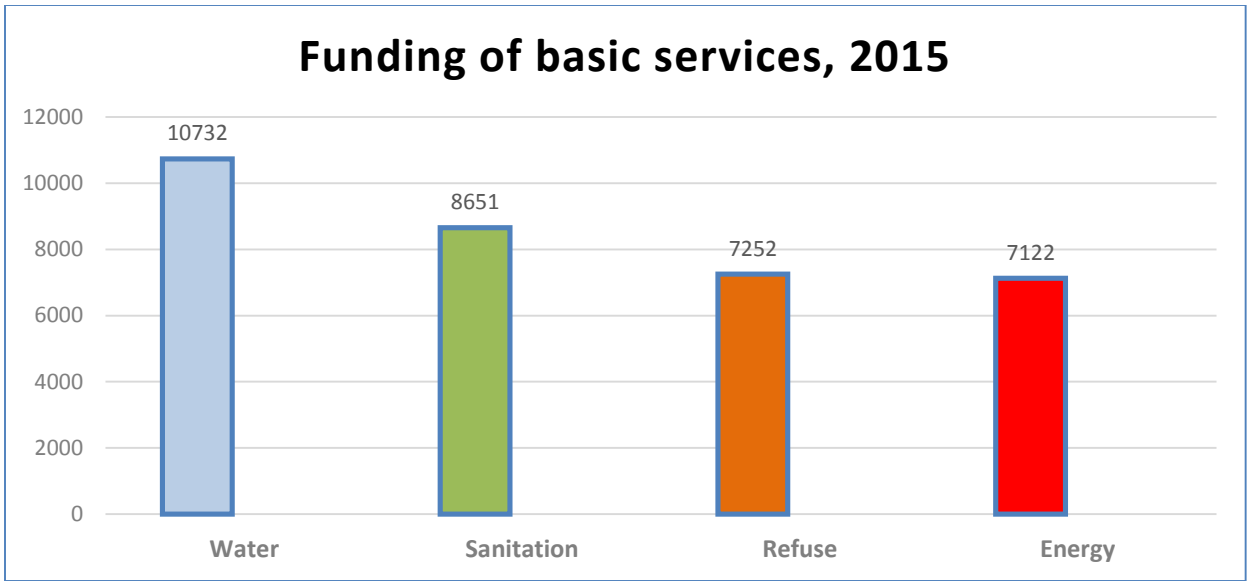


Figure 3: Funding of basic services (NT, 2015:36)

Figure 3 shows the total equitable share allocation to households who fall below the affordability threshold. These are households who are entitled to receive the free basic services from their municipalities on a monthly basis. Water currently receives the most allocation of R10.732 million per annum (32%) followed by sanitation R8.651mil (26%), refuse R7.252mil (21%) and energy 7.122mil (21%). The total amount for basic services through the LGES is R33 757million.

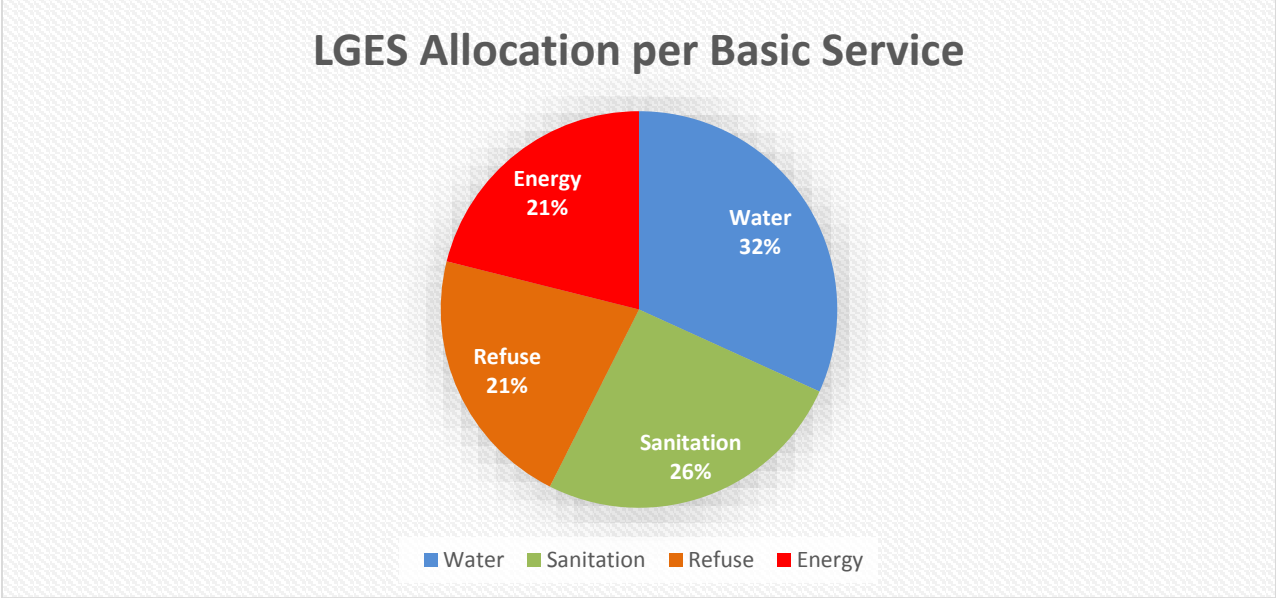


Figure 4: LGES allocation per basic service (NT, 2015:36)

The figures above show that municipalities receive a substantial amount of money to deliver basic services to their communities, and these have increased over the years. These allocations are based on the population of each municipality to ensure that each household residing within the jurisdiction of the municipality is accounted for.

The challenge with the population based formula is that it relies of the Census data that is released by StatsSA once a decade and therefore does not cater for outward nor inward migration between municipalities. This does not only pose a challenge to rural municipalities who tend to received less money but also metropolitan municipalities who have high influx of migrants from within and outside the borders of the country in between the census periods.

2.3.2.2 Cost of Basic Services

Coupled with these challenges of migration and population based formula in the allocation of the LGES is the absence of a guiding framework on the cost of providing free basic services. Since the introduction of the LGES municipalities had no basis for determining what it costs them to provide basic services to various communities. National Treasury also had no model on how different municipalities looking at their geographical patterns and other rural dynamics or farms with no infrastructure would cost a municipality to provide services to those. This further created fiscal gaps where rural municipalities would spend huge amounts of money to provide a handful of services to communities far distant to the service point while urban settlement would cost less for the same service.

The Finance and Fiscal Commission (FFC) in partnership with the South African Local Government Association (SALGA) recently embarked on a study to come up with a model on how allocations of capital grants and other facilities, as well as the equitable share allocations to local government would be done. The primary aim of this exercise is to inform the Division of Revenue Act (DORA) allocations so that the fiscal allocations to local government factor the relevant cost of providing such services to rural areas.

2.3.2.3 Equitability of Fiscal Allocations

Section 214(1) of the Constitution of the Republic of South Africa calls for an equitable distribution of revenue raised nationally among all the three spheres of government. The LGES formula therefore is supposed to ensure the equitability of municipal allocations vertically with their national and provincial counterparts, “while also ensure that there is equitability in the distribution of fiscal allocations horizontally among the 278 municipalities in the country and their households” (Loots, 2004:1).

The Constitution puts it clearly that all citizens are equally entitled to all the rights, privileges and benefits of citizenship in the country. By implication all the citizens no matter who they are and their background or locations within the republic should receive an equal amount of revenue allocation from national government to ensure that they have the same standard of living and quality of basic services. This is also aimed at ensuring that municipalities provide basic services and other functions as mandated.

If national government does not push for the redistribution of resources to less economically viable areas of the country, fiscal decentralization will perpetuate development disparities among the citizens (Litvack et. al, 1998:8). Equity is an outcome of correct redistribution of national resources. Pillay (2009) argues that social equity is one of the preconditions for successful decentralization. Without national government putting up systems to ensure that all citizens receive an equal amount of services though the various transfers to sub-national government, weaker provinces and municipalities will not be able to do this on their own leading to increased inequalities.

This leaves us in the same position that the LGES does not ensure equity among the citizens, hence most rural communities are still without basic services, including lack of sanitation and refuse collection in all the villages of the country. Loots (2004: 6) concludes that “even if the LGES was sufficient to ensure that basic services are catered for other functions of local government would not be covered and therefore compromising the principle of horizontal equity among the citizens of South Africa.”

2.3.2.4 Municipal Own Revenue

Section 229 of the Constitution also mandates local government to raise their own set of revenues through rates and taxes for services provided. This obligation placed on municipalities is a core element of a decentralized fiscal responsibility to the lowest sphere of government. Municipalities are not only tasked to spend revenue received from National Treasury but also to devise means of generating their own revenue through service charges. Unfortunately the rural conditions as well as the macroeconomic challenges in most of these municipalities makes it impossible for them to charge their impoverished citizens of whom most fill up their indigent registers for free basic services.

The Emalahleni Local Municipality make several arguments in their IDPs about their inability to raise taxes from their communities as a result of high unemployment and poverty rates, thus making it the one of the highest in the district and province. This situation continuously perpetuate the financial dependency of many municipalities to national government which is against the very principles of decentralization.

Metropolitan municipalities who inherited most of the urban areas as well as industrial areas created by the previous colonial government have a much better opportunity to generate huge sums of money through company as well as residential taxes. This is the advantage that leads to misconceptions that all of local government have the ability to generate their own revenue without looking at their locations and dynamics.

The country only has 8 metropolitan municipalities that have the ability to generate huge taxes as a result of their well-built economies over the past century while the rest of local government is located in rural areas with low economic grown. These municipalities are highly disadvantaged as their populations are poor and cannot afford even to pay for basic services. The municipalities therefore need to provide for their sustainability.

Unfortunately bulk of the national revenue remains at national and provincial government levels as indicated by the 2015/2016 budget allocations.

2.4 Fiscal Decentralization in other developing countries

Over the years we have witnessed citizens demanding accountability, improved service levels, increased good practices, better allocation and utilization of public funds. These demands have been rife in South Africa resulting with media reporting that protests in South Africa has doubled over the past five years (Demian ,2015). As decentralization is a delegation of authority by national government to its lower levels – provincial and local – it is the responsibility of the central government to ensure that not only the financial resources are transferred over from National Treasury to municipalities but also that the necessary capacity to spend the allocated budget and to raise more revenue for themselves by raising sufficient taxes if built. This is also provided for in Section 154(1) the South African Constitution where both national and provincial government are tasked with building the capacity of local government by legislation and other means necessary.

Studies reveal that in many countries who have adopted a decentralization stance in their governance models, “tax collection still reside with national government which in turn leads to vertical fiscal imbalances in the system” (Bardhan, 2002:189). This problem is a stems from two main sources, the concentration of economies in certain areas due to natural resources as well as huge infrastructure gains which are not spread across evenly throughout the rest of the country. All this lead to continue perpetuation of economic imbalances where one region or municipality has the ability of generating more income than others while the rest suffers lack of revenue to deliver service to its communities. This is also the case of local government in South Africa where metropolitan municipalities and secondary cities have the ability to raise huge amount of taxes as a result of mineral resources, coast line advantages as well as infrastructure capabilities that other municipalities do not have.

Fiscal decentralization should ensure that national government build the capacity of all provinces and municipalities to be able to develop their economies and infrastructure so that they are able to generate the necessary tax base to complement their needed revenue to change the face of their communities through increased service delivery. Failure to do this only perpetuates an unending cycle of fiscal imbalance in the country

especially when national government has no obligation whatsoever to compensate municipalities for any shortfalls in their revenues as enshrined in the Constitution of the Republic of South Africa.

2.4.1 Essentials of Successful Fiscal Decentralization

Decentralization has been adopted by many countries as means of ensuring improved service delivery through localized service provision by sub-national spheres of government. This has seen countries adopting this stance through their Constitutions and other pieces of legislation. Unfortunately reforms have been done abruptly in response to some political crisis or a major shift in political orientation without using these as a strategy to ensure broadened tax base for delivery of services to local communities. Fjeldstad (2014) concludes that the “implementation of reforms is always faulty and inconsistent as governments do not fully recognize the cost-benefits of decentralization and the preconditions necessary for their success”. Where successes have been noticed, these assignment of extended responsibilities to sub-national spheres of government have been found on few key essential ingredients. These are: Enabling Policy and Legislative Mandate, Capacity Building, Conducive Economic Environment and Proper InterGovernmental Relations.

2.4.2 a) Enabling Policy and Legislative Environment

No sphere of government will function without policy and legislative directive stipulating its mandate and jurisdiction. In most instances the constitution of the country specify the framework for the type of governance the country will have. This lays the basis for existence of sub-national government as a core part of a decentralized system of governance. This intent further expand on fiscal relations and how national and its sub-national spheres will share from the national Fiscus, and also raise sufficient tax revenues to support their functions and development.

Governance reforms in most developing countries were unfortunately championed by international development institutions especially the World Bank and the International Monetary Fund (IMF) whom at the time built-in these conditions as part of their development finance. “The reforms of economic systems in developing countries during

the 1980's focused largely on increasing the role of the market and improving the environment in which it operates" (Smoke, 2001:1). Therefore most of these reforms were neither strategic in nature for the countries concerned but done for compliance with globalization pressures. As a result the decentralization reforms were adopted to fulfil vested interests of external stakeholders than the countries and citizens who stood to benefit or loose from such systems.

With the high influence of donor agencies in the reform processes, policies and legislatives were inherently skewed to ensure that multinational corporations are the drivers of development through trickling down effects from their investments and not the government as it is supposed to be. As such developing counties have weak policies, legislations and often no law enforcement capacity to ensure that the initially envisioned public good or benefit is delivered to its intended recipient. The same also applies to local municipalities who often have non-existent law enforcement capacities.

The objectives of public policy are to capture the ideals and goals of government, and express them as policy statements for implementation by all those mandated with the delivery of public goods and services. Many countries including South Africa have various White Papers that stipulate how local government should shape in the post-apartheid South Africa.

The White Paper on Local Government describes local government as a sphere that is "committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and improve the quality of their lives" (White Paper: 1998). It further acknowledges that the reality in our cities, towns and rural areas is far from this ideal that in many of our communities are still divided with millions of our people living in dire poverty, isolated from services and opportunities and envisions a future system that will play a central role in representing our Communities, protecting our human rights and meeting our basic needs.

The vision of this policy for local government were too ambitious creating an idea that municipalities would automatically deliver these developmental outcomes. According to the Van Donk (2007) "it has not made as much progress in realising the rights of women,

children, youth, the elderly, persons with disability and people living with or directly affected by HIV/AIDS as one would have hoped". Unfortunately most of these issues are not associated with the absence of citizen involvement in the local government system but the failures of municipal officials and Councillors in meeting the needs of their communities as seen on the service delivery protests where houses of Councillors and municipal property have been burnt.

The Municipal Systems Act (No. 32 of 2000) also gives emphasis on the vision of a "developmental local government" as visualized in the White Paper on Local Government. It elaborates the core principles, mechanisms and processes that are necessary to enable municipalities to move progressively towards the social and economic upliftment of communities, and ensure universal access to quality services that are affordable to all. The Act extends the definition of municipality to include residents and communities within the municipal area, working in partnership with the municipality's political and administrative structures. This relationship is fundamental to sound and effective governance, and the long-term sustainability of local government.

These points clearly show how policy and legislation can set an enabling environment for transformation of governance in the country. It also provides and enforcing effect to institutions of government to deliver on what is expected of them, something that is significantly missing in developing countries.

2.4.2 b) Conducive Economic Environment

A sustainable local economy is critical for subnational government to be able to have the necessary tax base. "Sub-national governments need a minimum degree of autonomy on the expenditure and revenue sides" (Fjeldstad, 2014:2). As a result of poor economic development "developing countries are substantially less decentralized than developing countries" (Gadenne and Singhal, 2014:8). If the model is designed such that the lower spheres of government should generate their own revenues, it is imperative that national government create a conducive environment for them in order to have a pool of citizens to pay taxes and boost the revenue of local governments for more services.

Major cities have been developed as a result of huge investments by national government though infrastructure development and other means. The same should also apply to smaller town who mainly rely of national government revenue for their survival. Unfortunately there are lots of reasons and excuses for not strengthening the economies of local governments. These range from political control there the ruling party would not want to share resources with its opposition, lack of managerial and technical skills to support local government and even post-independence challenges of institutions and governance frameworks being inconsistent with the local cultures. “In other countries with ethically fragmented societies central government tend to legitimately control those fragile economies for the benefit of nation building” (Smoke, 2001:3).

Even on their own, local governments in developing countries have tried various models of enhancing their revenue collection including public-private partnerships and even outsourcing of revenue collection responsibilities as is the case in Tanzania. These trials and tests empower local governments as they learn their own best practice while also developing new ways and mechanisms of enhancing their revenue base.

The Emalahleni Local Municipality has recently developed their own Traffic Licensing Department as one of its key strategies to generate the much needed local revenue. With a pool of cars within its jurisdiction, and a demand for vehicle licenses this initiative will surely ensure that the municipality collects much more revenue than before.

Currently the economic role of local government in the economy of developing countries is very microscopic compared to those in developing countries hence they are very dependent on central government. As local governments’ role increases in the economies of their countries more people will benefit directly from the proceeds of their activities.

2.4.3 c) Capacity Building

One of the main responsibilities of national government is to build the capacity of its lower spheres to be able to manage fiscal allocations, deliver on their mandate and also raise own revenue to be able to complement for any shortfalls. In most developing countries especially with this new wave of decentralization, capacity constraints still hamper the successful implementation of even well designed fiscal decentralization systems.

National government still sees itself as the collector and distributor of revenue to sub-national levels without assuming an equal amount of responsibility to ensure were capacitated institutions at its lower levels.

Once of the key missing puzzles is the inability of local governments to collect their own statistical data to inform fiscal forecasting and planning. They are unable to conduct their own data analysis on the economic and social interventions that are needed to take their communities forward. Most data utilised in both planning and revenue forecasting is sourced from national government through census or other mechanism. This also exacerbate the ability of local governments to collect their own revenues. “For property tax the main constraints include weak capacity to implement accurate valuation practices, poor collection, lack of clear ownership titles and lack of political support for enforcement” (Fjeldstad, 2014:2).

The absence of consistent and sustainable capacity building from national government on how to manage revenues, implement effective and efficient service delivery as well as collect their own revenue is a major challenge in developing countries. It further hampers the very same underlying goal of ensuring better live of citizens through decentralized governance and provision of public goods at their door step.

To date there is “scant empirical evidence as to whether the devolution of power to subnational governments actually increases of decreases their effectiveness in supplying public goods and raising own-source revenues” (Fjeldstad, 2014:1). As such not many countries can quantify the extent to which their citizens have benefitted from decentralization. This is evident in the slow pace of development, and how citizens continue being unsatisfied with the performance of their local spheres of government.

2.4.2 d) Proper InterGovernmental Relations

Decentralization with all its fiscal relations is not just about the assignment of responsibilities and budgets to lower levels of government but also about co-creation of a better life for all citizens by the different spheres of government. It joins together various stakeholders to create policies and legislation that would facilitate political stability, strong institutions as well as increased economic growth so that the country’s tax base is

increased at all levels of society. This is a government working together for a common purpose. Ina democratic dispensation where the separation of power is key, policies endorsed by legislators and administrators should lead to well-designed intergovernmental systems and improved capacity at both national and sub-national levels.

Excellent intergovernmental relations in any country are critical for development including economic growth. Many countries continue to face several macro-economic challenges that national government with all its planning cannot solve alone. “Economic planning by central governments have not been successful in ensuring equitable development” (Smoke, 2001:3).

As much as the notion of decentralization was introduced through structural adjustment programmes in developing countries, the change in political climates in these countries also force political parties to adopt more democratic styles of governments than dictatorships and military regimes. This is also influenced by the increasing levels of education of citizens. As more and more people get knowledgeable and see the challenges faced by centralized systems of governance, the demand for decentralization increases thus forcing central governments to work closer with local spheres of government.

2.5 Governance Theory

2.5.1 Governance in the South African context

Scholars define governance in various depending on their contexts, experiences as well as application in world politics and policy making processes. Few of these definitions have been utilized in this report to set a basis for how our governance processes impact policy making and implementation, the salient motives as well as the intended outcomes. Underpinning this background is that “understandings of governance have implications for how we examine public policy decision making process” (McLennan, 2014:3). South Africa has a decentralized democratic system of governance which seeks to ensure better service delivery to the majority of citizens while also trying to bridge the gaps between

those who are privileged and those who were marginalized by the previous Apartheid system of governance. Whether this governance system is successful in its objectives is arguable. This decentralized model of governance is what sets the basis for fiscal decentralization in the country as means of ensuring that all citizens get equal services.

Morrel (2009:539) affirms that the "origin of governance lies in the Greek term *kybernesis* which means piloting". In this he argues that this term "has contemporary connotations of steering or stewardship". Doornbos (2001:96) argues that the initial concept of governance was more about "the manner in which power and authority relations are structured in different contexts – thus focusing on modes of inter-penetration of state-civil society relations". He also emphasise that the current discourse of the term is more "donor-directed and has rather been focused on state-market relations and more specifically on state structures designed to ensure accountability, due to processes of law, and related safeguards".

These contemporary definitions and views are aimed at the creation of state-market mechanisms in developing countries that were targeted for Western liberal-capitalist systems. They promote a state led system of governance with sole interests in the well - being of their citizens – a social contract between the government and its own people. It is evident also that governments are also subject to be highly influenced by other external interest groups outside of their terrain for their self-interests that might not be favourable to the state nor the citizen on the country concerned. It is critical therefore that the social contract with the people remain the blue print for any inter-state relations.

"Other documented dilemmas and debates on governance and its challenges are rooted in its definition" (Grindle, 2007:555). The various forms of governance systems around the world are an evidence that there is not 'one-size fits all' approached. Countries have specific needs, they are in different levels of stability and economic development and therefore each require a different system that will be compatible with its culture and needs. Francis Fukuyama (2013) talks about the Webarian Model of governance as he tries to map out various ways of measuring the success of governance. Peters (2011) talks about the New Public Management model while Bang and Esmark (2009) argue the case of a

Network Society. Van Cranenburgh (2011:443) writes about how “democracy is seen as a viable means of rebuilding the legitimacy of African states”.

These various models confirm the numerous types of complexities that come with them, and how governance challenges can never be solved – hence no model can ever guarantee smooth governance in any country, until the country matures in managing its affairs and meeting the needs of its people – by itself.

2.5.2. Municipal Governance

Section 40(1) of the Constitution of the Republic of South Africa outlines three spheres of government – national, provincial and local - and defines them as distinctive, interdependent and interrelated. Local government as a self-governing sphere of government has been allocated its own set of responsibilities listed under Schedule 4B and 5B of the Constitution. In addition to these municipalities also administer other functions allocated to them by provincial and national government as provided for by national legislation.

Unfortunately municipalities are not equal in strength and capacity and therefore their ability to administer or provide all these services vary. This trend has been noted by the various Ministers of CoGTA since 2009 when the late Minister Sicelo Shiceka defined local government in his State of Local Government Report as being ‘in distress and dysfunctional’ (CoGTA, 2009). Years later the same was also emphasised by the former Minister Pravin Gordan during The Presidential Local Government Summit that only a 3rd of municipalities are at the desired level of performance. Minister Pravin Gordhan reported that “the top third of municipalities represents the desired (ideal) state for all our municipalities while the middle third of municipalities are fairly functional and the rest of them frankly dysfunctional” (CoGTA, 2014:4).

Section 154(1) of the Constitution also puts and enormous responsibility to bother national and provincial governments to support and build the capacity of municipalities to run its affairs to the best of their abilities. This could be done through legislation or by any

other mechanisms necessary. Unfortunately despite this Constructional obligation matching the fiscal allocations of municipalities by national government has never been seen as an option to strengthen the capacity of municipalities to deliver services. Over the years municipalities have struggled to live up to the expectations of their citizens by providing the quantity and quality of basic services to an extent that communities took to the streets in protest for water, sanitation, electricity and refuse collection.

These nation-wide protests have led to destruction of property and loss of lives but yet some like Emalahleni Local Municipalities still struggle to meet these obligations because of insufficient revenue to cover all their villages. Local Government in South Africa is found on the pillars of public participation. This is not only enshrined on the Constitution but on the founding policies and legislations of local government. The challenge for municipalities across the country is finding a balance between political and administrative decisions versus the will of the people. This has been evident over the years as communities would cry for the same basic services over and over yet service delivery from their municipality would be without sufficient water supply.

Ward Committees as the legislated structure to ensure community representation in municipal governance tend to be overwhelmed with submissions of their local communities and as they strive to balance between what is possible and what is needed, they would automatically find themselves either on the municipal side – defending what has not been done, or on the community's side – fighting for what is rightfully due to the people. It becomes a very dangerous thing to do as community protests are either targeted at the municipal properties or homes of their Ward Councillors.

We are yet to see a case study of a municipality that is able to balance all these needs and still deliver to the satisfaction of its citizens with the little resources they have.

The conclusion therefore is that "Governance is a government's ability to make and enforce rules, and to deliver services, regardless of whether the government is democratic or not" (Fukuyama, 2013:4). South Africa as a result needs to look at is governance models including fiscal decentralization to ensure that local government is

also able to achieve its developmental objectives of providing basic services to all is communities. Failure to do this will not only perpetuate inequalities but will continue to undermine the very Constitutional provisions from which decentralization model is found.

2.6 The effects of fiscal decentralization in South Africa

South Africa has adopted a system of governance that has three spheres i.e. national, provincial and local government. These, as outlined in the Constitution of the Republic are separate, mutually dependent and interconnected. This distinction of national, provinces and local municipalities is evident in the manner in which the national Fiscal Framework is designed. Sub-national spheres of government have been assigned some degree of autonomy though the bulk of their funds comes from national.
Unfortunately this shows that "South Africa provides very limited fiscal autonomy to provincial and local government levels" (Yemek, 2005:8). National government has the capacity to raise revenue and distribute it to other spheres of government while the other two also have an obligation to raise their own revenues through local taxes. Unfortunately in a country with such levels of poverty and unemployment it can never be an easy task for local municipalities to raise sufficient tax revenues to make up for the shortfalls from the National Treasury. The Constitution also exempts the national government from any obligation to compensate municipalities who fails to raise their own revenues.

One of the key aspects of the South African Fiscal Framework is the Division of Revenue Act (DORA) that seeks to bridge the vertical imbalances in the sharing of the national budget through various grants to subnational government. As local government is responsible for basic services, national government through the DORA allocates various conditional grants to municipalities to ensure the provision of bulk essential services like water, electricity and other community infrastructure. "These provisions in the national fiscal relations system are aimed at building and equitable society" (Yemek, 2005:5).

The unfortunate situation is that both provinces and municipalities are still dependent on national government for these revenues, and therefore are subjected to another form of

dependency which may be against the very same principle of fiscal decentralization as they are unable to fund their own budget with own revenue. National has also not been able to build their capacity to be self – reliant and fully autonomous.

Fiscal decentralization in South Africa also displays both successes and challenges. Among others these include the incredible impact that the various grants have had in improving the lives of people, while also providing a social security net for short term employment on various public works programmes. Nevertheless, issues of lack of capacity and poor intergovernmental relations have also not gone unnoticed.

2.6.1 Successes

Indeed the country is better off than it was 30 years ago though it is still a long way ahead before the full the effects of the past can be fully dealt with. South Africa has succeeded in "achieving and maintaining macroeconomic stability as one of the key achievements of the democratic government" (The Presidency, 2014:86). According to The Presidency (2014:86) "fiscal management has turned around governmental balances, resulting in lower debt-servicing costs for the public sector. The country has also created fiscal space for the country to weather the economic storm that followed the global financial crisis of 2008" (The Presidency, 2014:86).

The fiscal model in the country has not only created stability but also gave hope that government is at work. With the annual reviews of the DORA, as well as several interventions to support municipalities, more and more success stories are recorded.

2.6.2 Challenges

Challenges outweigh the successes indicated. These are evident in the number of service delivery protests against local government as well as the unending cycle of backlogs despite the billions of rands given to municipalities each year. Over the years local government has fulfilled the expectations of its citizens even though there has been an

annual allocation of funds to them by the National Treasury, be in addition to their own source of funds including rates and taxes. Van Hoof (2008:1) concludes that “South African citizens are increasingly dissatisfied with the quality and quantity of services provided by local government despite the amount of resources the government has invested in basic services over the years”. He further argues that the “citizens also feel disconnected from local government and development” (Van Hoof, 2008). These arguments can only validate the increasing spate of service delivery protests that South Africa is confronted with. It is a structural challenge that needs immediate attention and review.

2.6.2.1 Capacity constraints to spend grants

Municipalities are struggling to spend their conditional grants leading to some of the funds being returned to national government. Lack of spending has become a recurring phenomenon in most municipalities as a result of poor capacity to administer these huge grants. This has created a conducive environment for both financial predators and other vultures who capitalize on the lack of capacity of municipalities to spend budgets to ensure maladministration and other supply chain related frauds as indicated in the various Auditor General’s Reports on the state of local government finances.

The Municipal Finance Management Act (MFMA) set a very stringent framework and guide for spending of municipal revenues. Over the years the Auditor General has found that the numerous audit queries that municipalities had were resulting from poor supply chain processes resulting in bulk of their revenues being unaccounted for. In some cases these issues emanated directly from the absence of qualified personnel and Chief Financial Officers to run the finances of the municipalities.

Unfortunately there has been very little prosecution for those who were found to have mismanaged public funds, thus exacerbating the amount of embezzlement of grants and other revenues meant for service delivery. Political mingling in administrative issues have also not assisted in dealing with the capacity constraints leading to sector departments complaining of municipalities using their grants for the payment of salaries, yet the LGES is given to all municipalities to cover their administrative needs.

SALGA has called for the review of the Municipal Systems Act to ensure that legislation gives guidance on the minimum competencies of managers employed in the sector, as well as to allow municipalities to retain them for longer periods through semi to more permanent employment arrangements. This will sure give long term benefits to municipalities since the Amendment of the Act.

2.6.2.2 Poor planning in the municipalities

As municipalities are required to plan and budget through their Integrated Development Planning process most communities express immediate needs of water and housing, and thus the majority of their revenue and grants gets allocated to these while other social services like cemeteries and sport facilities are not prioritised and thus not budgeted for. This then leads to imbalances in the provision of services to communities.

As compared to other countries, South Africa has not succeeded fully with its decentralization project which was aimed at ensuring an equitable distribution of services. This is argued by many scholars that national government “has failed to ensure that sub-national levels meet the very basic conditions of a successful decentralization” (Pillay, 2009:154). Other countries like Botswana also have proclaimed the need for “local authorities to have enough fiscal control and not be dependent on the central government as financial dependence leads to local authorities being less responsible to the needs of their constituencies” (Botswana National Development Plan 8, p. 467).

Other local governments that have done extremely well are those in Kenya who have succeeded to be self-sustainable without any financial revenues from national government. These municipalities are both administrative and fiscally independent despite being from a very low economy compared to South Africa.

In his argument for the strengthening of local government through fiscal decentralization in Botswana, Fani (2006:9) concludes that “fiscal decentralization is integral to the decentralization process of their entire government system”.

2.6.2.3 Insufficient support from sector departments

As the custodians and administrators of the Municipal Infrastructure Grant (MIG), the Department of Cooperative Governance and Traditional Affairs (CoGTA) shows a lack of capacity in supporting municipalities in dealing with their planning, expenditure and even implementation of funded projects through the MIG Grant. In its 2013/2014 Financial Year End Report, CoGTA showed that there was a lack of personnel to assist municipalities in their planning, expenditure and reporting requirements. These challenges are not only immune to CoGTA but many other sector departments like Sport and Recreation on the administration of grants for sport facilities.

According to Bardhan (2015), there is an unfortunate assumption that all decentralization automatically comes with equal technical and administrative capacity to all levels of government, yet this is not the case. National government by virtue of it being the central government attract better talent than other spheres of government. The financial resources and local location of central government in big cities close universities and big corporates give it the advantage of attracting the best talent and skills. Unfortunately local municipalities who tend to be rural servicing villages and the outskirts of the country suffer poor from an inability to attracts talent and also retain its best employees.

National and provincial government also perpetuate this situation by working in isolation of local government, rather than building its capacity to fulfil their assigned responsibilities and functions. Almost all municipalities carry the mandate of all provincial government with the exception of services like schools and hospitals which are also complemented by Early Childhood Development Centres and Clinics. Unfortunately the failures of municipalities is only seen by their national and provincial counterparts through the lenses of incompetency resulting from lack of will and political squabbles thereby recusing themselves from any possible contribution by their actions or lack thereof. In a country that is based on cooperative governance, the failures of one sphere does not recuse the others from those but rather shows how one thrives by uplifting itself at the expense of the other. Cooperative governance is by no means competitive governance. National and provincial spheres of government's success should also be measured by the success of their parallel departments within each of the 278 municipalities in the country.

South Africa also has an unfortunate Constitutional misfortune where accountability is not equally demanded from public institutions. Section 139 is widely applied to local government yet the same provincial governments cannot be held accountable for failing to ensure the capacity of local municipalities are built proactively such that being put under administration is almost impossible throughout the country.

2.6.2.4 Uneven development between urban and rural areas

South Africa has unfortunately fell into the trap of perpetuating unequal between levels of development between urban and rural areas that has engulfed most developed and developing countries. Available literature also to "absence of available evidence on decentralized local governance improving outputs in terms of improvements in the equitable delivery of public services including drinking water and sanitation to the poor" (Robinson, 2007:7). This service delivery gap is highly visible between the metropolitan and local municipalities across the country which can be directly associated with their matching capabilities to raise their own revenues from the kind of economies they have.

As much as the LGES formula ensures that municipalities receive allocations based on their populations, with metropolitan municipalities automatically receiving bigger tranches of money – conditional and unconditional grants, the urban nature of their locations gives them far greater revenue generating capacity than rural municipalities. The huge infrastructure investments in these cities who have historically been at the heart of the national economy like Johannesburg continues to make them the economic capital of their provinces and the centralized economy at the disadvantage of others. These are the unintended consequences of a population based formula that does not look at other conditions of municipalities.

Improvement in the conditions of the lives of the poor should be a key determinant of decentralized local governance system through improved and increased levels of services. Unfortunately the notation of a decentralized levels of governance of which fiscal decentralization is key, still leave much room for improvement. As much as the level of services have and the provision of basic services has improved over the past two decades

of local government in South Africa, more and more people are continue being dissatisfied with the amount and quality of services provided by their local municipalities.

For some reason, the Emalahleni Local Municipality has never had any service delivery protests despite its failure to ensure the provision of basic services in its surrounding villages who continue without water, sanitation and refuse collection which only happens in the three towns it has. Both its political and administration concurs that the provision of services in the municipality is bias, and unfair to the rest of its population, whom by the Constitutional standards are equally entitled to the same rights, privileges and benefits urban citizens get from government. The choices of the municipality to prioritise urban settlements than villages is problematic and can only be associated with the notion of prioritizing city development in hope that these will facilitate future economic development which will in return bring spill offs to the rest of the villages- perhaps in the next generation or two – if it will ever happen.

Statistics South Africa (2013) reports that “the provision of basic services such as water went up by 64% between 2011 and 2012 nationally”. This increase is unfortunately being led by 30 municipalities in the Western Cape (19.6%) followed by the 12 in Gauteng (7.2%) with the highest water provisions. KwaZulu-Natal and Eastern Cape provinces which has the most municipalities of 61 and 45 consecutively are not mentioned in the top two provinces with increased provision of basic services yet they are the most rural.

According to Stats SA the Gauteng provinces had the highest number of consumer increases amounting to 3million in 2012 compared to 2.4million in 2008. One of its metropolitan municipalities, the City of Tshwane, was the single highest municipality to record and increase of 382 487 consumer units since 2008. The conclusion is that these urban municipalities, who due to the nature of their location, amount of infrastructure and economic investments, have far greater capabilities to raise their own revenue and ensure that their citizens received the highest amount of services than any other municipality in the country. The LGES formula does not take this into account and ensures horizontal equity such that the citizens of all municipalities no matter where they are located, have an equal opportunity to receive the same quality and amount of basic services.

The resultant effect of the model as applied in the country leads to perpetuated inequalities that the Constitution of the country sought to address by giving citizens an equal status before the law, as well as equal rights, privileges and benefits no matter their age, gender or location. Local municipalities such as Emalahleni Local Municipality are not being fiscally empowered to ensure their compliance with the provisions of the Constitution, but rather in direct contravention as they can't raise their own revenue for equitable provision of basic services to their rural populations.

2.6.2.5 Increased community protests for basic services

Local government is in tortuous! The outbreak of protests at local government level throughout the country is an indication of a failed system, a lack of leadership and decisiveness on how the lives of poor people in South Africa should be improved. This quandary continues to inflict unbearable and horrendous pain in millions of women, youth and children whose conditions have deteriorated to the worst form since the dawn of democracy. Their hopelessness has in contrary been converted into a means of thieving corpulent salaries by both politicians and policy makers whose goal is to stay and remain in high positions without driving any positive change for the ordinary citizen of this country.

In all the spheres of government, local government is the most ineffective and inefficient since its conceptualization through the White Paper on Local Government in 1998. The White Paper provided the vision for a more people-centric system of governance at local level that is tasked with the responsibility to promote, safeguard and protect development of its citizens. It further distinguishes local government as the "sphere of government with the potential to transform the lives of local residents, contributing to their empowerment and bring about equitable development across the country" (Van Donk, 2007:3). This could be done best with a fully functional decentralized system of governance where these responsibilities are matched with the relevant fiscal abilities to deliver on this great vision for the country.

Unfortunately, the progressive ideals of the White Paper were never translated into tangible programmes aimed at yielding specific developmental outcomes in line with the

policy and as a result its objectives are not being realized by municipalities, with clear indicators for monitoring how development is progressing and include such even in performance management systems for managers. Deficiencies of attaining these objectives have today exhibited ungovernable communities whom none of the Presidents and Ministers in the Republic have managed to comprehend. Their occupancy of political offices somewhat contributed into a more multifarious state of governance that brought more teething troubles than answers.

The state of local municipalities in almost every province has become a tolerable model even by the Presidency, who sees it as ‘no state of emergency, as it won’t bring the country into a standstill’ but failing to recognize the ever brewing angers. President Zuma was welcomed into office by a spate of service delivery protest that led to the country being ‘dubbed the protest capital of the world’ yet even few years after, he still sees that as no matter necessitating his serious attention.

It’s shame that he expressed on his State of the Nation Address, in a year of local government elections, when he had no clue on what is happening at local level, and thus no idea on how to deal with the 283 municipalities in a "state of paralysis and dysfunction", as his then Minister of Cooperative Governance & Traditional Affairs, Sicelo Shiceka declared as early as 2009 – just a little over a decade since the formation of this new system of local government in the country.

Since 1994 the African National Congress has promised among others “A better life for all”, "Working together to do more," “Making local government work better for us all” and “Together, we can build better communities”.



A typical picture of service delivery protests in South Africa (M&G, 2012)

With these illusive and tantalizing optimisms, citizens remain in a state of political vulnerability and detachment from issues of governance. These millions of poor citizens have now lost their faith in their municipalities an institutions that is able to deal with their plight as they have not proven so for two decades of their existence. Rather than harnessing the resources at their disposal and work towards the development of their communities and provision of basic services, municipalities have become a home for rampant political wrangles as seen in municipalities like the Tlokwe Local Municipality.

Many communities opted to vote in the 2011 local government elections despite the series of protests, once more with the hope to see their lives improved as promised by their politicians. Above all other local government elections in the past, these have been the most compound for both the political parties who have been exposed on failure to deliver basic services to the poor, as well to the citizens whose communities have been the victims of non-delivery of services.

At all levels of government, political leaders have been making news with their exorbitant expenditures of public funds, splashing credit cards in all of their exclusive travels, while

communities are confronted with incomplete housing projects, gushes of sewerage on the streets and many other social troubles. This deliberate methodical failure of local government clearly show how little concern if any, the politicians have for their constituencies.

Although the White Paper on Local Government set the foundations of this remodelled sphere of government to be a development and progressive sphere of government, prioritization of budgets and development programmes have been shifted to party-political factions, an error that has led to the state of local government today. It proposed that this sphere be inclusive, practical and enabled in its call for not just providing basic needs to communities but in creating a favourable location for economic development so that there could be an increased tax base and own income for the institutions. A make-believe that has been dormant from its inception.

For local government to achieve its original purpose, a decisive and visionary leadership is needed. A kind of leadership whose heart is with the people and will not be mystified with the tenure of office but remain true to the aspirations of their electorate.
As much as citizens to not control the budget of municipalities, they can testify to service delivery levels – whether less or more. Fiscal decentralization can also be more useful as a model if its initial pillars of sufficient capacity and own revenue can be something municipalities can excel in, failing with the system will inevitably collapse with protests.

2.6.2.6 Increased migration and urbanization

Migration in South Africa has undoubtedly became one of the major complex issues to deal with by all spheres of government. In it there are direct and inseparable issues of economic and social development, human rights and security amongst others. Yet the South African Constitution (Act 108 of 1996) tasks local government with a developmental mandate which in itself carries the responsibility for local government to give priority to the basic needs of the community, and to promote social and economic development of the community. The effective discharging of this responsibility, however, is perceived to be thwarted by a number of migration related challenges wherein migration trends are

hardly known which makes planning and budgeting difficult. Moreover, informal settlements are mushrooming on municipal land not zoned for other development activities amongst others. In light of this, there is a trend towards viewing migration from a negative perspective although there are distinct desirable effects of migration.

As SALGA and ACMS (2011:8) notes, “officials across South Africa ‘continue to react to foreign and domestic migrants by implicitly denying their presence, excluding them from developmental plans or tacitly condoning discrimination throughout the government bureaucracy and police”. These remain some of the factors that contribute towards a perceived reluctance of developing a pragmatic approach to provide for migrant needs or harness migrants’ resources to contribute to the development of communities. Mitigating migration related challenges at local government level also become more compounded by the fact that there is no policy directive to deal with migration at that level of government. National government by nature is responsible for inward migration of foreign national into the country. They are by default the custodians of migration laws and all the border control functions. Unfortunately there is no specific sphere of government that is responsible for inward migration across provinces and municipalities in the country, nor there is one responsible for the management of mobile populations from one are to the other. In fact all citizens have a right to move freely and reside anywhere in the republic.

However it is evident though that South Africa has become a destination choice for many people who have emigrated from other countries, either as refugees or migrants who came to the country to seek better opportunities. The South African citizens are also highly mobile and rapid urbanization continues to be a reality due to a lack of employment and business opportunities in rural areas and small towns. In this light, it is municipalities that are directly affected through either losing or receiving migrants yet there is no policy directive on how to remedy the situation especially in cases where a municipality finds itself having more people that what is planned and budgeted for.

In South Africa, migration is governed by the Immigration Act of 2002 (Act No 13 2002), which provides for all the necessities required by the country to be more effective in response to migration issues. However the role of local government is not provided for in the Act. This brings to the fore the argument that migration issues are not given adequate

attention at local government level due to the fact that it is a non-legislated mandate for local government, thus an unfunded mandate.

Section 4 (2) a-l, which provides for the composition of the Immigration Advisory Board, is not representative of all stakeholders who may play a proactive role in the migration discourse. This piece of legislation does not give recognition to organised local government as the representative body of municipalities yet municipalities are the closest sphere to the people, which automatically places the responsibility to them to recognise and protect the right of all those who are within their jurisdiction. The question that arises is whether municipalities are able to provide basic services to these immigrants especially in cases where the later cannot pay rates and taxes to the municipality.

Section 27 (b) of chapter 5 of the refugees Act stipulates that:

> ‘’A refugee shall enjoy full legal protection, which includes the rights set out on chapter 2 of the Constitution and the right to remain in the Republic in accordance with the provision of the above stated legislation. Amongst other rights, as set out in Chapter 2 of the Constitution; section 27 (1) – (3) provides that everyone has a right to access health care services, sufficient food, water and social security”.

The legislation fails to outline, however, how funding for ensuring one has access to basic services can be acquired since these individuals find themselves in a particular locality, a municipality.

The South African constitution is not specifically targeted at immigrants but does not however exclude them in its protection of the rights of individuals residing in the country. Section 27 stipulates that:

> “Everyone has a right to access to (1) (a) health care services, including reproductive health care; (b) sufficient food and water; and (c) social security, including, if they are unable to support themselves and their dependants, appropriate social assistance. (2) The state must make reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of each of these rights. No one may be refused emergency medical treatment”.

In this regard, the constitution gives a clear instruction to government spheres to ensure provision of health care, food, water and social security to all. This further strengthens the debate that local government carries the burden to deliver on the constitutional mandate without being capacitated with the necessary resources.

The state of economies of municipalities are either a pull or push factors in respect to domestic migration in South Africa. Municipalities that are competitively low are experiencing a brain drain with many of its residents seeking better opportunities in high competitive municipalities. This is draining the 'sending' municipalities of the few resources that they have to advance development of their economy. In essence, these municipalities remain competitively low and ultimately fail to address some of the development issues that would have otherwise been addressed by a high competitive economy.

The flip side of this is that the receiving municipalities with a better performing economy are continuously improving their competitiveness by attracting skills from other municipalities as they create more jobs and better economic opportunities. The adverse part of it though is that these municipalities do not only attract skilled people from other municipalities but also poor and jobless people looking for employment and better living standards. These 'receiving' municipalities are then faced with an influx of poor migrants of both domestic and international origins looking for better economic opportunities.

This consequently leads to service delivery challenges as municipalities are then confronted with human settlement and basic service delivery constraints as a result of the number of people in need of these while outstripping what is planned and budgeted for. Undesirable effects of mushrooming of informal settlements on un-serviced land or land earmarked for other development activities, associated social ills of street children, domestic violence, and drug abuse among others become difficult tasks that municipal authorities find themselves having to deal with.

Migration and urbanization continue to be a huge challenge in municipalities across the country and yet no interventions or support from provincial and national government is provided to deal with these issues. Their fiscal allocation remains the same and does not

cater for influx of migrants into their areas as the LGES formula is based on a periodic data from the census done once every ten years.

The recently drafted Integrated Urban Development Framework (IUDF) talks at breath about the challenges of migration and urbanization in South Africa. The IUDF explicitly emphasize that "despite the numerous resources government has poured into addressing basic needs municipalities continue to struggle with population grown. It further associate migration and urbanization with the deteriorating living conditions of people, sanitation backlogs and other essential services that are missing in most rural municipalities due to institutional and fiscal challenges.

In his 2013 State of the Nation Address, President Jacob Zuma reported that "municipalities cannot deal with migration challenges alone, and called for all levels of government to work together towards rural development as means of dealing with the urbanization challenges within municipalities."

Looking at the history of urbanization in South Africa, dating back from the National Land Act (1914), the formation of homelands and the subsequent introduction of Pass Laws, black people were used as hard labourers to support mining and industrialization in the cities. Johannesburg was the main city for migrants due to large deposits of gold in the surrounding areas hence the province being named Gauteng meaning gold. Over the past century Johannesburg grew in both its economic potential and population making it the economic capital of the South Africa.

Unfortunately the rural areas where it drew its labourers from never grew but deteriorated. The main concern even in the municipalities based in former homelands is that they are "home to just under 25% of the country's population yet their contribution to the national Growth Value Addition (GVA) is a mere 13% making these areas economically unable to meet the needs of their populations" (SACN, 2014:21).

These are the effects of fiscal decentralization in most local municipalities in the country and the inability of the fiscal decentralization model to address their low revenue base will only perpetuate more inequalities and poverty that it should. The numerous pull and push factors that are continuously at play between rural and urban spaces can only be broken

if local municipalities, especially those in rural areas are able to generate viable economies so that they are able to provide basic services to all their citizens, build the most needed infrastructure and ensure that their economies provide jobs for the youth. Only then can urbanization ends while migration would transform to being an issue of chose and not through forces circumstances resulting from structural poverty and inequalities.

In many countries who have adopted a decentralization stance in their governance models, tax collection still reside with national government which in turn leads to vertical fiscal imbalances in the system. This problem stems from two main sources, the concentration of economies in certain areas due to natural resources as well as huge infrastructure gains which are not spread across evenly throughout the rest of the country. All this lead to continue perpetuation of economic imbalances where one region or municipality has the ability of generating more income than others while the rest suffers lack of revenue to deliver service to its communities. This is also the case of local government in South Africa where metropolitan municipalities and secondary cities have the ability to raise huge amount of taxes as a result of mineral resources, coast line advantages as well as infrastructure capabilities that other municipalities do not have.

Fiscal decentralization should therefore ensure that national government builds the capacity of all municipalities to be able to develop their economies and infrastructure so that they are able to generate the necessary tax base to complement their needed revenue to change the face of their communities through increased service delivery.

2.7 Theoretical Framework

The study used Critical Theory principles to seek and provide meaning to the financial numbers and expenditure reports published by the National Treasury, Auditor General and others municipal documents. This can only be achieved by social research that “employs qualitative methods, aims to interpret social life, understand social life and discover people’s meanings” (Sarantakos, 2013:43).

This approach was the most suitable to answer the research questions by going deeper into understanding the circumstances under which the Emalahleni Local Municipality operated in pursuit of service delivery. Gray (2009:13) emphasizes that “the research process requires us to engage with theoretical perspectives either before or after the research has been undertaken”. The study is rooted in Critical Inquiry or Critical Research as interchangeably referred to with deductive reasoning methods. According to Gray (2009:14) “this critical form of research is a meta-process of investigation, which questions current held values and assumptions and challenges of the social structures that exist”.

Wallace Oates (1999) locates fiscal decentralization within the traditional theory of fiscal federalism which is the assignment of functions to levels of government and its intended social benefits. He further emphasizes the importance of appropriate fiscal instruments for carrying out these functions as previously recognized by other foundational authors like Musgrave (1959) and Oates (1972). For the lower levels of government to be able to function, revenue is required, and therefore fiscal decentralization gives the ability to these lower levels of government to raise the necessary revenue and spend it on local services.

Fiscal Decentralization is therefore part of the bigger debate on decentralization, where decentralization is defined as “restructuring or reorganization of authority so that there is a system of co-responsibility between institutions of governance at the central, regional and local levels according to the principle of subsidiarity and therefore increasing the overall quality and effectiveness of the system of governance, while increasing the authority and capacities of sub-national levels” (UNDP, 1999:2). It is the practice of assigning fiscal powers to lower levels of government. According to Porcelli (2009), fiscal decentralization is when local government has been given power to either raise taxes or spend revenue through provision of services.

2.8 Conclusion

As much as large sums of monies have been given to sub-national government, there remains a huge gap between the revenue given to local government with those of the two top spheres of government. Despite the numerous responsibilities linked to a developmental local government sphere, funding is not following function. Unfortunately for lower levels of government to function both legislative assignment of functions as well as the equivalent revenue framework to ensure sustainable funding needs to be in place. Despite the political commitment to ensure decentralized services, there remains huge imbalances between the expenditure patterns and the inadequacy of revenue sources at local government level in South Africa.

CHAPTER 3

RESEARCH METHODOLOGY

1. Introduction

The study adopted a qualitative research methodology. According to Sarantakos (2013:42) “the purpose of qualitative research is a social inquiry aimed at helping the investigators to interpret and understand, first, the actors’ reasons for social actions; second, the way they construct their lives and the meanings they attach to them; and third, the social context of social action.” This is true for the study to understand the policy frameworks that guide the financial decisions municipal officials make towards service delivery, what makes them succeed, and the day to day challenges that make it difficult for them to achieve their objectives including the rural nature of their communities, numbers alone will not make sense.

This study also met the fundamental principles and features of qualitative research as indicated by Sarantakos (2013:45) that it is “undertaken in a natural setting or is field focused, focuses on processes and structural characteristics of settings, describe life-worlds from ‘inside-out’, informative and detailed, flexible and empathetic as well as inductive in approach. This is evident in the problematizing approach of the research in seeking to identify the hidden realities by using multiple data collection methods including focus groups and document analysis which will give “qualitative data that is a powerful source of analysis” (Gray, 2009:166).

All these were done through verbal and qualitative analysis of participant inputs, critical analysis of documents, reports and publications, identifying decisions and consultation patterns from the Integrated Development Planning (IDP) processes to see the underlying decision patterns the municipality and communities made which ultimately informed the service delivery outcomes of the municipality during the period under investigation. This allows for “multiple perspectives through multiple data collection methods, or through the

creation of multiple accounts where the integration as well as contrasting of various perspectives would build up rich and detailed understanding of the context being studied" (Gray, 2009:196).

Even though "qualitative research has been criticised by others for, among others, not meeting the research standards relating to reliability, representativeness, generalizability, objectivity and detachment, ethics and value of data collected, it sets researchers close to reality and produces most useful qualitative data" (Sarantakos, 2013:62).

2. Research Design

Sekeran (2007:4) defines research as "a systematic and organized effort to investigate a specific problem that needs a solution". McDaniel and Gates (1996: 41) describe research design as "a systematic plan that has to be followed in order to reach the desired objectives of the study". The aim of the was to gauge the effect of fiscal decentralization on the level and amount of services that the municipality has been able to provide over the years. This required thorough knowledge of what municipalities have planned, the amount of money they have received from the Fiscus and their property tax collections, how much services they have provided, what communities think of their services as well as the challenges related to service provision. This data has been documented in the Annual Reports of the Emalahleni Local Municipality, expenditure reports from the National Treasury on its finances as well as the performance reports of the municipality against predetermined objectives as reported by the Auditor General.

2.1 Data sources

One of the characteristics of qualitative research is the prior determination of the data and data sources to be used. Data sources are a critical component of the research otherwise the study may not provide the desired information. The study will use both primary and secondary data. Primary data was obtained by means of interviews administered through focus group with municipal officials as well as community leaders within the municipal area. Since the study will be looking at financial performance and the state of development, agencies like CoGTA, National Treasury, Auditor General, Statistics South

Africa and IDPs and Annual Reports of Emalahleni Local Municipality provided the most reliable information.

All these sources of information assisted in answering the exact questions posed by the study, and ultimately the achievement of the research objectives. Where data is missing or incomplete, the municipality will be asked to provide it.

2.2 Sampling techniques

Convenience non-probability sampling was used to choose the municipality to be studied. This sampling method was chosen for convenience and accessibility of data. Often access to information is a very difficult issue that can make the whole research impossible.

This municipality was chosen due to interest of the researcher to understand how it is managing to provide services to its communities with the little revenue base it has, and whether the fiscal model for local government will be able to assist it deal with their multiplicity of challenges.

2.3 Data collection techniques

The study sought to investigate, describe and explain the fiscal decentralization model in relation to service provision by the municipality; therefore performance reports of the municipality will be collected, complemented by focus group interviews with municipal officials and community leaders. These will be the main sources of data collection for the study. Most of the secondary data is available on the government website for public consumption. However, some might not be readily available and therefore specific requests will have to be made to the municipality to access those including Annual Reports.

The main aim was to “collect data without influencing participants or changing the setting” (Wagner et. al, 2012:137). Neuman (2011:44) emphasises the importance of data collection techniques as being “linked to the effectiveness of answering the types of questions asked in the study.”

2.4 Issues of reliability and validity

It was also equally important to test the reliability and validity of both the data and the content to be used. The reliability and validity of the content analysis are essential because the absence of these qualities affects the quality of data and inaccuracy of the research study (Salkind, 2012: 115). In Qualitative Research, data collection involves both primary and secondary sources.

The first critical thing was to ensure the consistency of the measurement such as the research instrument used – questionnaire – must give the same data each time it used. In addition to ensuring the validity of data used, verification will be undertaken so that that the outcomes of the study are what they are expected to be.

2.5 Data analysis and interpretation

Content Analysis was used to analyse and interpret both the primary and secondary data obtained from the study by identifying trends and common themes in both the documents and reports collected and focus group notes taken in the field.

According to Neuman (2011:44) “Content Analysis is a technique where the researcher identifies material to analyse and then creates a system for recording specific aspects of its content, themes, and analyse them by using graphs or charts”. This is a non-reactive method compared to the most reactive one of focus groups which will be conducted with municipal officials and community leaders (community based organizations and other civil leaders) within the municipality. Semi-structured, open ended questions were used in this context to ensure that there are sin-depth discussions so that participants can elaborate on their views of the municipality. A “list of basic questions that guides the line of inquiry” (Wagner et. al, 2012:135) was used in the process.

The purpose of collecting data in the form of numbers from the expenditure reports of the National Treasury and the Auditor General reports was to “fragment or delimit the phenomena into measurable categories” Gray (2013:177) which was analysed through trends using instruments like charts and bar graphs. Therefore gathering data from multiple sources was not only a characteristic of qualitative data but assisted in ensuring

that a holistic picture of how fiscal decentralization at Emalahleni Local Municipality has enabled the provision of basic services to the communities it serves. This solidified the research outcomes and brought credibility on the findings of the study.

2.6 Ethical considerations

“Ethics begin with the researcher, with his / her personal moral code being the best defence against unethical behaviour” (Neuman, 2011:130). This means that the issue of good ethics applied even before the actual research was conducted and was carried through by the researcher throughout the research process. Neuman (2011) further argues that people engage in unethical behaviours due to pressures and demands of building careers, publish and impress friends and families by taking shortcuts rather than abiding by ethical research standards and produce credible work that is original in form.

For this qualitative study, which dealt with sensitive information from municipal records as well as voluntary acceptance of participants to participate in focus groups it was important to “ensure that the participants are treated with dignity and that good ethical behaviour was practised no matter what the results were” (Salkind, 2012:85). Therefore principles of transparency on what the research was all about, how the information was going to be kept or used as well as non-disclosure of participants’ information were very critical. This has been achieved through the following aspects.

2.6.1 Acknowledgement of data sources

Plagiarism is one of the violations of research ethics. The University of Witwatersrand describes plagiarism as “The use of the ideas of others without appropriate acknowledgement” (Wits, n.d.). It further elaborates that it is the copying and usage of other people’s work without the due acknowledgement of the sources of information. This unfortunate theft of intellectual property is one of the challenges faced by the academic world. Wyburn (2009) puts it as “the wrongfully taking of the ideas or words of another without attributing the original author and thereby passing off the ideas or words as one’s own.” All the sources of data for the research have been duly acknowledged to ensure that there is no plagiarism.

Secondary data including journals, reports and other publications used have been correctly cited in the text as well as listed in alphabetical order under the reference list using the American Psychological Association (APA) referencing method.

2.6.2 Confidentiality

Confidentiality of information was one of the most important elements of research. Therefore no names were mentioned in the research findings to ensure that “every information obtained from participant is held in strict confidence” (Salkind, 2012: 88). Every participant was given assurance that none of their names or positions will be disclosed and therefore total anonymity is guaranteed. This has ensured that all participants were put at ease and free to give their inputs objectively without the fear of future repercussions by their superiors should the findings be unfavourable to them.

All records of notes taken as well as questions answered have be used solely for the purposes of the research and are stored in a confidential place as indicated to the participants.

2.6.3 Voluntary and informed consent

The principle of voluntary and informed consent was applied. “This is an ethical principle that people should never participate in research unless they explicitly and freely agree to participate” (Neuman, 2011:134). For all the municipal officials and community members who participated in the focus groups no one was be forced or deceived to take part without their full knowledge of what the study was about and what was expected of them so that they could participate freely and willingly.

Informed consent was ensured by obtaining permission from the municipality for the utilization of its information, reports as well as staff members to participate in the study. A request letter (copy attached) was been sent to the Municipal Manager requesting his authorization to conduct the research as an Accounting Office for the municipality. It included among others the following elements as outlined by Salkind (2012: 86) and Neuman (2011:163):

- the description and research purpose and procedure;
- the name of the researcher who will administer the questionnaires;
- a guarantee that the information obtained will be kept confidential;
- a commitment that participants will voluntarily participate;
- an assurance to share the research finding with the municipality; and
- a place to sign for both the researcher and Municipal Manager.

This was sent to the municipality prior to commencement of the study with proposed dates of focus groups with participants.

2.7 Limitations of the Study

The limitations of the study were:

- Even though the research provided useful insights on the municipality, the sampling method and municipality chosen were based on convenience and self-interest;
- The study required a lot of travel to the Eastern Cape where the municipality is based and thus very time consuming;
- The fieldwork coincided with the Mayoral Imbizos in all the wards and therefore full of political leadership during this time was a challenge;
- Municipal management were also gearing up for their end of the year leave and some of them were not available during the visits to the municipality;
- The research was also highly dependent on the availability of reliable information from the participants and published municipal reports.

2.8 Conclusion

The research looked at documents published on the municipality and critically analysed them to look at revenue and performance trends over the period. It will require that questions be asked from the officials and communities concerned so as to get to a balanced view and conclusion on their performance. This is in line with the

phenomenology paradigm of the study that “deals with the way people make sense of their world and how they construct their everyday life” (Husserl, 1950). Descriptive research tools like graphs will also be used to “describe social systems, relations or social events” (Sarantakos, 2013:62) through the patterns identified from the coded data set. These will allow for better interpretation of issues, trends and other key findings and their underlying meanings for the municipality.

One can therefore conclude that the research achieved its intended objective by following the approved proposal or plan in order to find the answers towards the research question.

CHAPTER 4

PRESENTATION OF THE FINDINGS

4.1 Introduction

The research was conducted through focus groups with Councillors, Municipal Officials, Ward Committees as well as other members of the community. The participants were adult males and females who occupied leadership and managerial roles within the Emalahleni Local Municipality. Community members engaged were full time residents of the municipality with more than 10years residing within the jurisdiction of the municipality. With the exception of only ward 11, all other wards of the municipality were fully represented by their Councillors and Ward Committee members.

The participants were residents of areas like Qoqodala, Cumakala, Bengu, Luthuthu, Topu, Ngqanda, Indwe, Mavuya Township, Cegciyana, Zingxondo, Noluthanda, Khavala, Lady Frere CBD and township, Dophu, Machubeni, Qhoboshane, Maqhashu, Trust, Ngcuka, Percy, Luqoko, Lanti, Sikhwankqeni, Ndonga, Zwartwater, Vaalbank, Rhodana, Mphothulo, Cacadu, Holani, Gqebenya, Mathyantya, Xonxa,Dlamini, Khunelulo, Mkhapusi, Mount Arthur, Tsembeyi, Bankies, Buffelsdorings, Egnes and Mhlanga.

4.2 Demographic Profile

The Emalahleni Local Municipality ELM) is a Category B municipality as defined by Section 155(1) of the Constitution. It falls within the Chris Hani District Municipality (CHDM) that comprises seven other local municipalities in its jurisdiction. The ELM covers a total area of approximately 3840 square kilometres with a population of about 119 460 from its 17 wards and service more than 200 villages through its three service points in the towns of Lady Frere, Indwe and Dordrecht.



Figure 5: Map of Emalahleni Local Municipality (AfriGIS, 2016)

According to the municipality (Emalahleni, 2014), it has the fourth largest population (15%) of the CHDM with growth trends showing a marginal growth of between 2 – 5% over the previous years. Its concern is that 60% of its population is both under 19years and above the age of 60years which is economically inactive. From those who are economically active 47% earn less than R3500 with 13% leaving below the poverty line. The municipality therefore concludes that it is a low wage economic and has as a result very low economic prospects especially seeing that 35% of its population also has no schooling while only 5% of the population has matric.

The demographic picture of is municipality shows very little hope and this is also exacerbated by their high employment rate within the district as well as a Human Development Index (HDI) of 0.3721 as reported in its Integrated Development Plan (IDP) for 2014 / 2015. Poverty and outward migration is therefore very high.

4.3 The effects of fiscal decentralization in the municipality

The study reveals several issues of concern with regard to the effects of fiscal decentralization on the provision of basic services in Emalahleni Local Municipality. There are also notable similarities as identified with other municipalities in the country as identified by the literature review.

When participants were asked about the effects of fiscal decentralization in their municipalities these were the responses:

- The budget allocation is too low compared to the needs of our rural population.
- There will be no progress and poor service delivery.
- The revenue of the municipality is very low.
- It will not improve the lives of rural people for example by assisting them in the distribution of services and provision of water.
- Electrification and provision of sanitation will never be completed.
- The allocations are too little and must be increased because the municipality falls short in its budget.
- Budget allocations do not cover all the necessities of the municipality.
- The allocations are not enough and if our local government can receive enough money it can do very well.
- Lack of delivery because of financial limits.
- Other spheres don't spend and return the money but low budgets are given to municipalities.
- The money is too little for the municipality's needs
- They must increase the percentage for basic services.
- The funding model needs to be changed because municipalities have huge responsibilities.
- These small budgets make municipalities fail to deliver more services.
- We still have no clean water.
- This leads to lack of funding and slow service delivery by municipalities.
- Budget must be increased because it is not enough for needs of the community.
- Budget must be increased service delivery is very poor.

4.3.1 Lack of financial viability

The Fiscal Framework for the municipality is structured such that there is overreliance on national and provincial grants, low revenue collection and poor economic development.

4.3.1.1 Grant Dependent from National Government

The municipality is highly dependent on the allocations from National Treasury through the LGES as well as other conditional grants like the Municipal Infrastructure Grant (MIG) as it has very little revenue of its own due to the rural nature of its area of jurisdiction. The current available sources of own revenue are rates and taxes from the small retail sector as well as property taxes from households in its three towns. The municipality does not sell water and electricity which were going to contribute towards the bulk of its revenue. Service charges from other services like refuse and sanitation are very limited as they too are only provided to households within its three towns and not to the bulk of its population.

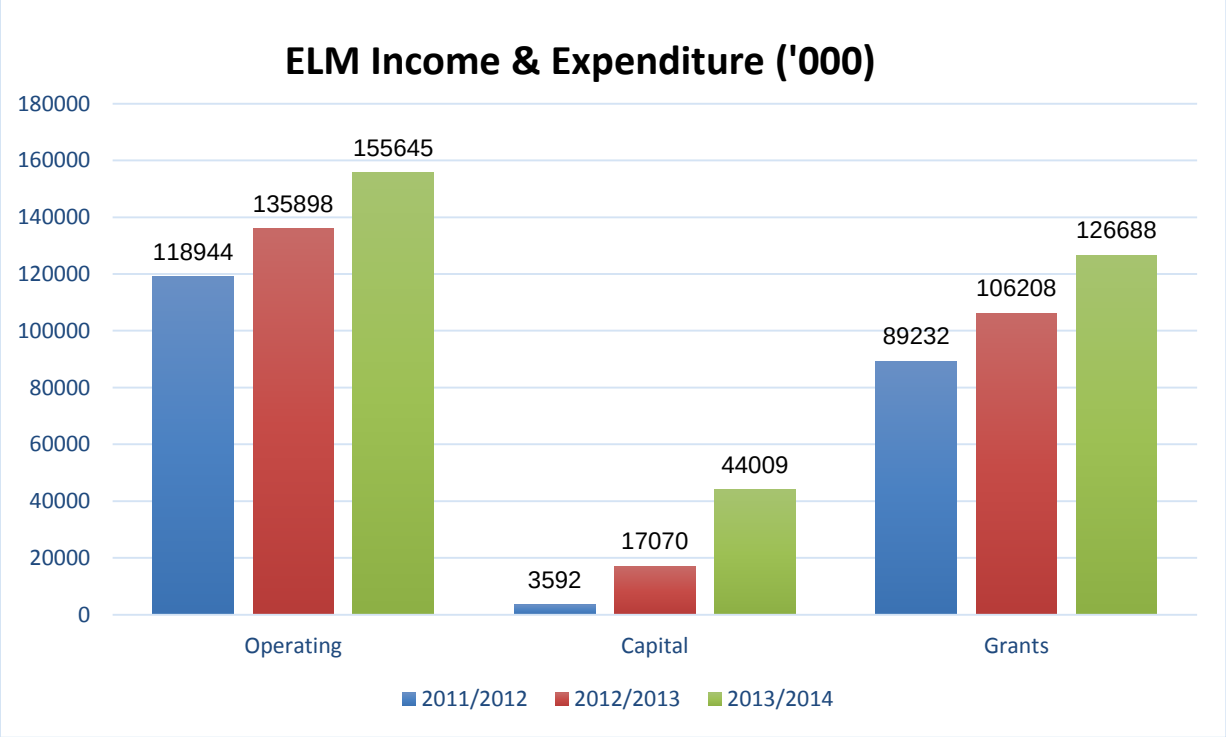


Figure 6: ELM Income and Expenditure (2011 – 2014)

The Income and Expenditure review for the municipality over the previous MTEF indicates that the municipality's capital and operating budget has been finance by grants. There is very little generated by the municipality to finance its own operations and functions.
The municipalities has generated a mere R7.2 million of its own funds compared to R30.9 million received in grants from other spheres of government. During the previous financial year the same situation was also noticed with the municipality as its grants totalled R23.2 million (66.1%) compared to the municipal own funds R7.2 million (33.9%). This grant dependency situation or over reliance on grants is worrying as it shows that the municipality will not be able to finance the vast backlog of basic services in its villages.

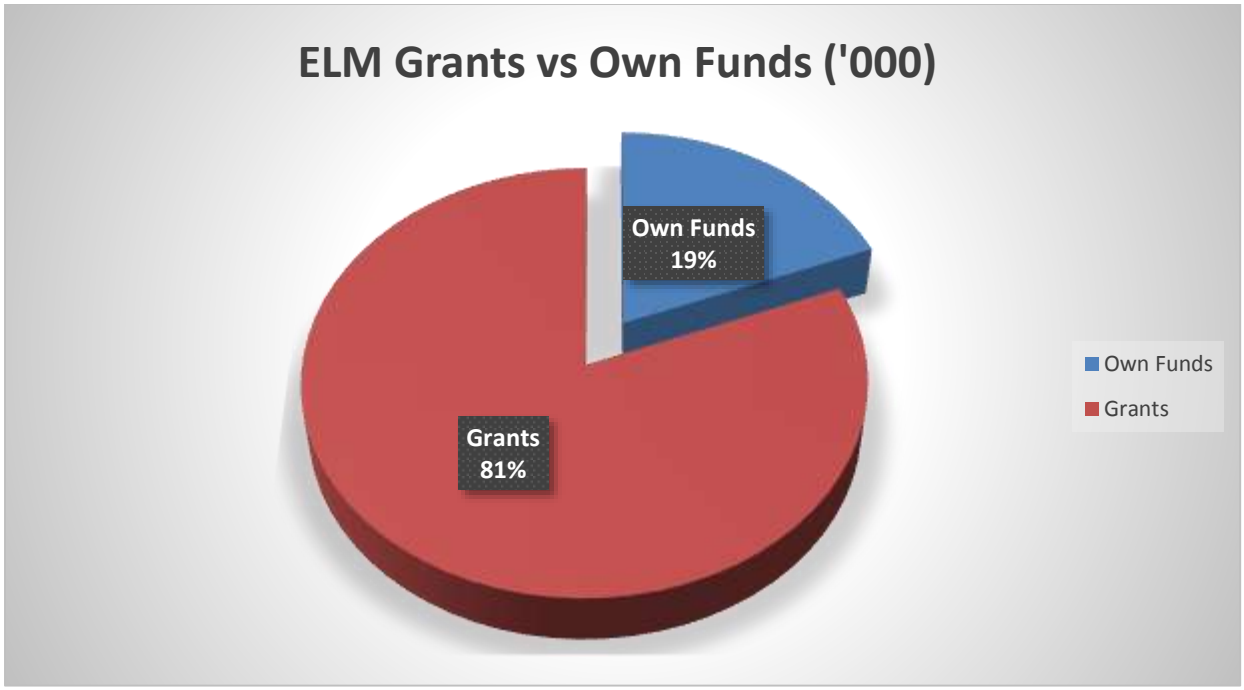


Figure 7: ELM Grants vs Own Funds 2014/2015

The direct effects of the fiscal decentralization model I South Africa are evident on the recentralization phenomenon of municipalities unable to make their own fiscal decisions as grants from other spheres of government have conditions of their own, that may not assist the municipality to deal with their own priority issues. Decentralization in any country can never work if the fiscal relations are such that subnational government should rely on National Treasury to finance their own operations hence many in South Africa continue to be deemed useless and unsustainable, and later merged with others.

4.3.1.2 Low Revenue Collection

Further to over reliance on grants, the municipality's revenue projections for the 2015 MTEF shows a serious deficit that averages to R15 417 000.

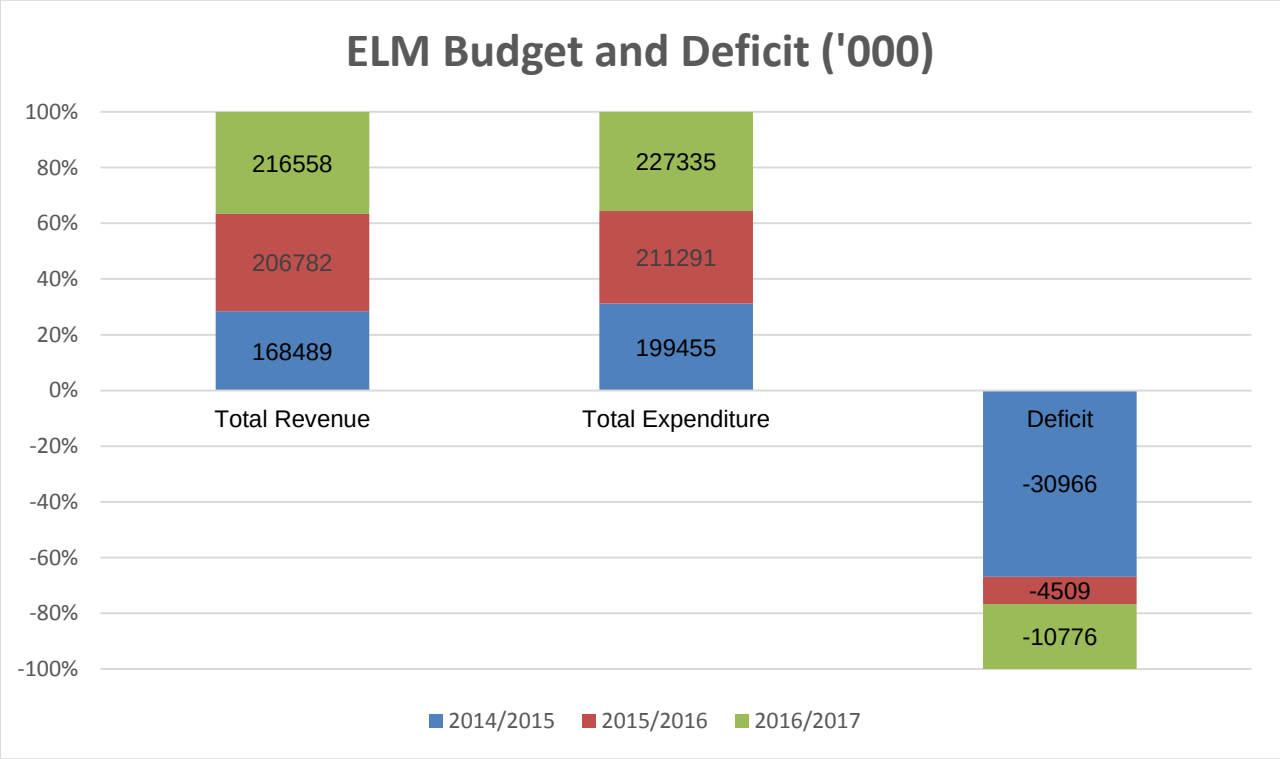


Figure 8: ELM Budget and Deficit (2014 – 2017)

This also shows that the municipality does not have the capacity to finance its own budget. Should it not be for the grants that complements its budget the municipality would have no other option but to close down.

During the Back to Basics campaign by CoGTA, some municipalities were found to be in a dire state that warranted to be merged with other neighbouring municipalities due to their non-financial viability status. The ELM has fortunately not been put on that list but its neighbouring local municipalities within the CHDM. These are Inkwanca, Tsolwana which are being phased out and will merge with Lukhanji Local Municipality to form a new municipality called Enoch Mgijima Local Municipality.

The Municipal Demarcation Board (MDB) has submitted a proposal for 90 municipalities to merge after the 2016 Local Government Elections for being financially unsustainable.

4.3.1.3 Poor Business and Economic Development

Coupled with a visible presence of national and provincial government departments in Lady Frere, the municipality has a handful of viable business activities within its three small towns. These include among others retailers such as Spar, Boxer, Cashbuild, Pep Stores as well as Sasol, BP and Caltex.

As any other municipalities from the former homelands, the towns within the ELM have no economic potential beyond the retailers who supply food and other domestic amenities to the population of the surrounding villages. The only source of income for most people is government – teachers, nurses, police, wardens as well as a pool of others working in the various provincial government departments and municipality.

There municipality is landlocked and thus no possible income for tourism as it is with others on the coastline. Agriculture is not developed and is only at the level of subsistence farming with few households successfully managed to farm cattle and goats and due to the high levels of drought crop farming ceased a generation ago. A local coal mine also failed to take off.

In partnership with the district municipality as well as the provincial government, the municipality is supporting various projects aimed at developing SMME's linked to Heritage Tourism including local Bed & Breakfasts, Agricultural related entrepreneurs including sorghum products as well as livestock breeding (Nguni Cattle), These are very small projects that require mass uptake to pay off over time.

4.4 Service Backlogs and Lack of equity in Service Provision

Being born and raised in the town of Lady Frere, which is where main town for the municipality a lot has changed. We come from an era, like many other towns from the

former Transkei which has now been incorporated within the Eastern Cape Province, where the pit latrines as well as bucket system were the means of sanitation – no different from the villages. If the pit latrine is full, you simply close it and dig another one. The municipality had a tractor that would come once a week – on Thursday nights if I can still remember correctly – and empty the budgets for all the residential areas in town. The same tractor would change its trailer and come for refuse collection during the day.

Electricity was non-existent. If you did not have a generator then you could only use candles to light up your house. This was normal such that those who had means to self-electrify their houses would welcome their neighbours' children to come watch television in their houses in the evenings. Sometimes we would also assist with donations for petrol to ensure that we don't miss our action movies. It brought us closer as a community.

The same applied to water as it came once a week if residents were lucky, else you spend the whole month without a single drop from the municipality. People relied on windmills and boreholes to those who had as there were no communal taps. People would also rain harvest when the seasons allowed. Only good relations with neighbours would assist during drought times. Little did we know that this would one day be a Constitutional right that municipality should provide consistently through the equitable share allocations from national government.

Unfortunately not all the citizens of the municipality enjoy these basic services despite being enshrined in the constitution as a fundamental right. Majority of the population are still deprived of the dignity they deserve and forced to use bushes and self-made sanitation systems, drink water with animals from rivers and dams as taps also stand dry for those who have connections, and also have no imagination that there is an alternative and better way of disposing refuse than burning or burying it in the garden.

This is the sad reality about the provision of basic services by Emalahleni Local Municipality. One of the Ward Councillors strongly maintained that "service delivery is very slow because there's no budget resulting in us not having electricity and refuse collection in the ward."

Insufficient budgets coupled with the rural nature of the municipality comes out as the main source of these service delivery problems, limiting the municipality from providing basic services to its communities, especially the villages. “The budget allocation must be increased because the Emalahleni Local Municipality is rural and can’t generate its own revenue from these villages.” Participants generally agreed that they are not satisfied with the amount and quality of basic services in the wards.

Specific details on the provision of the different basic services are detailed below.

4.4.1 Inconsistent water provision

Water is sporadic in most of the villages with taps existing but no water is available for days and weeks in some cases. The CHDM is the water service authority and therefore the municipality has no ability generating income through the provision of water to its residents. This indicates that the municipality does have the necessary infrastructure but water circulation from the source and availability for use by residents is a major issue.

“Umasipala uyazama ngalemali incinci kuba amanzi iindawo ezininzi zinawo, nombane” said one of the participants. (The municipality is trying its best with the small budget such that there is water and electricity in most of the wards.)

a) Water Sources

The municipality has several big dams that supply it with its water. These include the Machubeni Dam, Doring River Dam, Anderson and Munnik Dams. The Machubeni Dam is located at Machubeni village and supplies supplies most of the water for the Lady Frere and its surrounding villages while the Doring River Dam is in Indwe town and Anderson and Munnik are in Dordrecht. All these dams have been connected to the municipal reservoirs located in the three towns as feeders of fresh water, and have never ran dry for generations. The water is then purified and pumped into the system covering the entire area under the municipal jurisdiction.

The district municipality is responsible for the supply of water to ELM as well as other neighbouring municipalities within its boundaries. This is due to the amount of drought in the other surrounding areas and thus water is shared through the CHDM.

The only challenge with the arrangement of centralizing water provision at the district level is that the municipality does not have authority to supply its own villages, though the dams are located within its boundaries, even if the villages are without water for days. This arrangement unfortunately makes the communities angry as the have dams yet no water in their taps. It also can't sell water to generate its own income.

b) Rural Schemes

To cover for the backlogs in water provision in villages, water is supplied in bulk through the Rural Bulk Infrastructure Grant (RBIG) and the Municipal Infrastructure Grant (MIG) administered by the district municipality. The aim of these grants is to ensure that municipalities especially in previously disadvantaged communities have the necessary infrastructure, they never had before, to provide basic services.

4.4.2 Provision of electricity across the municipality

Most of the households have direct electricity connections with almost all the villages electrified. Eskom supplies and sells the electricity in all other areas except the towns of Indwe and Dordrecht where the municipality distributes. This makes very provision for the municipality to generate revenue from sales of electricity to the majority of its households.

Through the Integrated National Electricity Programme (INEP), the municipality is responsible for the implementation of the electrification programme to its communities while ESKOM provides the actual electricity. The municipality currently has more than 78% of its jurisdiction connected to the grid, and plans to cover the rest of the areas within the current 2015/2016 financial year.

As a rural municipality there is a very high cost associated with the initial connections due to lack of infrastructure and spreading out of villages. This leads to households having to pay added connection fees for ESKOM to supply them with the necessary installations. These costs would have been easily subsidised by the municipality should if it was in a better financial position, and not over relying on grants to provide services to its citizens.

Its leadership hopes that in future it will also sell electricity and generate the needed income to expand its service footprint in the surrounding villages.

4.4.3 Lack of refuse and sanitation services in villages

Historically none of the villages in South Africa received services from government and these backlogs are partly a result of such discriminatory practices of the previous government. Lack of income generation by the municipality also contributes to widen the service gaps as populations grow. Unfortunately the municipality needs revenue to be able to provide more services, and communities will not pay for things they don't have nor satisfied with. This creates a vicious cycle of lack of services.

Refuse collection and provision of sanitation are the two most problematic basic services in the municipality.

a) Refuse collection

Only the three towns are being serviced with refuse collection and none of the 200 villages of the municipality. There are currently no plans to ensure that these services are equitably provided across the multitudes of people in the surrounding villages.

b) Sanitation

Sanitation is in the three towns of the municipalities is provided mainly through proper flush systems, septic tanks and bucket systems in some of the townships. Sewerage is then treated on the outskirts of towns through water-borne sewers, screens, oxidation and maturation ponds.

Villages unfortunately depend on pit latrines with the district municipalities supplying a limited number of VIP Latrine toilets to some of the villages.

The amount of consumers receiving free sewerage and sanitation services from municipalities decreased between 2011 (2.7million) and 2012 (2.5 million). Eastern Cape recorded 43.1% of the total amount with municipalities in Polokwane recording the highest percentage of people (270 108) receiving those services by 2012. Unfortunately the numbers indicated by Stats SA does not capture the amount of people in the villages who have not received these service since the formation of local government in South Africa and municipalities do not have the figures either.

Below is a summary of basic services provide per ward as at 31 December 2015.

	Basic Services Provided			
Ward	**Water**	**Electricity**	**Sanitation**	**Refuse**
1	●●	●●●	●	●
2	●●	●●●	●	●
3	●	●●●	●	●
4	●●●	●●●	●●	●●●
5	●●●	●●●	●●	●●●
6	●●	●●●	●	●
7	●●	●●●	●	●
8	●●	●●●	●	●
9	●●	●●●	●	●
10	●●	●●●	●	●
11	●●●	●●●	●●	●●●
12	●●	●●●	●	●
13	●●	●●●	●	●
14	●●●	●●●	●●	●●●
15	●●●	●●●	●	●●●
16	●●●	●●●	●●	●●●
17	●●	●●●	●	●●

Table 1: Basic services provided per ward in Emalahleni Local Municipality

● No service ●● Poor or inconsistent ●●● Sufficiently provided

4.5 Reasons for poor services delivery

Councillors, Ward Committees and Municipal Officials unanimously agreed that the main reason for the municipality's inability to deliver basic services to its communities is that lack of financial funds. Two issues were cited with regard to the financial viability of the municipalities, small budget allocations and low revenue base.

a) Small budget allocation

One of the participants expressed her concern that the "Budget is getting lower and lower" to cover the needs of the municipality. Another one indicated that "national and provincial departments received huge sums of money that they even fail to spend yet local government receives the lowest of allocations".

"Umasipala akakwazi ukuzisa iinkonzo kubantu bonke ngenxa yesabelo emali esincinci" (The municipality is not able to bring services to everyone as a result of the small budget) said another.

The municipality's budget – capital and operations – is finance by grants from other spheres of government. These include grants like the MIG which is dedicated for infrastructure backlogs like water, local roads and community facilities (halls, sports facilities, taxi ranks, early childhood development centres). These grants unfortunately are dedicated for specific programmes and can't be used for any other things.

b) Low revenue base

The tax base of the municipality is almost non-existent. It amounts to only 19% of its total budget and the municipality cites the lack of economic development and poverty as reasons for its lack of ability to raise local taxes for its budget. With the municipality's own revenue only amounting to R7million, there is no hope that Emalahleni Local Municipality will be able to improve its service levels.

"The municipality depends on a grant, there is no income that is from the rate payers because it is a rural municipality" said one of the Councillors. "There is no income in our municipality in terms of services" concurred a Ward Committee member.

4.6 Governance & Accountability

The Mayor, in her opening remarks for the 2014/2015 IDP document amplifies their commitment to work with the communities of Emalahleni through Public Participation and Mayoral Outreach Programmes.

a) Imbizos

All participants agreed that the Mayor calls Imbizos, tables the budget and report back in all the wards. One participants sad “she gives financial year end reports to account for that has been done or not done with money meant for service delivery”.

Unfortunately some of the Ward Committees expressed concerns that the Councillors do not call public meetings to inform the community on what is going on despite the example set by the head of the municipality of coming to give a report or attend to complaints and solve the problems people reported in a satisfactory manner,

“OoCeba badlala indima enkulu ukuzisa iinkonzo ebantwini” (Councillors play a major role in the delivery of services to communities) said one participant.

These Mayoral Imbizos are an indication of a united political leadership as both the Mayor and the Speaker share the responsibility of coordinating the events. The Speaker through Ward Councillors mobilize the communities while the Mayor addresses them on administrative issues of the municipality. As such good governance in the municipality is a recipe for success in service delivery.

b) Financial Oversight

While others blamed the lack of oversight by the Council on the functioning of the municipality to ensure service delivery and that consultants deliver quality services to the communities, the Municipal Manager mentions in the 2014/2015 IDP that the municipality is getting its financial systems in place and moving in the right direction.

Financial and Oversight systems have also been put in place leading to the improvement of audit outcomes by the municipality over the past few years.

4.7 Recommendations from participants

a) Increase the municipal budget

"Umasipala xa engongezwa isabelo mali iinkonzo angazizisa ebantwini zingabhetele kunezi azinika abantu ngoku. Akunabakho sikhalo ebantwini." (if the municipality can be given more budget the amount of services delivered to the people can improve. There will be no cries from the communities.) said one of the participants.

"Budget must be increased so that they can finish the promises of the people and the needs of the community" said one of the Councillors. "Akukho nto ingenye esinokuyithetha" (that's it, there is nothing more to say) supported the others.

b) Ensure monitoring of services

"The budget that is allocated for the municipality is sufficient but the problem is lack of monitoring of what has been distributed to the communities" proposed one participant.

c) Prioritise the poor

"The poorest of the poor must be the priority."

d) Facilitate economic development

"The municipality must fast track the Shopping Mall that is still pending."

4.8 Conclusion

The research participants unanimously agreed that the fiscal decentralization model in South African has negative effects in the provision of services in their municipality. The study found that as a rural municipality, the Emalahleni Local Municipality does not have the necessary capacity to raise its own funds through taxes as a result it is grant dependent and thus cannot provide basic services to all its communities. Sanitation and refuse collection are the most lacking as they are not provided in any of its villages.

CHAPTER 5

INTERPRETATION AND ANALYSIS OF THE FINDINGS

The Emalahleni Local Municipalities, a category B municipality, is one of the hundreds of municipalities who are charged with the delivery of basic services to their communities. The only fiscal allocation they received from national government for this responsibility as well as other functions allocated to it, is through the LGES. They are too expected to generate their own revenue to complement on their shortfalls as national government have no obligation to compensate them beyond that.

Over the past few years, the municipality expressed concerns that their socio-economic conditions do not permit it to deliver on its mandate. It is one of the poorest municipalities among its peers within the CHDM. Education levels of its citizens are at the lowest with the majority of them without higher education or skills to contribute to local economic development. As they are highly dependent on services from the local municipalities for water, electricity, refuse and sanitation which is inconsistently provided. Extreme cases include abrupt water supply to most of the 200 surrounding villages due to burst pipes or lack of fuel to for the generators, non-existent refuse and sanitation services provided by the municipalities to them as well as pockets of lack of electricity supply.

Low economic development is the main reason for the municipality not to be able to generate more revenue from its citizens to complement its budget for development and provision of basic services to its villages. The failure of the LGES formula to ensure fiscal equity among the municipalities as well as horizontal equity among the citizens of municipalities directly leads to continues marginalization of the poor villages who are currently not receiving most of these basis services while equal citizens of the municipality. Lack of national government to ensure that the elements of fiscal decentralization are properly and successfully applied in this municipality undermines the very same principle of equity in the provision of basic services. The huge fiscal gap between this and metropolitan municipalities violates the Constitutional provisions that all

citizens of the republic are entitled to equal rights, privileges and benefits no matter where they are located within the boundaries of the republic.

It is also worth noting that the over the past five years, under the current leadership, the municipality has done tremendous work in mapping its long term development vision, recruiting capable personnel to lead the various portfolios including Portfolio Directors and a Town Planner. These were complemented with the introduction of Performance Management Contracts for the Municipal Manager as well as all Directors to ensure that both the IDP and SDBIPs of the municipalities are implemented without fail.

Tangible projects that were successfully implemented include, among others, development of eradication of the bucket systems in town like Lady Frere and the introduction of a flush system in collaboration with the District Municipality, the replacement of dirt road with paving in towns and their townships as well as purchasing of a compacter truck to strengthen refuse collection at least once a week for urban residents and businesses as well as the development of a new compliant landfill site. Recycling programmes are also been implemented so as to minimise was in the landfill site. These major capital projects have changed the face of the municipality.



Honourable Mayor Cllr Nomveliso Nyukwana & Council Speaker Cllr Nolitha Lali with the Members of Mayoral Committee during a Community Imbizo at Indwe in December 2015.

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusions of the study

Fiscal decentralization as a core part of a decentralized system of governance has been inconsistently applied in developing countries. Most developing countries are therefore less decentralized when compared to their developed counterparts. In cases where successes have been recorded, the key ingredients and fundamentals of fiscal decentralization have been put in place. These include creation of an enabling policy and legislative framework, developing a conducive economic environment to ensure a sufficient tax base, building the capacity of sub-national government to be able to manage public funds, deliver services and also administer the necessary taxes to complement their income from national government, and to also ensure proper intergovernmental relations among the various levels of government.

Without these key elements being successfully put in place the ideals of decentralization – improved basic services and improvement in people's lives – will never be realized as see in the slow pace of development in many developing countries with South Africa being one of them. The struggles of developing countries to see benefits of decentralization also stems from the foundations of governance reforms that were championed by donor agencies, and thus set conditions for decentralized systems of governance to create conducive environments for multinational cooperations to facilitate development, and not sub-national governments as it should be. The resultant factor is that the implementation of governance reforms were flawed from the onset as governments did not fully recognise the cost benefits of these kinds of structural adjustments.

Huge fiscal gaps exist between national and sub-national governments as a result of poor economic development in most local areas and capacity to enhance those resulting in low tax base for sub-national government to collect the own local revenues. These are

also exacerbated by concentration of national economies in certain part of the country as well as the huge infrastructure investments on urban areas at the expense of rural areas. These imbalances result to further fiscal imbalances as sub-national governments sit with socio-economic imbalances that lead to loss of skills, migration and poor economic development. With these conditions local governments continue being trapped in the cycle of fiscal dependency on national governments and thus limiting their fiscal autonomy. Parallel to that national government does not play a meaningful role in the development of local capacities in other to ensure that sub-national government is able to build sufficient tax havens to deliver the much needed services to its communities.

The Constitution of the Republic of South Africa makes provision for provincial and local government to receive and equitable share from national government in order to deliver basic services and other functions assigned to them. Unfortunately since the dawn of the new local government dispensation funding has not followed function. The White Paper on Local Government (1998) has set a framework for a developmental local government which was envisioned to work with communities to transform the spatial and economic fact of local communities. This has also set a tone for local government to assume additional responsibilities assigned to them by the other spheres of government including library services without the matching fiscal framework to ensure that these institutions are finically enabled to meet these obligations.

Most of the South African municipalities are rural with vast amount of villages who are economically inactive. Only 8 metropolitan municipalities have the sufficient capacity and financial resources to be able to deliver optimum service levels. The Department of Cooperative Governance and Traditional Affairs, responsible for local government policy and legislation, concludes that only a third of municipalities are in the desires state of functionality, while the middle third is getting better. The bottom third of municipalities is seen as hopeless and dysfunctional. The department has also not assumed the due responsibility for this state of local government affairs, by failing to build the necessary capacity for municipalities to deliver on their mandate as charged by Section 154(1) of the Constitution of the country.

National government needs to take responsibility and implement the fundamentals of fiscal decentralization in all lower spheres of government as the resultant effects of the current system violates the right of rural citizens to receive basic services like all others.

The residents of Emalahleni Local Municipality are highly dependent on it for basic services, i.e. water, electricity, refuse and sanitation which are inconsistently provided due to lack of financial resources as the municipality is grant dependent. Only about 3 of its 17 wards are fully serviced while the 200 surrounding villages had non-existent refuse and sanitation services provided by the municipalities to them as well as pockets of lack of electricity supply.

Low economic development is the main reason for the municipality not to being able to generate more revenue from its citizens to complement its budget for development and provision of basic services to its villages. The failure of the LGES formula to ensure fiscal equity among the municipalities as well as horizontal equity among the citizens of municipalities directly leads to continued marginalization of the poor villages who are currently not receiving most of these basic services while equal citizens of the municipality. All the focus group participants have confirmed that the fiscal decentralization model in South Africa is not working for rural municipalities such as theirs. They all call for more budget so that the municipality has the financial abiity to provide services to all its communities.

6.2 Recommendations

6.2.1 Review of the LGES to ensure horizontal equity

The current formula for sharing of national revenue is bias towards national and provincial government at the expense of local government. The equitable share formula for local government also does not ensure horizontal equity among the citizens of municipalities, leading to huge imbalances in the provision of services, where urban households get more and better services than those in the rural areas. The LGES needs to be reviewed to ensure an equitable distribution of

resources to all citizens of the country and such that more funds are channelled to municipalities in line with the functions and responsibilities they have.

6.2.2 Enhance the capacity of municipalities

Fiscal decentralization goes beyond just allocate responsibilities to sub-national government by national government but intrinsically to ensure that the capacity of the lower spheres of government is enhanced to be at par with central government. This will ensure that municipalities are able spend the little they have from national Fiscus equitably, efficiently and effectively; to build sustainable local economies for better and importantly to collect and administer taxes so that they can have a higher degree of fiscal autonomy which will break the cycle of dependency on national government created by huge fiscal gaps between them and national.

6.2.3 Build local economy for increased revenues

Local municipalities should be assisted to cover their programmes from their own revenues without being dependent on national government transfers. The absence of viable local economies in the rural areas of the country inhibits most of the municipalities from collecting the due revenues due to high levels of poverty and unemployment of their village populations. Local government are also at the receiving end of macroeconomic policy failures that often fail to create economic growth, reduce unemployment and ensure that all citizens especially young people who still have the potential to contribute positively in the economy of the country are well skilled and educated.

The historical economic imbalances that has seen few economic hubs around the cities and bulk infrastructure investments in urban areas continue to undermine the growth and development of local municipalities so that they can be able to create sustainable local economies with larger tax base for them.

6.2.4 Strengthen the support of national and provincial government

Section 154(1) of the Constitution of the Republic puts and obligation on national and provincial government to support and strengthen the capacity of local government by legislative and other measures. This is solely intended so that municipalities are able to manage their own affairs, exercise their powers including administering of local taxes, in order to ensure that their functions are effectively performed and services are delivered to each of their citizens without marginalization of the poor as their constitutional right within the republic.

The success of each provincial and national department must be seen on the success of their directorates located in the 278 municipalities in the country.

6.2.5 Conduct ongoing research on the effects of fiscal decentralization

There is very little evidence that shows how fiscal decentralization has affected the provision of services and whether decentralization really increases the level and quality of services to locals. There is very little data and documented evidence on how each of the local municipalities in South Africa is doing in relation to the provision of basic services and other functions assigned to it through the allocation of the equitable share. Institutions like SALGA and the FFC should conduct longitudinal studies and analyse the performance of each municipality to measure development and progress over time. This will inform both policy and further reviews of the LGES so that local government is equitably finance to deliver on its mandate.

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APPENDICES

A: RESEARCH REQUEST TO THE MUNICIPAL MANAGER

Dr WS Vatala
The Municipal Manager
Emalahleni Local Municipality
37 Indwe Road
LADY FRERE
5410

Good day Sir,

THE EFFECTS OF FISCAL DECENTRALIZATION ON THE PROVISION OF BASIC SERVICES BY EMALAHLENI LOCAL MUNICIPALITY

I, Mvuyisi April, a student in Public Policy from the University of the Witwatersrand hereby request your permission to conduct research in your municipality as part of my requirements for completion of a Masters of Management degree. The purpose of the study is to examine the effects of fiscal decentralization on the provision of basic services by local government in South Africa, using the Emalahleni Local Municipality as a case study.

The study is qualitative and by design will use both primary and secondary data. Primary data will be obtained by means of guided questions administered through focus groups with your municipal officials, Councillors as well as Ward Committees within the municipal area while secondary data will be obtained from your Integrated Development Plans (IDPs), Annual Reports as well as financial reports from the National Treasury and the Department of Cooperative Governance and Traditional Affairs (CoGTA).

Please note the following:

- This study involves an anonymous survey. Your names will not appear on the questionnaire and the answers you give will be treated as confidential. You will not be identified in person based on the answers you give.
- Your participation in this study is very important for the municipality as well. You may, however choose not to participate and you may also stop participating at any time without any negative consequences.
- Please answer the questions as completely and honestly as possible. This should not take more than 60 minutes of your time while in-depth discussions are always preferred during focus group sessions.
- The results of the study will be used for academic purposes only and may be published in an academic journal. We will provide you with a summary of the findings on request one the report has been approved by the University.

- Please ensure you have read and understood the information provided above and you give your consent to voluntary participate in the study with your team.
- Should you have queries about the research please feel free to contact Professor Pundy Pillay at the School of Governance at any given time.

The proposed dates for the focus group sessions are as follows and will have a minimum of 10 participants per session:

	Focus Group	**Date**	**Time**
1	Municipal Officials	11 November 2015	10h00
2	Ward Councilors and Executive	11 November 2015	14h00
3	Ward Committees	12 November 2015	10h00

Should you wish to contact me about the process and dates of focus group sessions please use my cellphone number: 082 XXX XXXX or email: xxx@gmail.com.

Yours sincerely,
Mvuyisi April

26 October 2015

_____ _____

Researcher **Date**

B: INFORMED CONSENT LETTER

Title of the study

Dear Sir / Madam,

You are invited to participate in an academic research study conducted by Mvuyisi April, a Masters student in Public Policy from the University of the Witwatersrand.

The purpose of the study is to examine the effect of fiscal decentralization on the provision of basic services by local government in South Africa, using the Emalahleni Local Municipality as a case study.

Please note the following:

- This study involves an anonymous survey. Your name will not appear on the questionnaire and the answers you give will be treated as confidential. You will not be identified in person based on the answers you give.
- Your participation in this study is very important to us. You may, however choose not to participate and you may also stop participating at any time without any negative consequences.
- Please answer the questions in the attached questionnaire as completely and honestly as possible. This should not take more than ... minutes of your time.
- The results of the study will be used for academic purposes only and may be published in an academic journal. We will provide you with a summary of our findings on request.
- Please contact my supervisor ... if you have any questions or comments regarding the study.

Please sign the form to indicate that:

- You have read and understood the information provided above.
- You give your consent to participate in the study on a voluntary basis.

_____ _____

Respondent's signature **Date**

_____ _____

Researcher's signature **Date**

C: LIST OF GUIDING QUESTIONS: FOCUS GROUPS

a) How has the municipality succeeded in the provision of basic services to the community of Emalahleni with the resources it has?
b) What are they key areas of development that the municipality has managed to achieve in relation to its IDPs? What has not been achieved from its plans and why?
c) What would you say are the challenges or obstacles the municipality experienced, hindered it or made it difficult for it to deliver services?
d) Over the past decades equitable share allocations have favoured national and provincial government with local government receiving 9% during this financial year. What do you think are the effects of this on your municipality and its ability to provide basic services?
e) What are the main sources of funding for the municipality? Are these sufficient? Please elaborate.
f) Can more fiscal autonomy assist the municipality in meeting all its developmental goals? Please substantiate your answer?
g) What else do you think can be done to ensure that all communities receive an equitable distribution of services?