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THE RESTRUCTURING OF INTERGOVERNMENTAL TRANSFERS: A CASE STUDY OF MOGALE CITY LOCAL MUNICIPALITY

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A research paper submitted to the School of Social Science, Faculty of Humanities, University of the Witwatersrand, in partial fulfilment of the requirements for the Masters degree in Development Studies.

University of the Witwatersrand, Johannesburg
2011

DECLARATION

I declare that this thesis is my own unaided work. It is submitted for the degree of Master of Arts (in Development Studies) at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any other degree or examination in any other university.

Student:

Signature _____

Date _____

DEDICATION

To my mother, Dorah Sibonisile Dlamini, for inspiring, motivating and supporting me throughout my academic journey.

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ACRONYMS

ANC	African National Congress
APF	Anti-Privatisation Forum
BS	Basic services
CBD	Central Business District
CDW	Community Development Worker
CLO	Community Liaison Officer
CoGTA	Department of Cooperative Governance and Traditional Affairs
DA	Democratic Alliance
DORA	Division of Revenue Act
DPLG	Department of Provincial and Local Government
FBW	Free Basic Water
FFC	Financial and Fiscal Commission
FF+	Freedom Front+
GEAR	Growth, Employment and Redistribution Strategy
IDP	Integrated Development Plan
IMF	International Monetary Fund
Kl	Kilolitre
Kw	Kilowatt
kWh	Kilowatt hour
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MIIF	Municipal Investment Infrastructure Framework
MKVA	Umkhonto we Sizwe Veterans Association
MMC	Member of Mayoral Committee
NGOs	Nongovernmental organisations
NEM	Normative Economic Model
RSC	Regional Service Council
WSA	Water Services Authorities
WRDM	West Rand District Municipality

FIGURES

Figure 1: Illustration of the fiscal framework showing transfers to local government and own income

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CHAPTER ONE

INTRODUCTION

> In this global market economy, everything is now up for sale, even areas of life once considered sacred, such as health and education, culture and heritage, genetic codes and seeds, and natural resources, including air and water. – Barlow and Clarke (2002)

Municipal IQ (2010) notes that from January 2009 to December 2009, a record high of 105 service delivery protests were reported throughout South Africa. This figure dwarfs the total of 27 reached in 2008 and 31 counted in 2007. In 2010, 107 protests occurred (ibid). These protests suggest that people are discontent about, or lack access to, basic services such as water and electricity. This raises a pertinent question about whether intergovernmental transfers, such as the local government equitable share, are succeeding in facilitating the provision of adequate free basic services to the poor.

In most developing countries, intergovernmental transfers account for the dominant share of revenue available for lower levels of government to utilise in furnishing their expenditure needs (Shah 1994 and Bahl 2000). The term "intergovernmental transfers" generally refers to different kinds of public financing tools including grants, shared taxes and subsidies that flow from the central government to the other spheres of government, such as provinces and municipalities. In South Africa, the Constitution recognises intergovernmental transfers, including the equitable share and other grants (Republic of South Africa 1996). As the Constitution states, local governments and provinces are entitled to an equitable share of revenue raised by the national government to enable them to provide basic services and perform the constitutional obligations assigned to them. The Constitution also notes that everyone has the right to have access to

health care services, including reproductive health care; sufficient food and water; and social security, including, if they are unable to support themselves and their dependants, appropriate social assistance (ibid).

However, the commodification imperatives have deprived the poor of these constitutionally recognised basic services. Basic services are slapped with a price tag like any product that is available off the shelf. Transfers have failed to assist a swathe of poor households to access basic services. Some theorists now argue that municipal services like water should not be commodified at all as they are a basic right. This implies that prices should be eliminated from essential services, thus achieving decommodification. Access to water, as Gleick (1999: 3) argues, is a basic human right that is enshrined in international law, declarations and state practices. The word "right", according to Gleick, means that states have a "duty to protect and promote those rights for an individual". The South African Constitution embraces this "human rights" view, as has been noted above.

Others argue for an equitable allocation of basic services like water across "economically disparate groups" (Dinar et al 1997: 4) of users. In the case of water, for example, an equitable allocation of water resources suggests that all households, regardless of whether they afford or not to purchase water, still have a basic right to water services. Dinar et al state that meeting this equitable allocation objective may entail providing government subsidies or free services, or perhaps adopting a "differential pricing structure" based on income. The South African government is trying to apply this "equitable allocation" approach and the transfers system is designed to achieve this goal.

But South Africa's endeavours fall short of bridging the gulf between previously advantaged white people and their previously disadvantaged black counterparts. This is solely because transfers benefit only poor people who are on indigent registers. But in most municipalities indigent registers grossly under-represent those who actually qualify and would greatly benefit from this free allocation. Johannesburg's indigent register currently reflects 108 000 registered households

(Tissington et al, 2008: 36). But household data from Statistics South Africa and information from the city's 2005 Human Development Strategy show that there are an estimated 500 000 households that formally qualify as indigent (ibid). This goes to show that a vast majority of poor households fall through the crack. Put bluntly, they are not guaranteed even the most basic minimum services.

Aims of the study

In theory, intergovernmental transfers assist lower levels of government such as municipalities to furnish their expenditure requirements. As for South Africa, this theoretical premise needs to be placed within the context of the restructuring of transfers since 1994. The historical regional disparities and the permeation of commodification into the policy-making machinery at the local government level have both transformed the nature of transfers. The aim of this study is to concentrate on how the government has restructured transfers, and whether in practice transfers do help municipalities fulfil their constitutional obligations and responsibilities in delivering free basic services.

This research report takes a closer look at the local government equitable share and explores its role in funding the provision of, and the facilitation of access to, free basic services. This unconditional grant provides all municipalities with additional external financial resources to help them meet expenditure needs, including delivering basic services to indigent households. Understanding how this unconditional grant has been restructured as the source of finance for free basic services would cast light on whether or not it is effective in reducing inequities, inequalities and regional disparities. The Municipal Infrastructure Grant (MIG) also comes under empirical scrutiny as it is instrumental in addressing basic service infrastructure backlog. This study also examines the model that is used to calculate the local government equitable share and the MIG.

Finally, the research report seeks to ascertain if transfers accurately target poor people, who are intended to benefit from it. To dissect this aspect of the study, the indigent policy is zeroed in on to explore how poor people are screened and how the indigent policy is administered. It also examines the "culture of non-payment" and what underpins it.

Research question

Main question

Has the restructuring of the South African intergovernmental transfer system assisted local government in meeting the service delivery needs of the poor?

Subsidiary questions

- How are intergovernmental transfers structured to target the poor?
- How has the restructuring of transfers affected the local government's ability to provide free basic services to the poor?
- Are transfers targeted at the intended recipients through indigent policy and is this policy an appropriate vehicle to deliver free basic services?
- What are the challenges confronting the implementation of the new intergovernmental transfer system at the local government level?

Rationale of the study

The South African government has promised that it will continue to fight poverty through social grants, improvement of infrastructure and increased provision of services such as water, sanitation and electricity, but delivery on these promises is slow (Dinokeng Scenarios, 2009: 59). In large part, the slowness in delivery has historical roots. Apartheid planning established black areas away from industrial and commercial hubs, which serve as the crucial sources of revenue for local governments. Formerly white areas had solid industrial and commercial bases, which enabled them to satisfy expenditure needs from own-generated revenue. With economic activities severely curtailed, black neighbourhoods barely generated sufficient income from taxes and rates. This made it increasingly difficult for them to provide services like water to their communities without massive inflow of grants and subsidies. Despite inflow of transfers, inequalities and poverty remain glaring in black areas. As the Framework for a Municipal Indigent Policy (Department of Provincial and Local Government [DPLG] 2005) points out, the inequitable policies of the past, the pre-1994 era, resulted in "exclusion from access to basic services by the poor".

In the post-1994 period, intergovernmental transfers seek to remedy apartheid-era inequitable policies and exclusion. The state's official stance is that transfers play a redistributive role and ensure that access to basic services is guaranteed even in poor areas. According to the working document entitled, "State of Local Government in South Africa: Overview Report", the term redistribution means that transfers' central role is to redress "the country's history of inequity and inequalities" (Department of Cooperative Governance and Traditional Affairs [CoGTA] 2009: 58). But post-1994, development and economic advancement are still concentrated in formerly white areas, while poverty is prevalent in previously black ones.

As the state has reassured that intergovernmental transfers play a redistributive role, it has simultaneously scaled back these grants and subsidies in line with the

proliferation of commodification at the local government level. This is a contradiction in terms. Logically, if the state wants to attain redistribution it should increase transfers, not cut them. Diminished transfers exacerbate inequalities and poverty, which manifested during apartheid. In the aftermath of apartheid, most municipalities, outside metropolitan places like the City of Johannesburg and secondary cities such as Mogale City Local Municipality, still have limited revenue-raising capacity and yet they receive miniscule transfers.

There is much empirical evidence that the poor lack basic services because they cannot afford them, while at the same time inadequate grants leave municipalities with no other means to finance the provision of these. For instance, the Department of Water Affairs and Forestry (2009) estimates about 5.7 million people, which is 12% of an estimated population of 48.7 million, still have no access to safe water. There are some social consequences for lack of access to clean, potable water. For example, the change from the free communal tap to the pre-paid meter tap sparked the cholera outbreak in 2000 in KwaZulu-Natal, affecting over 120 000 people and resulting in more than 300 deaths (McDonald 2002b and McKinley 2005). This is primarily because poor people started using rivers and stagnant ponds for drinking water.

Little comprehensive empirical work has been undertaken on the practice of intergovernmental transfers and how this relates to the provision of basic services in post-1994 South Africa at the local government level. Yet the restructured transfers are increasingly becoming a crucial piece of a financial puzzle in the provision of basic services to the poor. Against this backdrop, this study uses Mogale City's experiences to explore in-depth the actual role of transfers in the delivery of basic services. A descriptive study of this nature is of particular relevance in a sense that it seeks to paint "a detailed picture", as Neuman (2006: 35) puts it, of how the restructuring of transfers has impacted on service delivery. Descriptive research "presents a picture of the specific details of a situation, social setting or relationship" (ibid). Neuman further states that descriptive research is concerned primarily with the "how" and "who" questions. As shown through

Mogale City's experiences, new knowledge or "a detailed picture", as Neuman puts it, of how the practice of intergovernmental transfers in South Africa influences the provision of basic services is presented. The direct link between the two –restructuring of transfers and the provision of basic services – has not been studied with this level of attention to detail through the experience of a single site of local government.

Methodology

Research design

The case study research design used in this study allowed me to take an in-depth look at the role transfers play in assisting Mogale City Local Municipality's ability to provide basic services. To gain knowledge of how Mogale City has handled the restructuring of intergovernmental transfers, two research methods were employed: in-depth interviews and document analysis. In relation to in-depth interviews, I interviewed key informants comprised of Mogale City's managers, councillors and political representatives, activists, a manager from West Rand District Municipality, and a manager from Rand Water. These participants in varying capacities are directly involved in the management of transfers; the creation, implementation and monitoring of indigent policy and free basic services; and the enforcement of credit controls. I also interviewed activists involved in struggles for basic services in the area to get a sense of the effects of indigent policy on the everyday lives of people in Mogale City, and their experiences and understandings of access to free basic services. For its part, content analysis served to combine both primary and secondary sources such as integrated development plans, indigent management policies and budget reports to elucidate how transfers have promoted, or blocked, access to basic services.

Mogale City is one of the four municipalities that falls under the jurisdiction of West Rand District Municipality, which is located in the Gauteng province.

According to Community Survey 2007 from Statistics South Africa (as quoted in Mogale City, 2010: 16-17), the total population of Mogale City is estimated at 319 614 persons. According to the working document entitled, "State of Local Government in South Africa: Overview Report", Mogale City is regarded as a Category B1 local municipality (CoGTA 2009). A Category B1 municipality has a large budget and it contains a secondary city. This working document also states that Mogale City is rated as Classification 4 in terms of CoGTA's Municipal Spatial Classification System, meaning that it is one of the best performing local municipalities nationally. These municipalities are highly urbanised, possess large urban centres, and tend to be mining towns (ibid).

In most instances, studies on service delivery either generalise or overlook the role transfers can and should play in the provision of, and access to, municipal basic services. Consequently, they fail to properly address in greater detail constraints municipalities face when it comes to the provision of basic services, on the one hand, and the facilitation of access of these services to the poor, on the other, despite the fact that these municipalities receive transfers.

Gerring (2007) argues that a case study "may be understood as the intensive study of a single case where the purpose of that study is –at least in part – to shed light on a larger class of cases". In the same vein, my case study uses Mogale City to understand how the restructured intergovernmental transfers have impacted on the provision of basic services at the local government level. Against this backdrop, the choice of the case study is appropriate in evaluating why even the relatively rich municipalities like Mogale City struggle to deliver basic services to those who need them the most, notwithstanding the flow of transfers to these lower spheres of government. Mogale City was selected because it possesses the functions and powers to provide basic services to the population within its municipal boundary. It is tasked with delivering all the free basic services including water, sanitation, electricity and refuse collection (Mogale City 2010). The municipality, most importantly, benefits from numerous grants and subsidies from other spheres of government. This study yields invaluable insight in its

assessment of Mogale City's capabilities to deliver free basic services given that it qualifies for transfers.

Mogale City generates most of its income from own-revenue sources such as property taxes and user charges. Grants account for less than 20% of its total income. While Mogale City is not too dependent on grants and generates much of its own income, it is battling to keep up with the unquenchable demand for basic services in part as a result of pervasive informal settlements, rising unemployment and financially crippling non-payment of services, among other pressing factors (CoGTA 2009). By closely studying Mogale City, new insight into the post-apartheid intergovernmental transfer reforms, as it relates to the delivery of basic services, emerges.

Certain methodological considerations were taken to try to answer the research question. In this section, I provide details of qualitative methods, explain sampling technique, outline data analysis, and address ethical matters.

Qualitative research methods

This study uses qualitative research methods as the means to gather the primary data. Qualitative methods refer to research about persons' lives, stories, behaviour, and organisational functioning, social movements or interactional relationships (Strauss and Corbin 1990). Pope and Mays (1995: 43) emphasise the benefit of understanding "social phenomena in natural" settings, and thus gaining insight into meanings, experiences, and views of all the participants. Both of these viewpoints suggest that qualitative methods lead to in-depth understanding of the subject under study. The qualitative technique employed in this study to collect primary data is an in-depth interview. In-depth interviewing is a qualitative research technique that involves conducting intensive individual interviews with a small number of respondents to explore their perspectives on a particular idea or situation (Boyce and Neale, 2006: 3).

Apart from in-depth interviews, document analysis is another research method used in this study. Data collected from sources such as newspaper archives and policy documents improve representativeness, adequacy, reliability and validity of interpretation (Mariampolski and Hughes 1978). To illustrate this point, document analysis avoids social desirability bias: a situation whereby a participant gives a response that is not necessarily true but appears socially acceptable. This makes information gathered from documents seem more accurate, valid and reliable than information obtained via interviews, or questionnaires.

These two qualitative techniques – in-depth interviews and document analysis – complement one another. On the one hand, in-depth interviews honed in on the experiences in the utilisation of intergovernmental transfers and in the implementation of free basic services and indigent polices. Disparate experiences drawn from individual respondents would not readily reflect in documents. On the other hand, document analysis reduces the possibility of bias to which in-depth interviews are prone. For instance, the annual integrated development plans and

yearly budget reports yield reliable and valid data pertaining to free basic services, indigent management and transfers.

Data collected for the study was analysed qualitatively. This involves analysing data by splitting it into themes so as to scrutinise how the government has restructured intergovernmental transfers since 1994, how free basic services are channelled through the indigent register, and what the impact of "non-payment of services" on the provision of free basic services is within the context of the restructure of transfers.

Sampling

The sample was made up of 34 interviewees. It consisted of 7 municipal managers, 10 councillors and politicians, and 15 activists predominantly from the South African National Civic Organisation (SANCO) and the Umkhonto we Sizwe Veterans Association (MKVA) operating in Mogale City. These participants offered insight into the subsidisation of free basic services using transfers at the municipality and constraints in providing basic services. One manager from Rand Water, which supplies bulk water to Mogale City, and one executive manager from West Rand District Municipality, whose jurisdiction incorporates Mogale City, were also included in the sample. These two participants provide perspective on how Mogale City is coping with the changes in intergovernmental transfers and how these changes impact on the provision of, and access to, free basic services.

This study uses non-probability sampling. Generally, this sampling technique means that a researcher rarely sets the sample size in advance and has limited knowledge about the population from which the sample is drawn (Neuman 2006). With regard to this research study, the non-probability sampling used is quota sampling. Quota sampling involves initially identifying relevant categories of people (ibid). Categories included 9 managers (seven from Mogale City, one from

Rand Water and one from West rand District Municipality); 10 councillors and politicians, who were chosen on the basis of their parties' representation on the municipality's council (seven from ANC and three from DA); and 15 activists.

Ethical considerations

All research participants for this study are over 18 years old. For ethical considerations, the data acquired from interview subjects is kept confidential in order to protect their identities as some information they may have revealed could potentially be sensitive. To hide their identities, respondents are referenced generically as, for example, Manager 1 or Activist 3. Subjects were given copies of the interview schedule, participant information sheet, consent form, and consent to record form. Ethics clearance was obtained from the Human Research Ethics Committee (HREC Non-Medical) at the University of the Witwatersrand.

Limitations of the study

Attempts were made to secure an interview with a manager from Eskom. But the manager selected for this study was busy and the interview did not take place. The original target was 35 interviews and this number was reduced to 34. While Eskom would have provided another perspective into the funding and provision of free basic electricity in Kagiso, its input would have been limited to that. The main research question does not explore the provision of free basic electricity per se, but it looks primarily at the role of intergovernmental transfers in the provision of basic services.

When choosing participants from the opposition parties, three councillors from the Democratic Alliance (DA) ended up being selected. Initially, the intention was to interview two DA councillors and one representative from the Freedom Front+ (FF+). It was difficult to set up an interview with a representative from the FF+ and the interview did not happen. Rather than having only two respondents from

the opposition parties, one more DA interviewee was added and this brought the number of DA participants to three. Both changes to the original plan – inability to secure an interview with Eskom and adding one more DA representative – had no material effect on the study's findings. There is sufficient data from which to draw conclusions about how the practice of intergovernmental transfers as seen through Mogale City. The enquiry into the restructuring of transfers implicated other levels of government, namely the national government, national government departments and Gauteng provincial government. But none of these potential participants were interviewed given the limited scope of this study.

Archived documents from Mogale City were not available because the municipality does not keep this information in a central place. Archive material sits within relevant departments. Attempts to secure permission to access these proved to be fruitless as no one seemed to be responsible for giving such permission. Access to these documents was vital in, for instance, getting hold of minutes of discussions around the outsourcing of indigent management, capital project business plans and Eskom.

Predominantly activists from SANCO and MKVA were included in this study. While these activists made their respective contributions to some areas of this study such as indigent management, free basic services and non-payment of services, they were less knowledgeable about intergovernmental transfers. They offered insight into the provision of, and access to, free basic services, but they did not know how the provision of these is financed. Nevertheless, activists cited in this study made an invaluable contribution to the themes around indigent management, free basic services and non-payment of services. That they did not say much about the restructured transfers has no effect on the findings.

Chapter outline

This research report is divided into four sections. Chapter two surveys literature, which looks at how intergovernmental transfer practices in South Africa have

transformed and what role they play in the provision of free basic services. As is shown, legislative changes have led to the redefinition of municipal boundaries in line with the transformation of South Africa's intergovernmental transfer system as far as the assignment of powers and functions at the local government level is concerned. With the influence of commodification, transfers are tailored to facilitate the provision of basic services. Chapter three explores some of the trends in the delivery of, and access to, basic services in Mogale City and looks closely at the transfers within the Mogale City context. Even though Mogale City is relatively well-off and generates much of its own income, transfers have failed to help it meet challenges posed by an increasing number of poor households, high rate of population growth, huge demand for basic services, and pervasive informal settlements (CoGTA 2009).

Chapter four then focuses on Mogale City's attempt to decommodify basic services, and assesses how the municipality uses transfers to achieve equitability and how effective the local government transfer model is. In sum, transfers have fallen short of assisting Mogale City to reduce prices of basic services to affordable levels at the very least for the poor. While Mogale City has tried to make sure that those who cannot afford these get some level of minimum basic services, households that receive subsidised basic services still pay for them if they consume more than the minimum free basic service allocations, which are generally inadequate. Finally, chapter five addresses challenges posed by the implementation of an indigent policy and the pervasiveness of non-payment. Transfers are not only insufficient, but they also target a few poor people who are listed on the indigent register. These financial instruments also overlook non-payment of services and illegal connections.

CHAPTER TWO

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

Introduction

The South African Constitution mandates local government to fulfil "basic needs" of their communities and to provide certain basic services like water and electricity (Reschovsky 2003, Whelan 2004). This implies that even poor citizens have the constitutional right to access these basic services regardless of whether they can afford them or not. In some municipalities the poor are denied this constitutional right (Gleick 1999, Reschovsky 2003, Bond 2008b and Tissington et al 2008 among others). As will be shown, this constitutional obligation seems to be in direct contradiction to commodification, which is prevailing in South Africa's local government. This chapter combines disparate primary and secondary sources of information to demonstrate how the intergovernmental transfer practises in South Africa, particularly, have impacted on the delivery of basic services at the local government level. In this chapter, the intergovernmental transfer trends within the international domain and South African context are dissected. It then conceptualises commodification in a separate section.

Contextualising intergovernmental transfers

The intergovernmental transfer is defined as the way to channel money from one level of government to another (see Shah 1994 and Bahl 2000 among others). Transfers mean different kinds of public financing instruments such as grants, shared taxes and subsidies. Most developing countries rely predominantly on transfers to supplement revenue available for lower levels of government to use in fulfilling their expenditure needs. In South Africa, equitable share is one example

of how the national revenue fund is allocated from the national government to provinces and municipalities. In the literature, transfers are conceptualised as public financial instruments that are deployed to make sure, at least theoretically, that a particular sphere of government's revenue generation is matched to its expenditure needs.

When there is a mismatch between revenue-raising and expenditure commitments, the so-called fiscal gap opens up and transfers are required to close this fiscal gap. This fiscal gap means that a municipality, say, does not generate enough internal revenue from user charges and property taxes to help provide adequate services to its community. The fiscal gap creates "structural imbalances resulting in revenue shortfall, usually for a lower level government" due to inappropriate expenditure and tax assignment; limited or unproductive tax bases available to lower levels of government; regional tax competition; and level of national government taxation limits state and local revenue-raising potential (Shah 1994: 24-27). If internal revenue streams are insufficient, then grants and subsidies are needed as supplementary external sources of income.

There are four key objectives of intergovernmental transfers. The first one is vertical balance or equalisation. These transfers are vertical because they flow from the central government at the top to other spheres of government at the bottom. Since lower spheres of government generally do not generate sufficient internal revenues to cover their expenditure needs and thus face a fiscal gap, transfers from the national government are necessary as they make up for the culminating fiscal gap. Lower levels of government have access to revenue raised at the national government level. To illustrate, even though value-added tax (VAT) is collected at municipalities like the City of Johannesburg and provinces such as the Western Cape, the revenue raised does not stay within their coffers, but it goes to the national government's. The national government shares this revenue with these spheres of government.

The other objective of intergovernmental transfers addressed in the literature is horizontal equalisation or interjurisdictional redistribution. These transfers equalise differences in "quantity and quality of public services" (Schroeder and Smoke 2003) within a particular region. Bahl (2000) puts it aptly when he states that richer regions tend to have more revenue raising powers because they have greater taxation capabilities and stronger administrative infrastructure. An implicit point is that poorer regions have less revenue-generating powers due to weaker taxation capabilities and administrative capacity. For poorer regions, transfers equalise fiscal differences so that they can deliver services that are on par with those provided in their richer counterparts.

The third objective of intergovernmental transfers concerns spillovers or externalities. Simpson (2007: 2) defines an externality as a cost or a benefit imposed on people other than those who purchase or sell a good or a service. Adapting this definition to the public sector, one public entity incurs the costs or reaps the benefits of a particular service despite the fact that another public entity provides that service. By way of an example, Eastern Cape might be reluctant to spend on education on the grounds that the students, once they have acquired skills and qualifications, may relocate to other provinces such as Gauteng. In this case, the benefit of education extends beyond Eastern Cape's borders. While it costs Eastern Cape money to support the education of its scholars, the province does not enjoy the benefits of this investment and other provinces such as Gauteng reap these fruits, even though they have made no contribution. The national government may consider compensating Eastern Cape in the form of transfers as the skills shortage is a matter of national importance. As Schroeder and Smoke (2003) note, the national government may consider transfers to lower levels of governments to fund services whose benefits extend beyond their borders.

The last objective of intergovernmental transfer mentioned in the literature is administrative justification. To understand this objective, it is worthwhile to consult the literature on centralisation and decentralisation. Centralisation means

concentrating fiscal powers in the hands of the national government (Bahl and Linn 1994, Prud'homme 1994). One of the key arguments for centralisation is that the national government has far advanced abilities to administer taxation, a key source of revenue. In other words, it has well established administrative infrastructure that collects and monitors tax activities. The other pertinent argument for centralisation is that concentrating fiscal resources at the centre aligns the allocation of investment capital with the national growth policy framework.

Decentralisation means the central government grants provinces and municipalities some fiscal autonomy (Bahl and Linn 1994, Prud'homme 1994). This is how Bahl and Linn (1994: 4) sum up arguments for decentralisation: "Consider first the notion that moving service provision closer to the people can lead to gains in the welfare of consumer-voters." In short, municipalities can tailor their budgets to the local needs of their communities and improve efficiency of service delivery. They are in a better position than the central government is to respond to needs of the communities on the ground much quicker.

Literature distinguished three ways of determining the total amount of resources to be distributed. Bahl (2000) states that one way of determining the resource pool is through shared tax pool. From the decentralisation viewpoint, the national government shares tax revenue collected nationally with lower spheres of government. Tax revenue such as VAT and capital gains tax is an exclusive preserve of the national government. Sharing tax has benefits for lower spheres of government in that it improves their fiscal planning, and boosts local fiscal autonomy if "conditions for funds are not imposed" (Bahl and Linn 1992: 436).

From the point of view of local government autonomy, municipalities have leeway in how they spend their share of the tax pool if there are no conditions attached. In line with the decentralisation logic, subnational governments can prioritise which services are vital in their expenditure plans. If a municipality thinks that water is critical, it has free reign in prioritising this basic service even

though the national government may regard skills shortage as a matter of national priority. Some provide counterarguments highlighting the disadvantages of the decentralisation approach (Bahl and Linn, 1992: 437). Sharing national collections tends to be inflexible because it is politically difficult to change earmarked percentages.

The resource pool is also determined in terms of ad hoc transfers. From the centralisation perspective, this means that the central government decides at an annual budget planning on the amount of transfers on a "discretionary basis" (Bahl, 2000: 6-7). Advocates of this approach argue that this gives central government flexibility in adapting budget to changing fiscal conditions. As Schroeder and Smoke (2003: 25) argue, central government acquires maximum flexibility to respond to evolving fiscal conditions. These motives for centralisation have drawn criticism. As Dillinger (1994) notes, leaving revenue-raising powers in the hands of the national government discourages provincial and local government autonomy. Another criticism is that a municipality has to base its decisions pertaining to spending on basic services on revenue decisions taken at the national government level.

The other way of determining the resources pool is cost reimbursement. Bahl (2000: 8) points out that the national government defines a service for which it guarantees to cover the costs incurred by lower spheres of government in delivering this service. This is another justification for centralisation. A national government focusing on attracting foreign direct investment often encourages lower spheres of government to adapt accordingly and to make sure they sing from the same investment hymn book, so to speak. For instance, the national government covers the costs if a municipality creates an industrial part for foreign parts suppliers in the automotive industry. The key criticism of cost reimbursement noted in the literature is that it can retard fiscal decentralisation in that the national government limits, if not closes, room for lower levels of government to decide on their local expenditure needs.

Intergovernmental transfers in South Africa

In South Africa, the national government allocates part of its national revenue fund to three spheres of government – national departments, provinces and municipalities (Whelan 2004: 4). This allocation to three spheres of government aims to achieve vertical equalisation and it is called equitable share. As has been stated earlier, vertical equalisation is an attempt by the national government to address the fiscal gap created because revenues generated at provincial and municipal levels fall short of expenditure needs. The local government's share of allocation is called local government equitable share (LGES), while that going to provinces is referred to as provincial equitable share. The LGES plays a dominant role in funding the provision of basic services to poor households. Calfucoy et al (2009: 12) report that the equitable share accounts for an average of 56.7% of all national government transfers to municipal governments between fiscal years 2003/04 and 2009/10. The local government equitable share finances a range of municipal functions and it ensures that "low income households in all municipal jurisdictions receive access to basic municipal services" (Department of Provincial and Local Government, as quoted in Calfucoy et al 2009). These basic services are electricity, water and sanitation, and refuse collection.

The restructuring of intergovernmental transfers in the post-1994 period took place at two different levels. The first part of the changes to the intergovernmental transfer system concerns the redefinition of provincial and municipal boundaries. The second phase pertains to the restructuring of transfers in line with the adoption of commodification.

The first stage was marked by the redrawing of jurisdictional boundaries of the provinces and municipalities. Against the backdrop of the past racial policies of segregation, this new demarcation of boundaries had far-reaching implications for the devolution of powers and responsibilities from the central government to the provinces and local governments in both previously black areas and traditionally white locations. Ahmad (1998) characterises the intergovernmental transfer

system during apartheid as a "dualism". This means that the national government provided much of the transfers to black areas such as the Transkei, Bophutatswana, Venda and Ciskei (TBVC) states, at regional level, and black local authorities, at the local level. In 1990/91, the TBVC states generated 16% on average revenue from own sources and grants from the national government made up over 80% of revenues of the black local authorities (ibid). As far as black territories were concerned, centralisation became the norm because the central government provided much of the fiscal resources to them. By contrast, Ahmad notes that previously white areas were decentralised in that the central government gave them powers to maintain "fiscal and regulatory autonomy". Black local authorities created in 1982 did not create effective tax bases, mainly because the apartheid government restricted economic activities in black communities.

After 1994, the transfer system changed radically and "dualism" was eliminated. At the regional level, the government devolved powers and responsibilities to the nine provinces. The provinces were created after the dismantling of TBVC states and self-governing territories. The TBVC states included the homelands or "bantustans" of Transkei, Bophutatswana, Venda and Ciskei. These racially segregated black regions were integrated into formerly white provinces, Cape Province, Natal, Orange Free State and Transvaal. The 1996 Constitution gave all the newly created provinces autonomy (Bahl and Smoke, 2003: 4). It assigned them fiscal responsibilities including health care, education, social welfare and public transport. In 1993/94, provinces had about 22% share of the total public expenditure, but by 1995/96 this percentage had risen to around 40% (Ahmad, 1998: 248). Even though provinces were granted autonomy with regard to expenditure, they were not given much leverage in revenue autonomy, and depended instead on grants from national government to overcome vertical imbalances (Ahmad, 1998: 249).

At the provincial level, the centralisation of revenue-collection eases regional disparities in income and wealth, or what in the literature is referred to as horizontal fiscal disparities. This means that wealthier provinces like Gauteng,

which have a broader revenue base, share part of their proceeds collected nationally with poorer provinces such as the Eastern Cape, which possess limited revenue sources. Manuel (1998)[1] noted in his comments on the Division of Revenue Bill that the equitable share formula recognised "economic disparities among the provinces". He stated that the provincial equitable shares formula is designed to take into account disparities. For instance, some of the components of this formula include among others an education share and a health share (ibid). As Ahmad notes, the weak fiscal base of most provinces meant that they had vertical fiscal imbalances and horizontal fiscal disparities and therefore need grants from the central government.

The redefinition of geographic jurisdiction extended to the local government sphere. Like provinces, municipalities were drawn anew by merging formerly black local authorities with formerly white ones. Historically, traditionally white municipalities were capable of financing a large part of their expenditures from own revenues. As the Financial and Fiscal Commission (1997: 3) points out, the demarcation of new municipal boundaries in 1995 combined former black, coloured, Indian and white areas. The 1996 Constitution and the 1998 Local Government Municipal Structures Act established three categories of municipalities – Category A, Category B and Category C. This legislation introduced changes in intergovernmental transfers at the local government level. On the one hand, municipalities have access to public financing instruments. For instance, the local government is entitled to equitable share of national revenue. They receive additional grants from the national departments, provinces and even district municipalities, where applicable. On the other hand, some municipalities were assigned expenditure responsibilities and given powers to provide services such as water, sanitation, electricity, roads, and storm water drainage. While municipalities can charge for services, there are variations in the revenue sources available to them. Category A and Category B municipalities have access to property tax, while the RSC (Regional Service Council) levy is available to Category A and Category C municipalities.

[1]Trevor Manuel made this remark in his opening comments on the Division of Revenue Bill on May 20 1998, when he was finance minister.

The second stage of the reform of intergovernmental transfers was driven in part by commodification. Literature points out that basic services such as water are now regarded as commodities (Bond 1998, Bond 2008b, McDonald and Pape 2002). In South Africa, the buying and selling of these services is mediated increasingly by prepaid metering.

With the influence of commodification in South Africa, intergovernmental transfers now make up a relatively small share of the total revenue available to local governments (Reschovsky, 2003: 174). The Department of Finance cut in real terms the "intergovernmental grants" by 85% between 1991 and 1997 (Bond 1998) and there were additional cuts of up to 55% between 1997 and 2000, further squeezing the ability of local governments to provide subsidised services to the poor (McDonald 2002b). Municipalities are expected to generate 90% of their revenue from own sources (Bahl and Smoke, 2003: 8). This suggests that municipalities operate on the basis of making a surplus in accordance with the commodification logic. For richer municipalities the 90% internal revenue target is potentially attainable, but for poorer local governments it is virtually out of reach.

After 1994, former black local authorities continued to receive transfers to cover their expenditure needs. Some of these transfers were made to "R293 towns". The R293 towns were local authorities that operated in former homelands. These were towns with little or no tax base and they lacked administrative capacity of their own (Financial and Fiscal Commission, 1997: 16). Other transfers to formerly black local authorities included funds for housing and external and internal bulk infrastructure like water and roads. Municipalities also received "guaranteed allocations" (Reschovsky 2003). But in 1997, transfers were consolidated into the Municipal Infrastructure Programme. This programme set the broader parameters for basic services that must either be subsidised or offered for free.

The Division of Revenue Act (DORA), which was first introduced in 1998, reflected the reformed intergovernmental transfers. This Act specifies and governs the local government equitable share and the provincial equitable share allocations, and conditional transfers from national departments to municipalities and from national department to provinces (Whelan 2004: 4). The DORA quantifies all the vertical and horizontal allocations to provinces and municipalities. Other forms of transfers are prevalent in South Africa and these include conditional grants because national departments and provinces set parameters regarding how these funds are spent. The national departments also make conditional transfers to provinces and municipalities.

At the local government level, equitable share, which serves a critical role in the provision of basic services, fulfils two purposes. First, it addresses fiscal imbalance, the difference between expenditure requirements and revenue-raising capacity within a particular municipality. If there is "needs-capacity gap" (Reschovsky, 2003: 176), a local government is eligible for equitable share grants as this suggests that expenditure needs are greater than revenue-raising capacity. Second, equitable share reduces fiscal disparities. Fiscal disparities refer to "differences in fiscal conditions among local governments" (Reschovsky, 2003: 177). Fiscally strong municipalities have tiny or negative needs-capacity gaps, whereas other municipalities have huge expenditure needs and limited sources of revenue.

Emerging trends characterising transfers in South Africa

According to the "State of Local Government in South Africa: Overview Report", transfers make up the second-largest source of revenue for municipalities, accounting for 22.4% of total operating revenue in 2007/08 (CoGTA 2009: 58). Transfers play a redistributive role and ensure that access to basic services is guaranteed even in poor areas. The term redistribution suggests that transfers' central role is to redress "the country's history of inequity and inequalities" (ibid). Post-1994, development and economic advancement are still concentrated in formerly white areas, while poverty is prevalent in previously black ones. In theory, transfers from the national government ensure that poor households in black locations receive a certain level of subsidised municipal services and hence redistribution is achieved.

Transfers encounter myriad challenges, which have an effect on the provision of free basic services. The CoGTA points out in the working document that most municipalities fail to provide basis services due to an inadequate economic base, high levels of poverty and unemployment. Poverty and unemployment underscore challenges municipalities experience in debt collection, recovering outstanding consumer debts, grappling with high number of indigent households and dealing with the "culture of non-payment". The term "non-payment", within the context of local government, means that a household pays its municipal account "partially, occasionally, or never" (Booysen, 2001: 2).The definition of "culture" is not as clear cut and its meaning is contested. Sewell (1999) distinguishes between two meanings of culture. The first one explains culture as an "abstract analytical category" (Sewell 1999: 39). In this sense, culture is used in the academic field as an analytical tool to understand social life. Sewell also defines culture as a "concrete and bounded world of beliefs and practices". This "bounded" conception of culture suggests deriving meaning by differentiating one group of people from the other. Viewed from this context, for instance, the term "culture" of non-payment distinctly distinguishes blacks, who generally do not pay for municipal services, from whites, who tend to pay for these.

As a "bounded" concept, the "culture of non-payment" emerged during apartheid in the South African townships in the 1980s and proceeded into the 1990s. It continues under democratic rule long after the landmark 1994 democratic election. The term "culture of non-payment", in its bounded form, manifests itself in two distinct ways and, therefore, carries different connotations in its use before and after the 1994 democratic elections. In the pre-1994 era, the culture of non-payment symbolised black people's overt demonstration of resistance to apartheid rule and meant the payment boycotts of municipal services, rents and other tariffs.

Even though non-payment of municipal services has persisted in the new political dispensation, its meaning has transformed. Non-payment does not indicate opposition to the new democratic rule. In the literature, two explanations are proposed for the persistence of non-payment in the post-apartheid period. One explanation for non-payment is related to affordability. With low income, the majority of black communities are indigent and thus cannot afford to pay for services. Officially in South Africa, indigent is defined as one who is "lacking the necessities of life" (DPLG 2005: 9). These necessities of life – which are enshrined in the South African Constitution – are sufficient water, basic sanitation, refuse removal, environmental health, basic energy, health care, housing, and food and clothing (ibid). Municipalities started establishing their framework for the identification and management of indigent households in 2001, and laid out procedures and guidelines for the subsidisation of basic services to indigent households. These municipalities must place each eligible indigent household on their respective indigent registers, which list poor households that qualify for free basic services.

An alternative explanation for the culture of non-payment in the post-1994 election period plays down the inability to pay for services, arguing that non-payment is due to the "culture of entitlement" (Fjeldstad 2004). Entitlement connotes a "bounded" meaning of culture in that it is argued that blacks, rather than whites, feel they have the right to basic services on the grounds that they

helped overthrow apartheid rule and were denied services under apartheid. Apart from the "culture of non-payment", most local municipalities report losses due to illegal connections of water and electricity, according to CoGTA's working document. All these factors contribute to the severe reduction in potential internal revenues available to municipalities and this negatively affects service delivery. As the working document notes, municipalities' spending plans wound up outstripping collectable revenues.

Richer municipalities, metropolitan areas and secondary cities, face new challenges pertaining to transfers. CoGTA notes these relatively well-off municipalities are struggling to keep abreast with the pace with which demand for services such as water and electricity are growing. Sprouting informal settlements illustrate the predicament confronting these highly urbanised municipalities. Informal settlements exert strain on municipalities to provide more services. There are an estimated 286 000 informal houses in Ekurhuleni, 260 000 in Johannesburg, 180 000 in Cape Town, 173 000 in eThekwini and 165 000 in Tshwane (ibid). The top-performing municipalities' inability to satisfy rising demand for municipal services has witnessed widespread service delivery protests. Municipal IQ (as quoted in CoGTA 2009: 12) argues that service delivery protests take place in municipalities where there is rapid population growth and high urbanisation rate and not in the poorest local governments.

Other transfer-related challenges, which are worth mentioning and are well-articulated in the CoGTA's document, include weak co-ordination between programmes; complicated coordination arrangements arising from the proliferation of indirect infrastructure transfers; weaken local democratic accountability resulting from transfers; weak programme design, implementation and evaluation procedures that limit the impact of grants on the development outcomes sought by government; and fragmented programmes to strengthen the capacity of municipalities.

Theoretical framework

As has been pointed out, the state uses prepaid meter systems predominantly to commodify basic services in the post-1994 period. The term commodification refers to the buying and selling of goods and services in the marketplace in exchange for another commodity or money (Polanyi 1944, Watts 1999, and Williams 2002). Typically, sellers and buyers determine competitive prices in a marketplace. Before 1994, commodification, especially in the South African townships, was present under the apartheid government. The then government, for instance, reintroduced both leasehold and freehold tenure in black townships from 1976 (Barchiesi 2006). As a signal of the deregulation of the black housing market, leasehold tenure meant the right to use property for a fixed period of time at a given price without transfer of ownership, and freehold tenure indicated that the state ceded property to individual black owners for an indefinite period, implying that this freehold title could be sold at a particular price in the market place. In both cases, tenure symbolised a commodity that could be traded for money at a certain price. The apartheid state also imposed rental, of which services such as water and electricity constituted a bigger proportion of the total "rent" (Chaskalson, Jochelson and Seekings, 1987). Rental also epitomised commodification in that users were required to pay for services. Commodification prompted black communities to "explicitly demand a form of rent control, and implicitly therefore demand public subsidisation" (ibid) as part of rent boycotts.

In the post-apartheid South Africa, the state has taken commodification to another level. As the sole seller, the government provides all the basic services such as water to consumers, buyers. It has commodified municipal services like water and electricity by installing prepaid metering, which forces users to pay for services before using them. All households, with the exception of indigent people, pay the full price of basic services in a way that reflects full or nearly full costs of providing them. Prepaid meters were introduced at different times in three services: electricity, telephone and water (Ruiters 2005). Effectively, prepaid meters force users to pay for municipality services like water and electricity

before using them. The implication for this is that users only access services once these have been paid for in advance. Ruiters (2005: 14) points out that government has employed prepaid metering as it believes that this devise mediates access to free portions of basic services and helps users monitor their consumption of services or "self-regulate". But McDonald and Pape (2002: 19) note that even though prepaid meters are seen as "the ultimate cost-recovery mechanism" and "require no overt punitive measures to ensure payment for services", there are instances where these devices have been "tampered with" or "cheated" or "bypassed".

One of the underlying assumptions of commodification is that commodities are "private goods". A private good has two distinguishing characteristics: it is rivalrous, implying that one's consumption of a good prevents others from accessing the same good, and it is excludable, suggesting that those who cannot pay for a good are denied access to it.

Commodification is rooted in neoliberalism. Harvey (2005: 2) defines neoliberalism as "a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade". In line with this neoliberal paradigm, state intervention in the market must be kept minimal, giving way to trade and financial liberalisation, fiscal discipline, deregulation, cost recovery and privatisation. Almost all states including South Africa have embraced neoliberalism (ibid).

In the post-1994 South Africa, neoliberalism emerges under the guise of the Growth, Employment and Redistribution (GEAR) in 1996. Under GEAR, South Africa embarked on legislative and policy changes that entrenched neoliberalism (McDonald and Pape 2002). At the local government level, neoliberalism transformed the manner in which municipal services were delivered (ibid). For

instance, the implementation of iGoli 2002[2] in Johannesburg led to corporatisation, privatisation and cost recovery.

Neoliberalism did not spring up with the adoption of GEAR. Its roots had already deepened well before 1994. The apartheid regime implemented some elements of neoliberalism in the late 1980s (Marais 2001). As part of the neoliberal reforms, it restricted state intervention, promoted privatisation, liberalisation and deregulation, and committed on fiscal tightening (ibid). In March 1993, the then government launched the Normative Economic Model (NEM), which attempted to align the economic policies it had implemented with what the International Monetary Fund (IMF)had prescribed, according to Marais. The IMF's prescriptions are neatly summed up by term the "Washington Consensus"[3]. The Washington Consensus sought to encapsulate 10 neoliberal policies involving: fiscal discipline, reordering public expenditure priorities, tax reforms, competitive exchange rate, liberalising interest rates, trade liberalisation, investment liberalisation, privatisation, deregulation, and property rights (Williamson 2004).To a certain degree, these neoliberal reforms resonate through the new political dispensation. For instance, the democratic government has reordered its "public sector expenditure priorities". This suggests that the democratic government puts emphasis on cutting intergovernmental transfers, encouraging cost-recovery and promoting the commodification of basic services. The motive for this is to keep the role of the state in the public sector to a minimum.

There is extensive literature on commodification in South Africa (McDonald and Pape 2002, McDonald and Ruiters 2005, Bond 2004 and Bond 2008b). Commodification is seen as being instrumental in driving cost recovery, privatisation, commercialisation and corporatisation. Municipalities are increasingly required to rely on internal revenue sources and have to push for, to

[2] iGoli 2002 was a three-year blueprint developed by the City of Johannesburg in 1999 to aimed at transforming delivery and governance, restoring the City's financial health and creating the basic institutional foundations. This plan was prompted by the "financial and institutional crises" that confronted the City between 1995 and 1998 (City of Johannesburg 2002).

[3] The term "Washington Consensus" was originally used in 1989 to describe ten neoliberal policy prescriptions that constituted a reform package promoted for developing countries by the IMF, World Bank and the US Treasury Department (Williamson 2005).

borrow a phrase from McDonald and Pape (2002: 23), "fuller cost recovery as a way to finance and expand service delivery" as they depend less and less on intergovernmental transfers. McDonald and Pape sum up the definition of cost recovery as the practice of charging the full or nearly full cost of providing services such as water and electricity.

Cost recovery boils down to not providing public services like water for free or to eliminating exorbitant subsidies. One school of thought argues that charging for a service, and recovering costs of providing it, makes good fiscal sense for the government. Literature on "willingness to pay" aptly demonstrates this (Whittington, Lauria, Mu and Barron 1990, and World Bank 1994). This argument is premised on the notion that the poor are willing to pay for services, and cover the costs of service provision, because they are consciously aware that payment ensures sustainable provision of services in the future. The willingness to pay argument justifies commodification of basic services.

Privatisation involves private entities (rather than public ones) in the delivery of services and it is vital for efficient functioning of the market mechanism. There are different forms of privatisation (Kirkpatrick et al, 2006: 146). Privatisation could involve signing a "service contract" with a private company to handle, for instance, indigent management; or take the form of "management contracts and leases for existing facilities"; or require private players to invest in facilities as part of "concessions"; or lead to the sale of part or all of a state asset through "divestitures"; or enable "greenfield investments" whereby an investment is made in an infrastructure that has not existed previously (ibid).

Local government has operated in line with commercial principles neatly summed up as commercialisation. Commercialisation means a "process where markets are established for selected public sector goods and services in order to increase competitive pressures on suppliers" (Brown, Ryan and Parker, 2000: 207). Within the South African context, establishing markets means that municipalities sell services to users just like a private business sells any good or service to

consumers. A private business operates on the basis of one commercial principle: to make a profit. The commercialisation argument assumes that municipalities are run on a similar commercial principle: to make a surplus.

Corporatisation has also transformed the way that local governments are managed. Corporatisation is a management model for running a government agency as if it were a business (Smith and Hanson, 2003: 1518). In South Africa, for example, Smith and Hanson note that corporatisation had led to the "internal reform of state-owned enterprises". Under the City of Johannesburg's iGoli 2002, the City's agencies were corporatised. Johannesburg Water (Pty) Ltd, for one, became the city's water service provider. Each agency is ring-fenced. Ringfencing means isolating all the costs involved in running a given service. This means that agencies operate as financially independent entities with each responsible for recovering revenues from its own account holders (McDonald and Pape 2002: 14).

There are counterarguments that study the risks posed to the poor when commodification is employed in the delivery of basic services. A strand of literature looks at institutional shortcomings. In institutional economics, institutions are defined as "humanly devised constraints that shape human interaction" (North 1990). Regulations, for instance, set rules and other restrictions that define parameters for human behaviour. Bond (2008b: 9) points out that municipalities are "captive regulators" in a sense that they are both shareholders and regulators. The City of Johannesburg is the sole shareholder in Johannesburg Metro Bus, yet it is also the regulator of this public transport utility. Bond argues that this can obscure accountability and service delivery. Generally, municipalities in developing countries including South Africa lack the capacity to regulate how the private sector players, when they have made investments in services, operate within their jurisdiction (Smith and Hanson, 2003: 1519). Municipal administration is problematic. In some cases, South Africa's 284 new municipalities have experienced severe difficulties managing services, especially in billing and collecting revenue (Ruiters, 2007: 488).

The private and public sectors are driven by a "different set of values" (Smith and Hanson, 2003: 1519). A private business aims for profit maximisation, while a municipality may be concerned with equitable delivery of basic services. Sunday Times (2001) argues in its editorial pages that in areas where water provision has been left in the hands of private enterprise, the infrastructure had improved. But, the weekly newspaper contends, service levels either dropped or prices increased when the said companies needed to maintain profit margins. This underlines the view that private players cannot deal with the equitable distribution of basic services. Paton (2003) affirms that private-sector companies are "not likely to solve 'the poor people problem', where municipalities are faced with the challenge of extending the provision of services beyond the traditional white town into sprawling semirural surrounds". She notes private companies can provide basic services such as water to formerly white areas along market lines because they are "guaranteed returns" on their investment. However, people in semirural areas do not pay for services, providing private companies a disincentive to invest. Driven by the profit motive, private companies involved in the delivery of services tend to "cherry pick" areas where "profit can be assured" (Smith and Hanson, 2003: 1519), neglecting locations that have no potential for a return on investment. The effect of employing market approaches like cost recovery in the provision of services is that areas that desperately need basic services are left behind.

Conclusion

Intergovernmental transfers are portrayed in this chapter as public financial instruments that, in theory at least, seek to eliminate regional disparities, and tackle inequities and inequalities. Against the backdrop of the restructuring of transfers in South Africa in the post-1994 era, there are questions as to whether these public financial instruments are fulfilling their supposed roles in helping municipalities, specifically, and provinces, in general, satisfy their expenditure

requirements. These expenditure demands carry much weight because they are enshrined in the Constitution, and different spheres of government are assigned responsibilities and obligations to deliver basic services. What is for certain, within the context of this research report, is that the nature of transfers has undergone transformation, firstly, with the redefinition of provincial and municipal boundaries and, secondly, due to the presence of commodification, which has turned natural resources such as water into commodities.

These factors – redefinition of boundaries and commodification – have put a question mark on the effectiveness of transfers in facilitating the provision of "basic" services like water and electricity to poor communities, especially formerly black areas.

CHAPTER THREE

PROVISION OF FREE BASIC SERVICES IN MOGALE CITY

Introduction

As has been articulated, the contribution of intergovernmental transfers to the municipalities' income is historically diminished owing to the dominance of commodification at the local government level. With commodification in the pounding seat, the sale of basic services is inadvertently taking precedence. But this market-driven approach to service delivery has not only exacerbated inequalities and poverty, but it has also deprived the poor of their constitutional rights to essential services. As a secondary city, Mogale City generates enough income on its own to fulfil much of its expenditure needs, even though transfers account for a small share of its total budget. Some municipalities are 100% grant dependent (CoGTA 2009: 59). While Mogale City is not as dependent on grants, it is struggling to keep up with rising demand for basic services as informal settlements keep mushrooming sporadically, unemployment rises due mainly to closure of businesses and non-payment of services continues unabated within its boundaries. As this chapter shows, the demand for basic services in Mogale City is concentrated in rural areas, townships and informal settlements, which are previously disadvantaged areas.

This chapter explores some of the trends in the delivery of, and access to, basic services against the backdrop of Mogale City's status as one of the highly rated municipalities in the country. It then assesses the provision of free basic services and the state of informal settlements in Mogale City. To provide context to the fiscal framework, this chapter then looks at the role of local government equitable share (LGES) in the financing of free basic services.

Mogale City as a Category B1 local municipality

As has been pointed out earlier, Mogale City is regarded as a Category B1 local municipality, according to the working document entitled, "State of Local Government in South Africa: Overview Report" (CoGTA 2009). A Category B1 municipality has a large budget and it contains a secondary city. This working document states that Mogale City is rated as Classification 4 in terms of CoGTA's Municipal Spatial Classification System, meaning that it is one of the best performing local municipalities nationally. The importance of Classification 4 rating is that it indicates a municipality's capacity to roll out infrastructure; demonstrates its ability to raise revenue; suggests financial and management capacity in the municipality; and shows its ability to exercise sound governance and good management practices. Even though Mogale City is not as vulnerable as municipalities under Classification 1 and 2, it faces challenges that stem from an ever increasing number of poor households, increasing urbanisation rate and high rate of population growth (ibid). CoGTA also notes these relatively well-off municipalities are struggling to keep abreast with the pace with which demand for basic services such as water and electricity are growing. Sprouting informal settlements illustrate the predicament confronting these highly urbanised municipalities. As will be shown later, informal settlements exert strain on municipalities to provide more services.

Despite its high-ranking status as one of the country's top-performing municipalities, Mogale City's main problem is related to basic service delivery (Gauteng Economic Development Agency, 2010: 19). The draft 2010/11 Mogale City Integrated Development Plan Review prepared by Mogale City (2010: 15) confirms that poverty in Mogale City is largely apparent in "landless rural farm workers, informal settlements and a large part of former black townships". The population of Mogale City is growing at a fast pace. The Community Survey 2007 from Statistics South Africa (as quoted in Mogale City, 2010: 16-17) estimates

that the total population of Mogale City is 319 614 persons, showing an increase of 29 927 persons from 289 714 persons count of the Census 2001. Mogale City affirms that its population growth suggests that the municipality has become an attractive city and thus more people immigrate to it. The 2007 Community Survey indicates that Mogale City has 51.48% male and 48.52% female members in the population. Mogale City has 50.16% employed people and unemployment stands at 20.76% (ibid).

According to the draft report, approximately 50% of Mogale City's population earns between R801-R25 601 a month. The municipality does not specify how many people earn less than R2 160 per month. The R2 160-per-month income level is the current threshold set for households that qualify for indigent status. The draft report does state that about 55% of females and 30% of the male population do not earn any income. What these income levels suggest is that the majority of people living in Mogale City require an indigent subsidy in order to access basic services like water.

Trends in the provision of free basic services in Mogale City

To reinforce commodification, the South African government introduced a free basic services policy in 2001 (Tissington et al 2008). This policy specifies the basic services that are earmarked for a subsidy and, implicitly, endorses the partial or full pricing of basic services. The policy defines free basic services as water, electricity, sanitation and waste removal. At the national level, government has set the minimum levels of basic services. According to the Free Basic Water Implementation Strategy (Department of Water Affairs and Forestry 2002), the basic level of water supply is defined as 25 litres per person per day or 6 000 litres per household per month. But some theorists (Gleick 1999 and Tissington et al 2008) question if this free water allocation is sufficient. Some municipalities like the City of Johannesburg have increased the basic level of water supply, while others like Mogale City have stuck with the 6 000 litres per household per month

level. In Electricity Basic Services Support Tariff (Free Basic Electricity) Policy, the Department of Minerals and Energy (2003) set the allocation of free basic electricity at 50 kilowatt (kW). There are no national policies that define basic levels for sanitation and waste removal.

According to the Municipal Structures Amendment Act of 2000, Mogale City has the functions and powers to provide bulk supply of water, electricity and sewage purification works and main sewage disposal, and solid waste disposal sites as far as basic services are concerned. This municipality also has powers and functions to perform other duties including integrated development planning, but these are of no relevance to this study. For Mogale City, the assignment of the functions and powers with regard to the four basic services means that it has the constitutional obligations and responsibilities to deliver these to its communities. As it notes, Mogale City (2010) delivers all the basic services namely water, sanitation, electricity and refuse collection, and it also provides certain levels of basic services for free to its eligible poor communities. As will be demonstrated in the following chapters, Mogale City is battling to fulfil its constitutional obligations and responsibilities, and this underscores the deprivation of basic services due to commodification and reduced transfers.

It is vitally important to note that Mogale City supplies 6kl of free basic water per month to all its ratepayers living within its boundaries. This universal access to basic water is recognised in the Constitution and the White Paper on the National Water Policy for South Africa, according to DA Councillor 1 (December 14, 2010). The 6kl allocation is offered to everyone who has an account with the municipality. Mogale City has attempted to remove the 6kl blanket access so that only indigent households benefit, but there was an outcry and motivations came in based on the Constitution that the municipality could not take away the free allocation to everyone (ibid). The municipality withdrew its attempt and then reinstituted the 6kl for everyone. Despite the initial failed attempt to eliminate the blanket 6kl allocation, Manager 3 points out that Mogale City is still looking at giving free basic water only to indigents (November 10, 2010). Given that the

municipality has to make a surplus from water distribution, it recoups the costs of providing free basic water to everyone through the tariff. Mogale City's tariff structure is discussed later. But Activist 7 argues that the universal 6kl allocation ensures that even the poor families that do not have R10 to buy prepaid water and are not listed on the indigent register have access to water (February 4, 2011). The price for prepaid water starts from R10 and yet some households are so poor that they cannot afford this amount (ibid).

Within its jurisdiction, Mogale City sells or distributes electricity to areas such as Azaadville, Noordhewel, Munsieville, CBD (central business district) and the surrounding locations. Eskom also sells or distributes electricity to other parts of Mogale City like Kagiso and Rietvallei. Eskom is the state-owned supplier of electricity in South Africa. The parastatal generates about 95% of the electricity used in South Africa, and it transmits and distributes electricity to industrial, mining, commercial, agricultural and residential customers and redistributors (http://www.eskom.co.za/live/content.php?Category_ID=59). In Mogale City only indigent households receive 50kW of free electricity a month. The municipality provides free basic electricity to indigents in locations in which it operates. Explaining how indigents access free basic electricity, Manager 1 reports that indigents who are still on conventional meters get the 50kW subtracted from their monthly municipal accounts, while the prepaid electricity card is programmed to automatically allocate free electricity a month (November 10, 2010). But local activists, councillors and municipal executive managers alike complain that Eskom does not deliver free basic electricity to indigent households in areas under its direct control. What is supposed to happen is that the municipality should send a list of indigents to Eskom so that the company can provide free electricity to the relevant families. In turn, Eskom should bill the municipality to cover the costs of supplying free electricity to indigents.

To cater for free basic sanitation, Mogale City provides one point per indigent household, and one point includes a toilet, sink and possibly a bath. With regards to refuse removal, Mogale City provides one 240-litrebin per indigent household

to fulfil its pledge to supply basic refuse removal and refuse is collected once a week. About 11% of the households use their own refuse removal, while 4% do not have a rubbish disposal facility (Mogale City Local Municipality 2010).

Some studies show that free basic service allocations do not take into account both the number of members and dwelling units like shacks within a household and thus "unfairly discriminates against the large households with multi-unit dwellings" (Bond and Dugard, 2007: 9). For instance, a number of households in townships around Mogale City have backyard shacks. These shacks either house extended family members or are sub-let to other peoples who are generally working. Activist 1 observes that the indigent policy does not take into cognisance the number of members living within a household (February 4, 2011).Government assumes that the average household has eight members. In her founding affidavit in the landmark Phiri case, Lindiwe Mazibuko quotes the Coalition Against Water Privatisation's research report[4], which found in 2004 that an average household consists of 16 members. This calculation of a household size includes backyard shacks, which are also widespread in Kagiso. Mazibuko further states in the founding affidavit: "Although the calculation is deemed to be 6 kilolitres per household per month, in practice, the allocation is 6 kilolitres per accountholder, which equates as 6 kilolitres per stand per month. The occupiers of backyard shacks are households that are unacknowledged by the City (of Johannesburg). They do not receive separate 6 kilolitre allocations and must rely on the main household on the stand's allocation."

The 6kl of free basic water is inadequate given that members are not working and are often at home (Activist 1, February 4, 2011).Even the Department of Water Affairs and Forestry (2009: 37) states that the quantity of water made available under the free basic water policy has to be reviewed in the context of special health and hygiene requirements. It proposes that it is considering to increase the

[4]The Coalition Against Water Privatisation (in partnership with the Anti-Privatisation Forum and Public Citizen) published a research report on the effects of prepaid meters in Phiri, Soweto, in which it found that the average household consisted of16 members (Coalition Against Water Privatisation et al 2004).

basic quantity of water provided free of charge to poor households from 25 litres to 50 litres per person per day.

Two faces of informal settlements

In informal settlements, Mogale City delivers some basic services. Two vastly different pictures are emerging of the provision of, and access to, basic services in squatter camps. Manager 2 (January 14, 2011) notes that the municipality provides bulk services to informal settlements – shared taps, shared toilet facilities and, in other instances, water tankers. The manager acknowledges that electricity presents a challenge in that the municipality cannot erect high-mast lights as some of the informal areas are not promulgated as formal settlements. Informal settlements such as Soul City, Pango, Tuder Shaft and Orient Hills have yet to be formalised. The municipality aims to formalise all these informal settlements by 2014. Until formalisation, the municipality cannot provide formal structures such as roads and water pipes to these areas, implying that every basic service the people receive is communal.

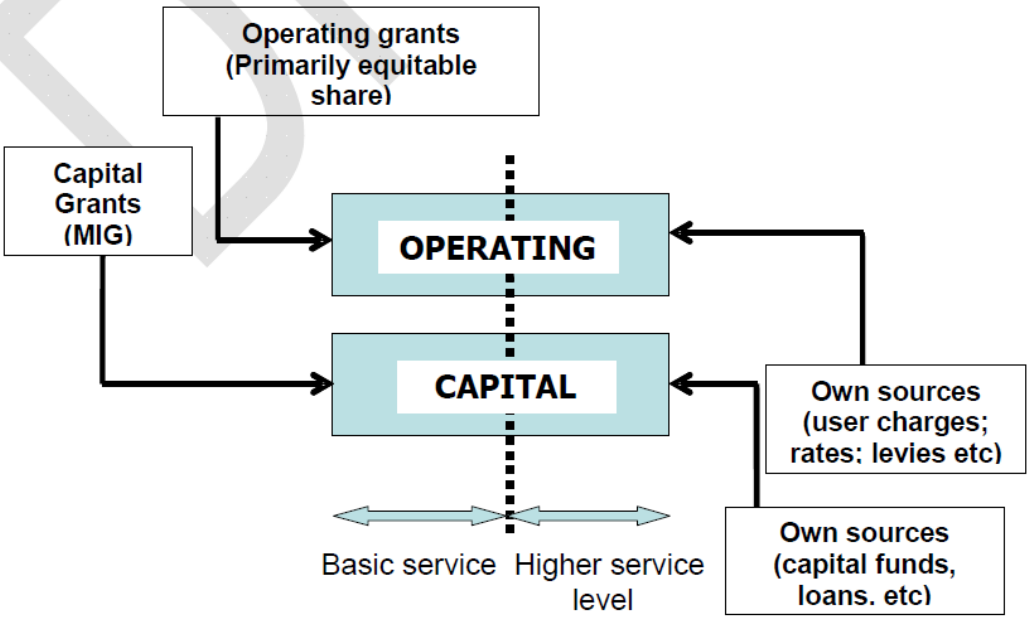
However, activists show a different face of basic services provision and access in informal settlements. Activist 2 cites a case where Mogale City provided communal toilets to Tuder Shaft, which is situated on top of the mine (February 4, 2011). These toilets were damaged barely two weeks after they were built because of the sloping ground level. The municipality took time to react before it eventually set up plastic toilets, which are seldom cleaned. Tuder Shaft, he points out, has only two standpipes even though about 2 000 people live there (ibid). By contrast, Soul City, another informal settlement, is far better than Tuder Shaft is. Five people clean portable toilets, and there are a number of taps in the streets, according to this activist. The only basic service Soul City lacks is electricity. In addition, the activist remarks that refuse collection is a "disaster" in informal settlements, posing health hazards to the communities. Adding to views about

poor service provision in informal settlements, Activist 3 affirms that sometimes there is no water in standpipes (February 4, 2011).

Contextualising equitable share within transfers flowing to Mogale City

Mogale City receives both conditional and unconditional grants from other spheres of government to supplement its own-generated income. Transfers to municipalities aid in funding both capital and operating expenditures as figure 1 below indicates. Officially, these grants assist the municipality render basic services to the poor community. With its heavy reliance on internally generated revenue, grants now account for less than 20% of Mogale City's total income. For the current financial year 2010/11, the local government equitable share (LGES) Mogale City got is at R170 million and the total grants, including equitable share, amount to around R300 million. Mogale City's total budget for the financial year 2010/11 is at R1.4 billion. Manager 3 (November 10, 2010) sums up Mogale City's limited reliance on transfers succinctly: "I know that in some municipalities, you get equitable share as a major income source. But at Mogale City equitable share is not the major source of income."

Figure 1: Illustration of the fiscal framework showing transfers to local government and own income



Source: Department of Provincial and Local Government, "Framework for a Municipal Indigent Policy"

The LGES, an unconditional grant, is the largest transfer Mogale City receives from the national government via the National Treasury. This grant allocation is in line with the constitutional prescription. Local government and provinces are entitled to an equitable share of revenue raised nationally to enable them to provide basic services and perform the functions allocated to them (Republic of South Africa 1996). The National Treasury uses a fixed formula to calculate how much LGES each municipality must get annually.

In the Division of Revenue Bill (DORA), the National Treasury (2010) states that the LGES formula has five elements. There is basic services (BS) component, development (D) component, institutional support (I) component, revenue-raising capacity correction (R), and correction and stabilisation factor (C). Of relevance to the delivery of basic services is the BS component. The National Treasury indicates that the BS component helps municipalities in providing basic services to poor households and with meeting municipal health service needs for all. For

each subsidised basic service there are two levels of support: a full subsidy for poor households that are connected to municipal services, and a partial subsidy for households that are not yet connected to the municipal networks, currently set at a third of the cost of the subsidy to serviced households (ibid).

Mogale City largely utilises the LGES by offering each indigent household R86 per month rebate on the basic service charges. These basic services include 6kl of water, 50kW of electricity, refuse removal and sanitation services. Stressing the significance of the LGES in subsidising indigents' free basic services and alleviating poverty, Manager 3 highlights the benefits of this grant thus (November 10, 2010):

> The equitable share is mainly intended to alleviate poverty and to assist mainly with the provision of free basic services. It goes mainly for indigents. This is the money we use to pay for the accounts of those people. It is sufficient to cover what we have written off.

In Mogale City, the LGES is not only used to fund the provision of free basic services. It is also employed to furnish other operational expenses of the municipality. As has been pointed out, the I-component of the equitable share formula provides assistance in meeting some of the administrative and governance costs of municipalities (National Treasury 2010).

Mogale City also receives a conditional grant called Municipal Infrastructure Grant (MIG). This grant is transferred by the Cooperative Governance and Traditional Affairs Department. The purpose of the MIG is to provide capital finance for basic services municipal infrastructure backlogs for poor households. The MIG formula is made up of the vertical division, which allocates resources to sectors or other priority areas; and the horizontal division which is based on a formula that takes account of poverty, backlogs, and municipal powers and functions (ibid). Put in simple terms, MIG funds capital projects. Mogale City (2009) wrote in its Budget Report that MIG amounted to R42.76 million for 2009/10.

Mogale City also receives transfers of conditional grants from other national departments. These include among others the Energy Department's Integrated National Electrification Programme Grant, which seeks to reduce the backlogs of "unelectrified" households, schools and clinics; and the Water Affairs Department's Water Services Operating Subsidy Grant, whose purpose is to ensure effective, efficient and sustainable service delivery by all Water Services Authorities (WSA) (municipalities) and to subsidise water schemes owned and/or operated by the department or by other agencies on behalf of the department and transfer these schemes to local government. Gauteng province allocates conditional grants to Mogale City from its own financial resources. In its 2010 Estimates of Provincial Expenditure, Gauteng province gave Mogale City R10.89 million. Last but not least, Mogale City gets a share of transfers from West Rand District Municipality.

Conclusion

In this chapter, the spotlight fell on the delivery of, and access to, basic services against the backdrop of Mogale City's status as one of the highly rated municipalities in the country. It also dwelt on the provision of free basic services to formal settlements and the state of the provision of basic services to informal settlements in Mogale City. To provide context to the fiscal framework, the chapter looked at the role of LGES in the financing of free basic services. While Mogale City has not depended heavily on grants, it is struggling to keep up with the rising demand for basic services due partly to informal settlements, high unemployment and non-payment of services. This rising demand highlights challenges posed by changes transfers have undergone, and the role these public financial instruments could and should play in overcoming the demand for basic services.

CHAPTER FOUR

RESTRUCTURED TRANSFERS AND PROVISION OF FREE BASIC SERVICES

Introduction

In the post-1994 period, policy-makers claim that intergovernmental transfers seek to remedy apartheid-era inequitable policies and exclusion from access to basic services alluded to earlier. Transfers make up the second-largest source of revenue for municipalities, accounting for 22.4% of total operating revenue in 2007/08 (CoGTA 2009: 58). Policy-makers also postulate that transfers play a redistributive role and ensure that access to basic services is guaranteed even in poor ghettos. The term redistribution suggests that transfers' central role is to redress "the country's history of inequity and inequalities" (ibid). Post-1994, development and economic advancement are still concentrated in formerly white areas, while poverty is prevalent in previously black ones. In theory, transfers from the national government guarantee that poor households in black areas receive a certain level of subsidised municipal services and hence redistribution is achieved.

Alas, transfers have encountered myriad challenges, which have an effect on the provision of free basic services. The CoGTA points out in its working document that while transfers have increased over the past few years most municipalities fail to provide basis services due to an inadequate economic base, and high levels of poverty and unemployment. Poverty and unemployment underscore challenges municipalities experience in keeping debt collection rates high, recovering outstanding consumer debts, grappling with high number of indigent households and dealing with the "culture of non-payment". Worse still, most local municipalities, the working document states, report losses due to illegal

connections of water and electricity. All these factors – debt collection, outstanding debts, indigent households, "culture of non-payment" and distribution losses – contribute to the severe reduction in the potential internal revenue available to municipalities, while at the same time external income or transfers are low.

Other transfer-related challenges, which are worth mentioning and are well-articulated in the CoGTA's working document, include weak co-ordination between programmes; complicated coordination arrangements arising from the proliferation of indirect infrastructure transfers; frail local democratic accountability resulting from transfers; poor programme design, implementation and evaluation procedures that limit the impact of grants on the development outcomes sought by government; and fragmented programmes to strengthen the capacity of municipalities. Against this backdrop, this chapter explores Mogale City's decommodification attempts, transfers as the public finance instruments seeking to achieve equitability, and the local government transfer model, which places too much emphasis on cost recovery.

Do transfers signal decommodification?

Like other municipalities, Mogale City has commodified municipal services like water and electricity. It has priced basic services and has installed prepaid meters, which encourage if not force users to pay for services before using them. Even the conventional meters manifest themselves in commodification in that they reinforce the payment of municipal services. Both prepaid and conventional meters ensure that all households, with the exception of eligible indigent people, pay the full price of basic services in a way that reflects full or nearly full costs of providing them. Indigents pay once they have used more than the free basic service allocations. Unlike conventional meters though, prepaid meters are thought to be much more effective in entrenching the payment for basic services. Those who do not pay for services upfront disconnect themselves, while

municipalities sell services only to those who can pay. Prepaid metering is not just about enforcing payment, it also mediates market exchange between the seller – the municipality – and buyers, ratepayers.

Within the context of commodification, municipal services have the characteristics of being private goods as has been pointed out in the second chapter. This has raised questions as to whether basic services should be regarded as public goods instead. Public goods are a complete opposite of private goods as they are non-rival and non-excludable. Examples of public goods include national defence. One person's access of national security does not diminish another's chance of receiving the same benefit (non-rival), and access does not require payment (non-excludable). The market model, as symbolised by commodification, assumes that people can afford municipal services. However, market failures or market imperfections are well documented (Stiglitz 1998, Stern 1989 and Krueger 1990 to name a few).

For instance, municipalities in South Africa are expected to generate 90% of their revenue from own sources (Bahl and Smoke, 2003: 8). This suggests that municipalities operate on the basis of becoming financially self-sustainable within the commodification framework. This commodification logic, however, has an inherent weakness if one takes into cognisance the regional disparities in income and wealth. In traditionally white suburbs users pay for basic services, as reflected in outstanding debt collection rates. Under these circumstances, the market approach makes perfect sense. But historically black residential places have a poor record of debt collection. For these communities, the principle stating that "you get what you pay for" (McDonald and Pape, 2002: 5), which is inspired by commodification, does not hold. For, when no payment is made on the part of poor black households, logically no selling takes place. One may infer from this lack of exchange that the market-driven model of delivering basic services is incapable of providing these services to needy communities.

Despite this weakness, South Africa's transfers at the municipal level have become a mechanism for funding free basic services to the poor (DPLG 2005). It is not clear if transfers signal some form of decommodification, which means removing the price from goods and services such as water and electricity. Decommodification emerges largely from "anti-neoliberal literature" (McDonald 2002a). The motive behind decommodification is that there are alternative forms of production and delivery of goods and services to monetising the exchange and these include "the commons" and "shared cultural values" (ibid). The decommodification argument raises questions about the role of transfers in South Africa: who should qualify for free basic services, how far should decommodification go (should there be full or partial decommodification), what criteria are used to select those who are eligible, and which services require to be decommodified?

Mogale City does provide partially subsidised basic services via the LGES. But this apparent partial decommodification only benefits households that are on the municipality's indigent register. Other consumers, whether they are destitute or not, are expected to pay the full price of basic services, implying commodification. As Manager 3 affirms, Mogale City operates on a commercial principle: to make a "surplus" (November 10, 2010). This commercial principle leaves little room for decommodification. It is worthwhile questioning if Mogale City has succeeded in commodifying services in the first place. An assessment of the performance of prepaid metering could yield valuable insights into commodification.

Prepaid meters have made it easier for the municipality to price basic services and generate income. But prepaid meters are "dangerous" in that most municipalities do not normally monitor them (Manager 4, December 8, 2010). People bypass these meters. For municipalities, bypassing of meters represents a loss of potential revenue at a time when transfers are tiny as far as Mogale City is concerned, rendering prepaid meters ineffective. Yet cost recovery is said to be pro-poor as it provides the fiscal basis for further service improvements and expansion

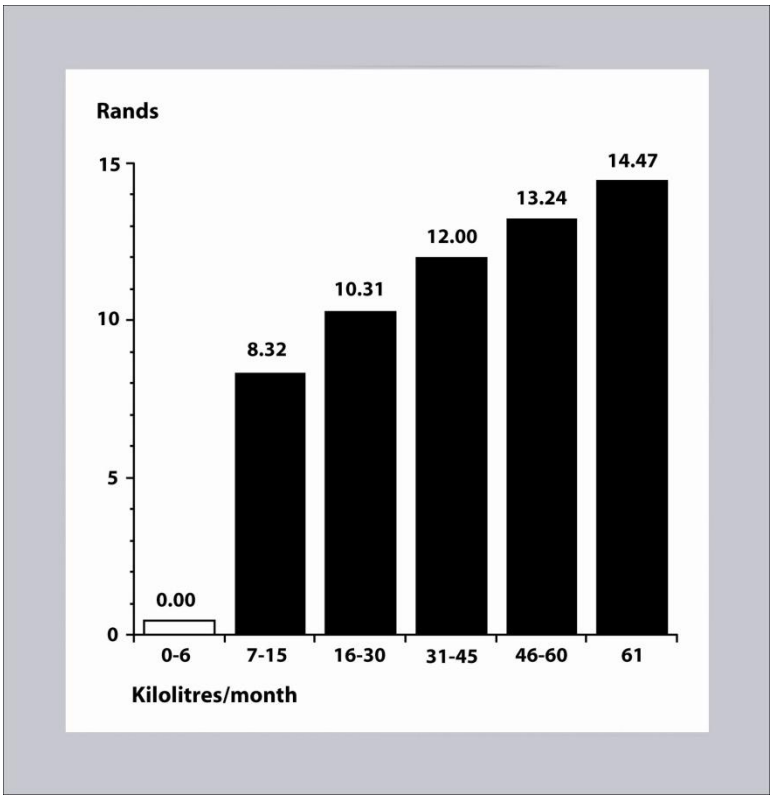
(McDonald and Pape 2002). But a service delivery mechanism that heavily relies on prepaid meters, as an unreliable cost recovery tool, blunts the potential positive effects of decommodification. To illustrate, the loss of income weakens a municipality's fiscal basis to expand and improve services. This could have implications for the indigent management, roll-out of bulk municipal infrastructure and extension of free basic services.

Financial constraints in rolling out prepaid meters also give a skewed picture pertaining to how effective commodification actually is. Without prepaid meters, and if conventional meters are used, both municipalities and households keep accumulating debt. With conventional meters, poor households cannot monitor their consumption and often wind up raking up debt piles, which eventually ends up in the municipality's books. Mogale City has some registered indigents who are not on prepaid meters. This is largely due to a combination of high infrastructural costs or layout costs associated with the installation of prepaid meters and the lack of grants from other spheres of government to assist municipalities in rolling out prepaid meters, according to Manager 3 (November 10, 2010).

Mogale City has designed its tariff structure to ensure that it entrenches commodification. In the literature, a tariff structure means as a "set of procedural rules used to determine the conditions of service and the monthly bills for water users in various categories or classes" (Boland and Whittington 2000, 2).The monthly expenses also include other municipal services like electricity and refuse collection. In the case of water tariffs, Mogale City applies progressive block tariffs in order to make the initial levels of consumption more affordable to, or even free for, the poor while charging higher prices as consumption rises (as figure 2 shows). This type of tariff ensures cross-subsidisation, meaning that the first block of consumption is subsidised by subsequent blocks as consumption increases. The basic assumption is that high water users such as affluent households and industries generate sufficient revenue from user charges to fund the initial block, effectively financing the provision of basic water to the poor.

On the advantages of progressive block tariffs, Calfucoy et al (2009) state that the benefits of the cross-subsidisation design are "the relatively low administrative costs and the avoidance of social stigma that poor people might receive through a targeted approach". They argue that for this method to produce adequate revenue to finance the subsidised first block, the tariff charged to the higher blocks must exceed the average cost of water and enough people must consume at the higher rates to pay for the subsidies. Herald (2004) quotes the Department of Water Affairs as saying that cross-subsidisation works well in areas where there are sufficient high-income consumers in the highest tariff block, consuming too much water and covering the costs of providing free basic water in the lowest tariff block.

Figure 2: Domestic water tariffs 2009/10



Source: Mogale City Local Municipality

On the surface, cross-subsidisation appears to represent another attempt on the part of municipalities to try to achieve decommodification of municipal services.

The price for the initial block of consumption is removed. But this free allocation is cross-subsidised as consumption rises beyond the 6kl mark and the average water consumption in Mogale City is 30kl per month, according to Manager 5 (November 10, 2010). In rural areas in Mogale City, a few households use more than 15kl. Poor people spend R200-R300 a month on water if they use 15kl, the manager states. The 30kl a month equates to about 1 000 litres of water per day in a household and that is the average in Krugersdorp (ibid).

In practice, however, using cross-subsidisation as the means to decommodify by offering the first 6kl for free is proving to be ineffective. Once households use more than 6kl, they start paying more for water and the price is reintroduced. Higher blocks of consumption become very expensive, the manager notes. Households in townships tend to consume more water not because they are wasteful, but simply because households consist of 16 members on average and tend to use more water. Therefore, poor households, whose budgets are "stretched" (Bond 2008b), bear the brunt of elevated water prices. For low-income earners, higher prices either make water unaffordable to them or leave them with debt especially if they are on conventional meters. As for the municipality, it does not generate revenue if people cannot afford to buy water or it could end up sitting on ballooning debt due to defaults. Both of these scenarios do not bode well for cross-subsidisation because this model relies on rising consumption, which boosts prices, to fund the free basic allocation.

Transfers making no dent on inequities and inequalities

In the literature review, intergovernmental transfers are portrayed as public financial instruments that seek to achieve horizontal equalisation or interjurisdictional redistribution. It recognises that different local authorities, in the case of local government, possess different capabilities in raising-own revenue owing to their distinct income and wealth endowment. By way of illustration, the City of Johannesburg has diverse revenue sources that allow it to finance much of

its expenditure responsibilities. By contrast, Mogale City is not as well-endowed with revenue sources as Johannesburg is even though they are both located in the same province, Gauteng. But both municipalities are assigned responsibilities to provide basic services and to reduce a huge municipal infrastructure backlogs. Transfers are justified to ensure "equitable levels of service" (Financial and Fiscal Commission [FFC] 1997). Mogale City, for instance, uses the LGES to realise the "equitable" provision of assigned free basic services to the poor. Whether this subsidy attains equitable provision of essential services is a pertinent question to this study.

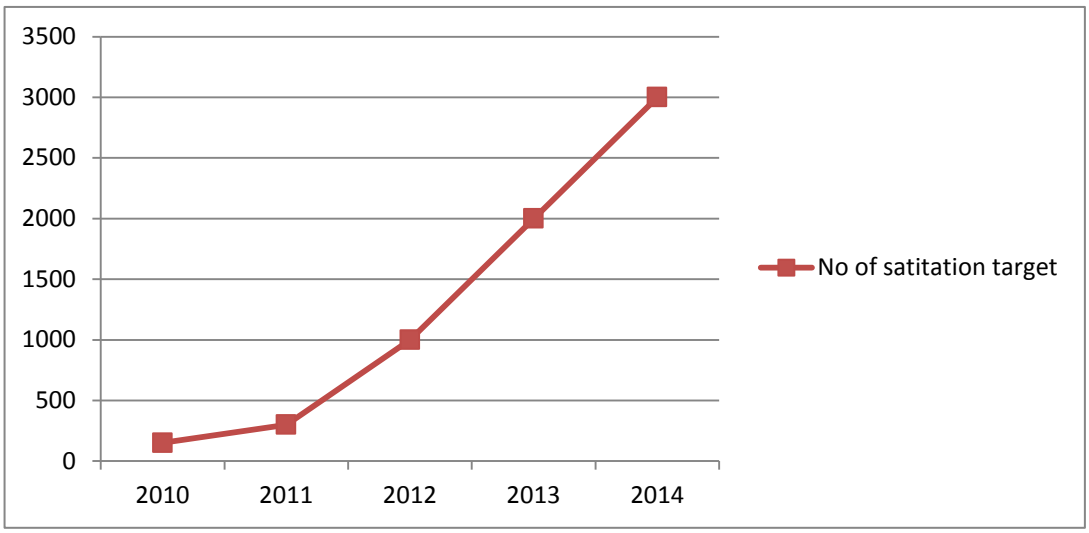
South Africa's intergovernmental transfer system has been restructured to fit the requirements of commodification. As noted in the literature review, the Department of Finance cut in real terms the "intergovernmental grants" by 85% between 1991 and 1997 (Bond 1998) and there were additional cuts of up to 55% between 1997 and 2000, further squeezing the ability of local governments to provide subsidised services to the poor (McDonald 2002). Ostensibly, the restructuring of transfers has left municipalities with insufficient financial resources to achieve equitable provision of services. ANC Councillor 1 attests to the fact that the majority of 283 municipalities, including Mogale City, are just breaking even, which means that they neither make a surplus nor a deficit (January 14, 2011). Mogale City's insufficient capital budget underscores the extent to which expenditure requirements cannot be financed by what is generated internally, according to this respondent. Take Azaadville. It would cost Mogale City up to R50 million to upgrade the electricity infrastructure in Azaadville alone and this project has to be financed from the municipality's coffers (ibid). This suggests that transfers are hardly enough to assist municipalities like Mogale City fulfil their expenditure needs, including the provision of free basic services.

Municipalities' reliance on their own financial resources, and the lack of adequate transfers, to fund some of the basic service infrastructure further limits their ability to deliver free basic services equitably. Enormous demand for basic services, particularly sanitation, in Mogale City makes this point clear. Figure 3,

below, depicts the expected demand for new access to sanitation services over a five-year timeframe. In the draft IDP review, it is stated that the performance of the municipality in relation to addressing the sanitation backlog stood at 15 558 units as at the 2007/08 financial year, a meagre 1 050 units of the total backlog had been addressed, meaning that fewer than 200 units were provided with sanitation services each year.

> This continued under-budgeting for sanitation services will result in the failure by the municipality to meet the 2012 sanitation target. It is thus recommended that resources be channelled towards the provision of services in line with the set target as this is key to the creation of a caring society and the improvement of the health profile of the municipality (ibid).

Figure 3: New access to sanitation services within minimum standards (n)



Source: Mogale City Local Municipality

The "channelling" of resources presupposes that Mogale City not only has to reprioritise its spending needs, but it implicitly also has to cut budget in some operations in order to discharge expenditure responsibility in other areas such as the delivery of basic services to its communities and the reduction of infrastructure backlog. In Draft 2010/11 Integrated Development Plan Review, Mogale City (2010) reports that it prioritises the provision of certain free basic services over others in the municipal planning and budgeting. Budget constraints

have had a knock-on effect on operational aspects of the municipality. For instance, there is a critical skills shortage, especially of artisans and technicians. In Krugersdorp there is one millwright. A millwright is a craftsman or tradesman engaged with the construction and maintenance of machinery. Mogale City has 10 water pump stations and needs five or six millwrights, according to Manager 5 (November 10, 2010). The municipality has contracted a private company to carry out some millwright jobs using its own funds.

Ironically, investing in bulk infrastructure in previously black areas has not had many payoffs for municipalities in terms of broadening their revenue base and yet these locations require massive bulk infrastructure. This does not only mirror inadequate economic base, and high levels of poverty and unemployment in these areas. But it also demonstrates low debt collection rates, outstanding consumer debts, high number of indigent households and the culture of non-payment, which all characterise most townships. Manager 6 notes that investments in infrastructure in underdeveloped areas do not enhance revenue for the municipality (January 14, 2011). This manager argues that the municipality needs to put infrastructure where there is going to be businesses coming in. This argument implies that the development of infrastructure in formerly white locations is for investment purposes.

White areas have high economic bases, low levels of poverty, excellent debt collection rates, and a small number of indigent households if any at all. For instance, Mogale City uses long-term loans to fund capital projects that generate money for the municipality and these borrowed funds are ploughed predominantly into formerly white areas (ibid). In accordance with the MFMA, a municipality may incur long-term debt for the purpose of capital expenditure on property, plant or equipment. Investing borrowed funds in capital projects that generate money for the municipality ensures that the municipality is able to service interest payments or payoff the debt.

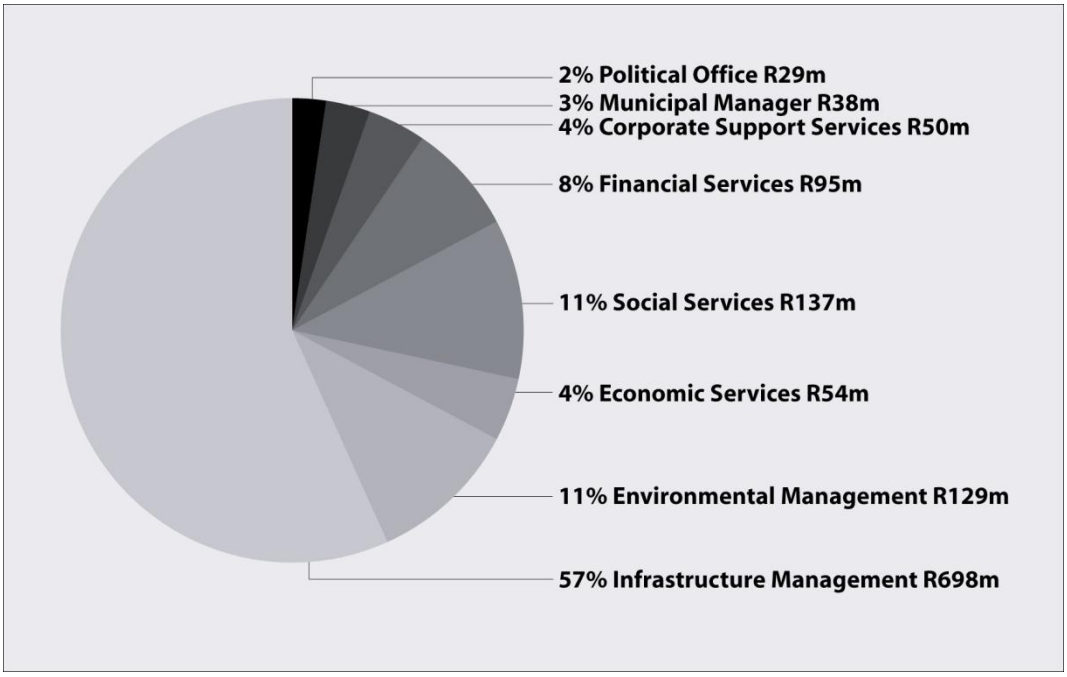
As this manager points out: "You cannot go and get a loan to do something that will not assist you to increase your revenue base. We are always looking forward to increase our revenue base so that we offer services we want." This makes good business sense for the municipality. But as far as the provision of basic services goes, this investment scenario means that black areas would likely continue to suffer from the vicious cycle: without optimum revenue base, they are unlikely to attract infrastructure that carries investment value, which in turn boosts revenue base. The implication for this is that inequities and inequalities remain in previously disadvantaged locations.

Along with budget and investment constraints, Mogale City spends hefty financial resources of its own on the maintenance of infrastructure rather than erasing the infrastructure backlog and improving the provision of basic services equitably. The maintenance of infrastructure is not explicitly enshrined in the Constitution and, to compound matters, there are no transfers that cover infrastructure maintenance. Mogale City is erecting new infrastructure such as storm water drains, treatment plants and roads, but it does not even have the money to maintain this infrastructure, according to Manager 6 (January 14, 2011). Much of Mogale City's infrastructure was built 20-30 years ago and has far exceeded its productive life (ibid).

Highlighting the infrastructure fetters, Manager 7 cites sewage that spills into Hartebeespoort Dam due to the ageing sanitation infrastructure and lack of capacity (January 6, 2011). If the municipality has an aging infrastructure that needs to be repaired, it has to budget accordingly, utilising its own financial resources. There is tremendous pressure on the municipality's resources and budget to maintain infrastructure, according to ANC Councillor 1 (January 14, 2011) (see figure 4 below). In another case, DA Councillor 1 (December 14, 2010) claims that Mogale City faces a critical situation concerning water whereby the municipality sometimes has no supply of water for three to four days. The DA councillor recites: "In September 2009, residents were without water for three to four days. In 2010, we landed up with a situation where some areas were without

water for seven days." The interviewee also points out that a reservoir continuously pumps through water from the utility Rand Water and does not get a chance to fill up, indicating lack of capacity due to escalating demand.

Figure 4: 2009/10 Budgeted Financial Performance: analysed by vote



Source: Mogale City Local Municipality

Counteracting arguments about ageing infrastructure, DA Councillor 2 blames poor town planning for chronic stresses on the municipal infrastructure and argues instead that there is a property development boom in Mogale City (December 3, 2010). The bulk of the property development is in the northern suburbs. There are various other public housing projects that are going on in Mogale City and even though these projects are driven by Gauteng province, the municipality plays a role in approving these (ibid). Town planning is driven more by political consideration, according to the councillor. Councillors, who are in charge of planning, are vying for positions and endeavour to impress "powers that be" by adding ratepayers, who pay for services, and approving new development without due consideration of infrastructure capacity (ibid). Adding more ratepayers who draw on the same capacity negatively impacts on infrastructure. Two effluent treatment plants do not function properly, according to this councillor. A sewage

treatment plant like Percy Stewart is overflowing and releasing human waste into the streams, contaminating the drinking water.

Agreeing with the view on improper planning, West Rand District Municipality (WRDM) Manager 1 points to an instance where people were allowed to occupy houses in the new Chief Mogale housing development and yet there was no electricity infrastructure (January 6, 2011). "Put infrastructure first and then move people in," the manager argues. But Manager 7 (January 6, 2011) denies that the municipality approves developments when it knows that it does not have sufficient capacity and adds:

> First we check capacity that we have. Then if the capacity we have can be able to accommodate the proposed development, we are able to approve it. If we cannot, we will indicate to the developer that we are unable to approve the development at this point because the infrastructure is not sufficient.

Besides these challenges, municipalities face fiscal dumping or what is called in the government circles "March spike". Fiscal dumping takes place when upper spheres of government deposit transfers into the bank accounts of subnational governments without gazetting these transfers. This practice is illegal in term of the Municipal Finance Management Act (MFMA) and no level of government is supposed to move transfers without gazetting these, according to WRDM Manager 1 (January 6, 2011). In terms of the Act, a manager is bound to advise political office bearers to turn the dumped money to the National Treasury.

But municipalities accept illegally deposited transfers from other spheres of government, according to this respondent. If a manager does not take this money, he or she is seen to be failing and the employment contract with the municipality does not get renewed. If a manager turns away this money, "you are disadvantaging yourself politically; professionally it is not good to let something like that go" (ibid). The inference one can draw from this is that there appear to be fault lines between political office bearers and municipal managers. Fiscal

dumping also manifests itself when the national government and provinces wire transfers shortly before their financial year ending in March. This is not explicitly illegal, according to a senior researcher at the FFC. In both instances national government and provinces engage in late transfers to avoid being seen to be underspending. For them there are two benefits for this: they do not have to return unspent money to the National Treasury as this money is not automatically rolled over to the following financial year; and they avoid the risk of having their budget cut as a result of underspending.

But late transfers do not give municipalities sufficient time to spend the money and this leaves them at the risk of underspending themselves. The financial year end for municipalities is in June, not March. This partly explains why municipalities underspend: they receive grants and subsidies late. According to the FFC researcher, underspending affects capital projects more. When analysing the capital adjusted budget spending, 177 municipalities under spent to the amount of R7.3 billion (CoGTA 2009). This suggests that infrastructure plans are either scrapped or delayed altogether. As for the former point, if municipalities do not spend dumped money they have to return it to the National Treasury. This money could have potentially been used to build a reservoir or a power substation or a sewage treatment plant. In the latter sense, before a particular capital project commences, municipalities have to submit business plans to grant providers like provinces and national government departments, and they have to follow supply chain and other procurement processes to comply with tender requirements. If they get funding late, the capital project is more likely to be postponed. Manager 7 (January 6, 2011) emphasises this point by drawing on Mogale City's experience:

> If money gets dumped in March, it takes three months to go through the procurement processes. By the time you are ready to utilise the money or to make appointments it is end of the financial year (in June) and we have not utilised this money.

Fiscal dumping also depicts lack of intergovernmental cooperation between municipalities and other spheres of government. For instance, sometimes

government pays in R20 million on the last day of the financial year and it takes municipal officials up to two weeks to find out where this money came from, according to DA Councillor 1 (December 14, 2010). One can infer that municipalities and other spheres of government do not work cohesively and lack communication. Manager 7 (January 6, 2011) notes that when upper levels of government embark on adjustment budget, realising that they have not spent some money, "all of a sudden somebody wants a business plan from you" without prior communication between the parties. The budget adjustment allows for reassessment of financial priorities.

However, some respondents argue that underspending at the local government level is indicative of lack of capacity to carry out capital projects from planning stages to completion. WRDM Manager 1 (January 6, 2011) insists that some municipalities do not have the capacity to prepare business plans. ANC Councillor 1 (January 14, 2011) points out that underspending results from the combination of fiscal dumping and capital project planning. For the financial year 2010/11, Mogale City received R58.3 million from MIG; R1.3 million from the Department of Cooperative Governance and Traditional Affairs; and R8.6 million for Department of Water Affairs. It also received R5 million from an electricity programme; and R20 million from a neighbourhood development programme. The total is about R93 million from the state. But Mogale City has not yet received the above-mentioned transfer allocations, according to this ANC councillor, who was interviewed on January 14, 2011. Like other municipalities, Mogale City's financial year ends in June. The reason for this may be a question of project planning on the part of the municipality and availability of funding from the state. Mogale City is one of the few municipalities that have used its MIG funds in full (ibid). Mogale City is not only grappling with insufficient transfers. As the next sections shows, the actual model used to calculate transfer allocations to municipalities is problematic.

Resources are scarce: Flaws in funding model

Internally generated revenue is often not enough to help municipalities fulfil their expenditure needs, creating a mismatch. In theory, when there is a mismatch between revenue-raising capability and expenditure commitments, the so-called fiscal gap opens up and transfers are required to close this fiscal gap. This fiscal gap means that a municipality does not generate enough internal revenue from rates and property taxes to help provide equitable basic services to its community. The fiscal gap creates "structural imbalances resulting in revenue shortfall, usually for a lower level government" as a result of inappropriate expenditure and tax assignment; limited or unproductive tax bases available to lower levels of government; regional tax competition; and level of national government taxation limits state and local revenue-raising potential (Shah 1994: 24-27). In most municipalities the fiscal gap remains even after transfers are factored in. Manager 7 (January 6, 2011) explains the predicament facing municipalities succinctly:

> Contrary to popular belief that municipalities are corrupt and they do not have the technical know-how in terms of running municipalities along sound business principles, the reality is that the responsibilities do not match the resources. The responsibilities are huge, but the resources are extremely scarce. Can you imagine the rural municipalities that do not have any revenue base, but they still have to somehow collect and make sure that it is business as usual? I think the model is fundamentally flawed that municipalities have to generate their own income to be able to provide basic services.

To appreciate the fiscal gap challenge better, it is fruitful to look at the formula used to calculate transfers to the local government sphere. A formula-based allocation of transfers seeks to equalise tax capacity and to reduce disparities in service provision across jurisdictions (FFC 1997: 21). Typically, factors used in developing a formula include: (i) indicators of tax capacity, the tax base of a single tax or a combination of taxes; (ii) indicators of need such as population,

land area, population density and the extent of roads; and (iii) indicators of tax effort, such as the ratio of tax collections to tax capacity (ibid).

In South Africa, the formula employed in calculating the LGES and MIG are premised on two factors: income or revenue and population distribution. The population statistics are based on the data obtained from the 2001 Census. Basically, the formula for calculating transfers is limited and narrow, only taking into account population numbers while ignoring other critical issues like the topography of the area, and this often has a negative impact on the development programmes within municipalities (Shiceka 2010). ANC Councillor 1 (January 14, 2011) argues that growth of informal settlements in Mogale City has been phenomenal over the past 10 years, yet this growth is not included in the population statistics. Such exclusion of a variable like informal settlement reflects the grading assigned to municipalities. Grading determines how much in transfers municipalities should get. The fewer the number of points, the lesser the requirement for funding there is. In terms of the current grading system, Mogale City is graded 4.

Grading is based on the allocation of number of points for the total municipal income and for the total population. For instance, the number of points for the total municipal income in Mogale City is 33.33 as it earns between R200 million and R1.5 billion, according to the Remuneration of Public Office Bearers Act (Department of Provincial and Local Government, 2006). Mogale City's total population gives it a score of 33.33 points because it has a population of between 250 001 and 550 000. The total number of points, which incorporate the municipal income and population scores, allocated to Mogale City's council grade the municipality at 4 as the number of total points amount to 50.01-66.67 (ibid). Grade 1 indicates the lowest number of points, whereas grade 6 signifies the highest number of points.

Since 2001, Mogale City's population has grown enormously and its budget has risen to an extent that the municipality should be graded a level five municipality,

according to DA Councillor 1 (December 14, 2010). The formula is also inflexible. Manager 7 (January 6, 2011) points out that conditional grants, like MIG, are way too demanding on the municipalities, and the conditions are one-size-fits-all and way too stringent. Municipalities can only use it for infrastructure and if they are unable to use it for infrastructure, it has to go back to the National Treasury. Smaller municipalities are struggling because they do not have the capacity to be able to meet all those conditions (ibid).

The formula used in the MIG calculation is biased towards richer and bigger municipalities at the expense of smaller ones. CoGTA (2009: 41) points out in its working document that the amount of conditional grants allocated on a yearly basis to smaller municipalities is often too small for them to carry out larger bulk infrastructure projects. The document also states that the distribution of the equitable share favoured metropolitan municipalities over local municipalities. In 2006/07, 40.7% of the total grant went to metros, 37.3% to local municipalities and 22.1% to the district municipalities and the bias towards the metros is a result of both their large and growing poor populations (ibid). But this bias proves the flawed nature of the local government transfer model.

Municipalities are also dealing with unfunded mandates, which are taxing on their budgets, and this is not factored into the transfer formula. Unfunded mandates occur when national government or even provincial government impose "unfinanced obligation on lower tiers of government" (Zelinsky 1993). These mandates appear to have put strain on the fiscal capacity of municipalities, hampering their ability to provide equitable basic services. For instance, Dr Michael Sutcliffe, City Manager of eThekwini Metropolitan Municipality, has noted that on average there was delivery of 16 000 houses per annum at the municipality (Parliamentary Monitoring Group 2008). The administration costs of the housing programme within the municipality's boundaries represented an unfunded mandate for the municipality (ibid), given that housing is the core competency of provincial governments. The inference one can draw from this example is that eThekwini has to divert some of its financial resources, which

would otherwise help improve the provision of basic services, to the administrative costs emanating from the other sphere of government. In the tabling of the Draft Budget 2007/08, Helen Zille stated that Cape Town loses R500 million per year on unfunded mandates, functions that should be performed by provincial government, not local government. Unfunded mandates presuppose that some functions that happen at the local government have financial implications for municipalities.

After 1994, there were a lot of unfunded mandates that were given to local government. Responsibilities, which previously were either the national or provincial government's, were transferred to the local government, states Manager 7 (January 6, 2011). This interviewee illustrates her point in the following manner: "If you have a school within your area of jurisdiction, it generated traffic. All of a sudden you have to upgrade the roads and put in traffic signals to be able to accommodate the school much as the school is not your responsibility, but it is in your area of jurisdiction. In a way, such an unfunded mandate does have impact on the municipality. The same goes for hospitals and all the other services that are the core competence of other spheres of government." The inability of transfers to plug in the fiscal gap and foot the unfunded mandate bill insinuate that most municipalities like Mogale City find it difficult to provide basic services and lay out municipal infrastructure without sufficient funding – be it from internal revenue and/or transfers.

Conclusion

Commodification assumes that all people can afford municipal services. The mantra – "you get what you pay for" – rules the roost. But this market-driven model of delivering basic service is incapable of ensuring the poor have access to the necessities of live. Attempts to decommodify basic services have proven futile thus far. This chapter focused on Mogale City's decommodification attempts, zooming in on the LGES as a subsidy that tries to remove part of the price for

basic services and cross-subsidisation, which allows for subsidy on an initial level of consumption and depends on higher usage to fund the free provision. There is no equitable allocation of basic services.

The South African intergovernmental transfer system has been restructured to fit the requirements of commodification. The restructuring has left municipalities with insufficient financial resources to achieve equitable provision of services. Their own financial resources are hardy enough to assist them fund some of the basic service infrastructure, further limiting their abilities to deliver services equitably. As has been noted, the local government transfer model is flawed. The fixed formula used to calculate grants is premised on two factors: income or revenue and outdated population statistics. The formula also favours richer municipalities over their poorer cousins. Municipalities are also dealing with unfunded mandates, which are not factored into transfer formula.

CHAPTER FIVE

INTERGOVERNMENTAL TRANSFERS, INDIGENT POLICY AND NON-PAYMENT

Introduction

> In 1994, the country inherited a situation where many people were just treated as hewers of wood and drawers of water. For you to rectify that process, you need to identify who these hewers of wood and drawers of water are as set by the previous government. It is through the indigent registration that you are able to identify these people. So that when opportunities arrive you know where to align them to. Somebody once said to me: 'During the apartheid year, all black people were put into a well of economic oblivion. Come 1994, those who were politically connected were the first to get out of the well. When they threw ropes down, they only threw short ropes – where their friends, families and relatives were able to move out of the well. When they came out, they never threw the ropes down because there are so many people at the bottom.' Those who are at the bottom are those we are talking about today, who are indigents. They do not have access to these free basic services (DA Councillor 3, December 14, 2010).

In 2007, about 5.7 million South African households did not have universal access to water, sanitation, refuse removal and electricity, according to the Delivery Agreement for Outcome 9 (Republic of South Africa 2010). Faced with this daunting challenge, the government has set ambitious targets to ensure that those who "were put into a well of economic oblivion", as the quote points out, have universal access to basic services. In its Delivery Agreement, the government states that it seeks to improve universal access to basic services by 2014 and has

set the following targets: water from 92% to 100%, sanitation from 69% to 100%, refuse removal from 64% to 75%, and electricity from 81% to 92%. Insufficient transfers, to a greater degree, and inadequate internal income, to a lesser extent, may prove to be a hindrance in the government's latest drive to improve universal access to basic services.

The bulk infrastructure backlogs make a telling reading. Presently, grants such as the MIG are limited to tackling the extreme numbers for existing backlogs, according to the Delivery Agreement for Outcome 9. But paying attention to the existing backlogs grossly overlooks the new infrastructure requirement due chiefly to "a growing population and a growing economy" and the lack of infrastructure in rural areas and informal settlements in urban areas (ibid). The critical question, which sets the tone for this chapter, is whether transfers do facilitate the provision of free basic services to those who are at "the bottom"?

Indigent policy: Exclusion, stigmatisation and abuses

The national government has restructured transfers purposefully to link grants such as local government equitable share directly to certain chosen poor people. Eligible needy households only benefit by receiving subsidised free basic services. To put this approach into practice, the state designed the indigent policy to serve as the conduit through which the poor access free basic services. As the draft Municipal Infrastructure Support Strategy (DPLG 2007: 6) points out, municipalities should register eligible beneficiaries in their respective indigent registers in order to enable the monitoring of the performance of the social programmes such as the free basic services. As has been stated earlier, indigent is defined as "lacking the necessities of life" (DPLG 2005). These necessities of life are sufficient water, basic sanitation, refuse removal in denser settlements, environmental health, basic energy, health care, housing, and food and clothing. Mogale City has an indigent policy whose objectives seek to bring relief to those who "lack the necessities of life". It has established the framework for the

identification and management of indigent households, and laid out procedures and guidelines for the subsidisation of basic services to indigent households.

In conjunction with indigent policy, the national government created the Municipal Investment Infrastructure Framework (MIIF) of 1997, which set the broader parameters for basic services that must either be subsidised or offered for free. The guiding principle of this framework, to quote McDonald and Pape (2002: 5), is: "you get what you pay for". This means that users of municipal services are required to pay for these whether they are rich or poor. Those who cannot afford services and, are on an indigent register, have access to the basic provisions. In Mogale City, these basic provisions do help the needy. Indigents in this municipality include pensioners, unemployed people and child-headed families, where the main caregiver of a household is younger than 18 years (Mogale City 2009).

To qualify as an indigent in Mogale City, a household must earn a combined gross income equivalent to or less than two government pension grants, which currently equate to R2 160 per month. Any other government grant such as the child support grant is not considered an additional income. But income from other sources like property rental disqualifies an applicant if it increases the gross income to more than R2 160. Apart from this income threshold, a person who claims indigent status must also be a resident of Mogale City; be in possession of a valid South African identity document; be the owner or tenant who receives municipal services; and have an active municipal account. The applicant must consent to the installation of prepaid meters as a means to limit the consumption of services and to abate the accumulation of debt. On approval, the municipality cancels outstanding municipal debts of qualifying indigents, but any subsequent accumulation of debt after approval is not scrapped. Once approved, each indigent household receives free basic services, which are explained in-depth in the third chapter. These households are entitled to use the limited allocation a month. For water, if they use more than 6kl, then they have to pay the excess and for electricity if they use more than 60kW, they have to pay for extra consumption.

In its Indigent Management Policy, Mogale City notes that an Indigent Committee approves or disapproves indigent support to applicants. This committee comprises councillors and relevant officials of the municipality. The committee meets at least once a month. As part of the indigent management process, indigents on the register will be reviewed after two years. During the review process, site visits are performed to determine if the said registered indigents still qualify. Mogale City has outsourced indigent management to an independent company. This service provider, which enters a four-year contract with the municipality, assists with the management of indigents, verifies applications and recommends that an applicant is either suitable or not for approval to receive indigent support. In their wards, councillors are involved in the indigent management process. They make sure that people get relevant information about the benefits of indigent policy and give them pamphlets and leaflets, according to ANC Councillor 4 (November 26, 2010). They also run door-to-door campaigns to check if people are registered because sometimes people are not informed and not all of the people attend ward meetings and constituency meetings, where indigent matters feature prominently, notes ANC Councillor 2 (December 3, 2010). In addition, councillors work with municipal officials, social workers, service providers, and managers of the community services from the municipality.

But activists maintain that there is a disconnectedness between councillors and their communities. Activist 6 (February 5, 2011) stresses that councillors are not visible to the people. Immediately after getting voted, they disappear from the ground. Activist 2 (February 4, 2011) concurs and claims that some councillors do not arrange meetings to make sure communities are informed about the indigent policy, adding that it is "something they always discuss at the town hall. But on the ground level, it is difficult to get this kind of information". The interviewee goes a step further, pointing out that councillors have the tendency to call meetings and specify that a certain political organisation is inviting community members to that meeting. Some people do not attend such meetings because they have not voted for councillors from a political party in question (ibid). The

CoGTA (2009) details the paralysis inhibiting the effectiveness and functionality of ward committees in municipalities across the country. Many councillors do not attend ward committee meetings, some committees are poorly resourced and do not meet expectations, and ward committee issues often do not find their way into municipal councils' meetings (ibid).

During apartheid, the inequitable policies resulted in "exclusion from access to basic services by the poor" (DPLG 2005). Back then this exclusion was motivated by racial discrimination. In the new political dispensation policies, notably indigent policy, also serve as the barrier to access to basic services. This form of exclusion is driven by the permeation of commodification in the delivery of basic services. A poor person who is not on an indigent register has no access to free basic services (Tissington et al 2008 and Wafer et al 2008).

As one of the qualification criteria, Mogale City requires indigent applicants to have an active municipal account. If poor households are not registered through the indigent programmes, they do not receive free basic services. People living in informal settlements, for instance, do not have the proof of municipal accounts. Foreign nationals are not in possession of the South African identity document. Tenants, who are unregistered occupants of a property owned by a legal owner, also cannot register as indigents. The municipality does provide basic services to some of the excluded in informal settlements via standpipes, water tankers and potable toilets. But this does not mean that the beneficiaries of these common basic services are indigent as they have not been assessed in terms of the qualification criteria and indigent policy.

Another excluded category is what Reschovsky (2003) refers to as the "near-poor", who are relatively destitute but do not qualify for free basic services. This group of people fall outside the income threshold needed to qualify for indigent assistance. Yet "near-poor" households have insufficient money to pay for basic services and many local governments have inadequate revenue-raising capacity to generate sufficient funds to finance the provision of basic services to the "near-

poor". In Mogale City there is a heated debate around the income threshold. As has been pointed out, the upper income limit in Mogale City is two government pension grants or R2 160. There has been a proposal to increase the threshold, but it was rejected and there has been a recommendation to target certain poor areas and offer blanket approval, but this was dismissed too (Manager 2, January 14, 2011).

The indigent policy faces numerous administrative challenges. Indigents have to reapply as part of the re-evaluation process that occurs every two years. During re-evaluation, Mogale City's system should generate a list of site visits to be performed of the registered indigents, and assign these to a verification officer, according to Mogale City's Indigent Management Policy. This policy further states that the Indigent Management System must evaluate each visit the same as a new application and any changes must be noted when being re-submitted to the Indigent Committee. This re-evaluation creates unnecessary red tape and backlogs, according to DA Councillor 2 (December 3, 2010). Manager 2 (January 14, 2011) highlights the difficulty posed by the backlog. Mogale City did not have the new indigent management service provider for a year after electing to choose a new one rather than renew the existing contract. This means that during this one-year period there were indigent registrations, but there was no verification and marketing of the programme (ibid).

Mogale City employs two staff members, who assist walk-in indigent applicants. These workers cover the entire population of Mogale City and they are stationed in the municipality's Masakhane council building. Masakhane is Mogale City's official indigent office. The new service provider has almost finished cleaning up the indigent register and dealing with indigent households that are due for re-evaluation, according to Manager 2 (January 14, 2011). From July 2010 to December 2010, the new service provider processed 1 914 on the indigent register of the total of 4 832 (ibid). The company is now working on the marketing and communication strategy to try reach out to the poor, the participant notes.

Administrative problems related to the municipal billing systems are well-documented (Bond 2008b, Ruiters 2007, and Bond and Dugard 2007). Billing is a way of informing ratepayers how much they owe in rates and service charges. In a news feature entitled "Not all is gold" that exposes billing travails in most municipalities, Naidoo (2011) reports that Johannesburg residents and businesses may be affected by "exorbitant, incorrect billing". It seems that the billing troubles are not only affecting consumers, but also affecting the indigent management. According to some activists, approved indigents receive statements that reflect old balances and their bills do not reflect rebates and they therefore have to pay for services in full.

Dysfunctional billing systems reflect incompatible IT systems. Manager 2 (January 14, 2011) notes that different departments – involving financial services, social services and infrastructure – have their own conflicting indigent figures and "we are not speaking from the same page". One department says the number of indigents is plus or minus 3 000, while the other indicates that the number is close to 7 500. This suggests that departments use incompatible IT systems to capture registered indigents. Even the services provider is not linked to the municipality's IT systems. The new service provider does not know how many new indigent registrations have taken place. There are other administrative problems around the implementation of the indigent policy, with beneficiaries not being informed of their status and delays in implementation (Mc Michael, 2008: 55). For instance, Activist 4 (February 4, 2011) points out that indigent applicants are not captured on the data system. The very same people who have submitted applications will receive letters from lawyers to demand payment.

The indigent management process in Mogale City is centralised. This means that the registration and processing of indigent applications are handled at the municipality's headquarters in Krugersdorp. Executive managers insist that the municipality has no capacity to administer the indigent management and requires a private company to boost capacity, justifying outsourcing the indigent management. Centralisation implies that people have one office as the point of

contact. For the poorest of the poor, the central office in Krugersdorp may require transport, which is a cost. However, activists argue that the indigent management should be decentralised. Activist 5 (February 4, 2011) recommends that decentralisation takes the indigent process to the communities. There are community structures such as ward committees, community liaison officers and community development workers which can be harnessed to handle registrations (ibid). DA Councillor 3 (December 14, 2010) posits that the private company might not have the passion to fully administer the whole indigent management process and may only be interested in reaching targets, which determines income. This suggests that the private company may be motivated to earn income from its indigent management service, rather than genuinely helping the poor gain access to free basic services.

Indigent policy is open to abuse. "Sometimes councillors bring in people who do not qualify for indigent benefits maybe to get their votes", according to Manager 3 (November 10, 2010). "There was one councillor who was caught out when he became a councillor and only to find that this councillor was on an indigent register," notes DA Councillor 3 (December 14, 2010). "Now there are the free-riders, professionals who live with their pensioned parents, and they hide behind their parents and seek to benefit from free basic services when their parents apply for indigency" (ANC Councillor 2, December 3, 2010). "Other people do not fully disclose documents that are required of them" (ANC Councillor 3, December 14, 2010).

Culture of non-payment: The "politicisation" of payment of services

As an external funding source, transfers have failed to help most municipalities fulfil their expenditure needs and make good on their constitutional responsibilities for two reasons, which are outlined above. But municipalities face another conundrum that is largely within their direct control: insufficient internally generated revenue due primarily to the "culture of non-payment". As has been noted, the culture of non-payment emerged during apartheid and continues under democratic rule after 1994. Non-payment of services implicates municipalities across the board. In a news article entitled "Money owed to municipally coffers now tops R62bn", Pressly (2010) reports that municipalities countrywide were owed a total of R62.3 billion and of this total household rate and service charge debts accounted for close to R38 billion as of September 2010. Mogale City debt is now nearly R700 million. The non-payment of services is mostly evident in black townships, while white and Indian communities pay consistently well for their services. Within certain sections in the townships, debt collection rates are as low as 14% to 32% (DA Councillor 2, December 3, 2011):

> We have got people that are constantly paying. We have the south and the north. The north is mostly suburbs. In the suburbs, most of the people are paying. We have got Azaadville, the Indian area. It is always 99% debt collection rate. Every time we go to the people, we show them the pattern of payment. Every time, it will be three areas – Munsieville, Kagiso and Swanneville – that are not paying well. In those areas, they normally pay less than 50%.

The non-payment of services affects debt collection and will also affect a municipality's ability in terms of available money to provide services. The culture of non-payment is even leading to cash flow problems within the council and has hampered service delivery (Mogale City Local Municipality 2008). To illustrate, Mogale City buys bulk water and bulk electricity from Rand Water and Eskom, respectively. It then sells these services to its consumers including households and

businesses. The income Mogale City generates from selling water and electricity tends to be less than the money it spends on bulk purchases from Eskom and Rand Water. To put bulk service debt into perspective in the local government sphere, Pressly (2010) writes that the outstanding debt related to water stood at R17.5 billion, while the electricity debt is lesser at R10.6 billion. Generally people who tend to struggle to pay for their services are pensioners, unemployed persons and low-income earners, according to respondents. Some registered indigents, who are using conventional meters, struggle to pay because they cannot monitor their water or electricity consumption, incurring debt. Those who do not pay for services also include middle-class households. One finds professionals such as nurses, teachers and government employees not paying for services. Apart from household consumers, private companies and government entities are implicated in the non-payment of service.

As indicated earlier, the term "culture of non-payment" manifests itself in two distinct forms and, therefore, carries different connotations in its use before and after the 1994 democratic elections. The concept "culture" is understood within the context of this study, to borrow from Sewell (1999), as a "bounded" term. In the pre-1994 era, this culture symbolised blacks' overt demonstration of resistance to apartheid rule and meant the payment boycotts of municipal services, rents and other tariffs. Even though non-payment of municipal services has persisted in the new political dispensation, its meaning has transformed. Non-payment does not indicate opposition to the new democratic rule. In the literature, two explanations are proposed for the persistence of non-payment in the post-apartheid period. One explanation for the culture of non-payment in the post-1994 election period plays down the inability to pay for services, arguing that non-payment is due to the "culture of entitlement" (Fjeldstad 2004). For municipalities, non-payment reduces revenue from rates and services charges. The reduction in revenue has implications for the provision of basic services. Without sufficient internal revenue, most local governments have no other means of financing the provision of basic services and have to make do with transfers, which are too minimal to make a difference.

Another explanation for non-payment is related to affordability. The high unemployment rate aptly illustrates this view. Unemployment means that an individual does not have a job. Without a paid job, there is no income with which to buy services such as water and electricity. As Mogale City demonstrates, the rate of unemployment is high and this contributes to non-payment, according to respondents. The unemployed make up 20.76% of Mogale City's total labour force, whereas Gauteng's is at 17.79% (CoGTA 2009). The key reason given by councillors and executive managers for the high unemployment rate in Mogale City is that many of the mines within the municipality and industries located in Chamdor[5] had shut down. But activists disagree. Activist 5 (February 4, 2011) observes that most of the industries employ people who are working in Mogale City, but who do not reside within the boundaries of the municipality. The majority of young adults, who head families, are not working and they are unlikely to pay for municipal services with the scanty income they earn from odd jobs, if they are able to get any (ibid). Activist 6 indicates that the municipality awards small tenders to companies that come from outside the municipality and these companies bring their own workers along.

According to Manager 4 (December 8, 2010), councillors are telling poor people in township not to pay for services or are instructing managers to stop cut-offs in black areas for political motives. In other words, this respondent argues, politicians seek to maximise their vote and they are doing so in their constituencies in townships. By contrast, in the more affluent areas, there is a concerted effort to recover payments, which are implemented via cut-offs. If somebody has not paid by the seventh day of the month, they will put a notice on the gate and they will cut off (DA Councillor 2, December 3, 2011). With the persistence of non-payment in all its manifestations, the provision of basic services is severely affected.

[5] Chamdor is an industrial area that is located adjacent to Kagiso, one of the densely populated townships in Mogale City Local Municipality.

The persistence of the non-payment of municipal services after the first democratic elections sparked the municipal fiscal crisis in the 1990s (McDonald and Pape 2002, Wafer at al 2008 and Bond 1998). For municipalities, this fiscal crisis increased the debt burden, and reduced revenue from services and charges. Yorke (2003) reports that consumers owed municipalities about R22.5 billion for rates and services charges as at 31 March 2002. The South African government tried to reverse the non-payment of services by launching a massive publicity campaign called Masakhane, a Zulu word that means "we are building". Masakhane was launched in 1995. One of the aims of Masakhane that rose to prominence was "promoting the resumption of rent, service charge and bond payments" (Timm et al 1998). A year after Masakhane was unveiled the ANC admitted that the campaign is synonymous with getting black communities to pay for services. Subtly, Masakhane attempted to court black communities into a "partnership with the state" (Naidoo 2010). The "partnership" insinuates that the government sought to lure people to pay for their services so that the state could generate income that helps it provide these services on a sustainable basis.

From this reciprocal perspective, blacks have the responsibility to pay for services as this ensures sustainable provision of these in the future. With payments, the government remains fiscally sound to deliver services over the longer terms. Payment of services, the ANC (1996) reasoned, was part of "building a sense of ownership, responsibility and active citizenship". The argument is that if a user has the right to access to water, say, he or she has the responsibility to look after this scarce resource by paying for it (McDonald and Pape 2002). Most people, including low-income earners, accept civic responsibility to pay the full cost of service delivery and are happy to do so as long as the services are reliable, affordable and of good quality (ibid). But Masakhane failed to encourage blacks to pay for services. This failure was "due to high unemployment rates and the introduction of flexible labour, which make it impossible for large parts of the population to pay for the services they need" (Naidoo 2010).

After Masakhane, municipalities started adopting direct enforcement and harsher measures to force non-payers to pay for services. In the fourth quarter of 1997 nearly all municipalities began widespread cut-offs of basic services to non-payers (Bond, 1998: 41). Municipalities also used restrictive practices to force people to succumb to the payment of services. For instance, those who did not pay for water were often disconnected or restricted to the free basic amount through flow-restrictors or prepayment water meters (Wafer at al 2008). In other instances, people's properties were repossessed to settle accounts in arrears (Deedat et al 2001). Cutting off services lasted for weeks or months and, in some cases, involved permanent removal of infrastructure to prevent illegal reconnection (McDonald and Pape 2002: 19). But these enforcement measures became "too visible and politically inexpedient" (Ruiters, 2007: 492). This suggests that the government realised that people might react by withholding their votes for the ANC.

For its part, Mogale City has adopted both soft and harsh measures to deal with non-payment. The municipality sends out notice to anyone who does not pay within seven days of each month. If he or she does not come forward and make arrangements, the municipality cuts electricity supply and restrict water. Mogale City offers incentives to those who owe. If a household makes an arrangement to pay, 10% of the amount it owes will be cancelled.

According to executive managers, Mogale City has also devised the so-called revenue enhancement strategy. This strategy, which started in 2008, concentrates on credit control, including the appointment of debt collectors. Before 2008, payment levels were at around 80%-85% and now they have risen to an average 92% (Manager 3, November 10, 2010). The strategy also assists in terms of how the municipality can increase its revenue collection and broaden revenue base (Manager 4, December 8, 2010). To achieve this, the municipality focused on data cleansing as some of its consumer information is not correct. In simple terms, data cleansing means correcting inaccurate records. Data cleansing assists to ensure that whenever the municipality implements credit control it knows from whom it

is collecting. For instance, explains this respondent, the basis for the municipality to bill people is title deeds information. Some times the municipality does not know who the owner is. Title deeds information gives little information maybe the names of deeds holders, and identity documents are not there. In certain cases, the municipality does not have physical addresses and sends accounts to wrong addresses. Now the municipality goes to stand numbers and tries to identify who is staying there and who the owner of that property is. What this means is that Mogale City is trying to keep an accurate record of its ratepayers. This promises to allow the municipality to bill the right people and improve debt collection rates in townships. Enforcement measures such as data cleansing imply that Mogale City diverts some of its resources, time and money, away from helping basic service provision.

Residents of Mogale City accept prepaid meters because it is "fair" (Activist 5, February 4, 2011) and "you use what you can afford" (Activist 6, February 4, 2011). But poor communities in certain other municipalities have fiercely resisted prepaid metering. In one instance, payment dropped from 38% in June to about 27% now, Zwane (2001) quoted the Greater Nelspruit Utility Company as saying. In other instances, some households took local authorities to court over prepaid meters (Tissington et al 2008). Other studies reveal the negative welfare effects of the prepaid metering. Ruiters (2007: 499) illustrates how turning tap water into a prepaid meter compels poor residents not only to "economize falsely", but also to revert to "unsafe sources". This is primarily because poor people start using nearby rivers and stagnant ponds for drinking water, cleaning and bathing.

Mogale City may have not had overt resistance to prepaid meters, but it is battling with illegal connections. Mogale City does not supply electricity to Kagiso, the municipality's biggest township. But it supplies water to this township. Kagiso is where the biggest part of illegal connections comes from. The municipality has illegal connections even in white suburbs. At the moment, distributional losses of electricity come to about 15% and distributional losses of water is more than 28% (Manager 3). Exacerbating distributional losses, Mogale City experiences cable

theft, copper and iron theft, and stealing of water meter covers, according to DA Councillor 2. The cost of theft to the municipality is probably between R2 million and R3 million a month (ibid). Some respondents note that people bypass electricity and water to avoid paying for services. But others insist that the municipality bypasses when it takes faulty meters for repairs.

> You can't call it a bypassing. Sometimes the problem is within the institution. Recently the mayor had a problem with his meter. It was taken for repairs or whatever to be replaced. It took time for our own employees to go back. You can't say you bypassed in such a case. The mayor had to come to me and say: "I have been shouting this manager from time to time." Bypassing (of this nature) creates a problem for indigents. For instance you report a prepaid meter that is broken. They come and bypass. After three to six months, they just bill you. Whose fault is that? That is the municipality's fault (ANC Councillor 2, December 3, 2010).

Conclusion

Even if government succeeds in meeting its targets of universal access to basic services by 2014, this does not necessarily mean the poor will gain access to free basic services. Judging by the current approach to indigent management, any improvements in access to basic services and the related benefits thereof are likely to be limited to those who make it to the indigent register. The indigent policy has raised the barrier for some poor households, preventing them from access to basic services. While this policy does assist certain poor people to access minimum levels of basic services, it has not gone far enough to reach out to other poor people.

Most of the poor are subjected to the harsh realities of commodification and must abide by its guiding principle: "you get what you pay for". Those who cannot afford services and, are not on an indigent register, have no access to the basic provisions at all. Unless the indigent policy changes in line with the government's

drive to accelerate access to basic services, most of the needy people face exclusion from access to basic services. For its part, the non-payment of services has affected debt collection and constrained municipalities' ability in terms of available money to provide services.

CHAPTER SIX

CONCLUSION

This study sought to explore how the South African government has restructured intergovernmental transfers in the post-1994 era. One of the key aims was to determine how the restructuring of transfers has assisted Mogale City to fulfil its constitutional obligations and responsibilities to provide basic services like sufficient water, basic sanitation and refuse removal to the poor. While transfers have been instrumental in helping Mogale City finance the provision of some level of access to basic services to certain poor people, these have failed to cast the net wide enough to cover the majority of poverty-stricken people. As this study has shown, scores of destitute people in Mogale City still lack the "necessities of life". Transfers have failed to bolster Mogale City's ability to provide free basic services to a huge number of poor households.

Several reasons are attributed to this. First, needy individuals face the harsh realities of the logic of commodification. They are compelled to buy basic services like water and to pay the full price for them as Mogale City, like other municipalities, has commodified these services. The municipality has priced basic services, and has installed prepaid meters to enforce payment and ensure cost recovery. Even the conventional meters manifest themselves in commodification in that they reinforce the payment of municipal services. The basic point is that commodification turns constitutionally recognised basic services into private goods. In line with this logic, one's consumption of water, for instance, prevents others from accessing it and those who cannot pay for water are denied access to it. Put differently, those who can afford to buy water have access to the commodity for as long as they afford to pay for it. However, those who cannot buy water have no access to it. Thus this market-driven approach to service delivery – where basic services are commodified – has not only exacerbated

inequalities and poverty, but it has also deprived the poor of their constitutional rights to essential services.

Second, transfers have failed to help Mogale City reduce prices of basic services to affordable levels at the very least for the poor. With the aid of transfers, Mogale City has tried to make sure that those who cannot afford do get some level of minimum basic services. Households that receive subsidised basic services still pay for them if they consume more than the minimum free basic service allocations. The subsidy, however insufficient it may be, at least guarantees them access to some basic services. As has been noted, Mogale City does provide partially subsidised basic services via the LGES.

Mogale City has also adopted cross-subsidisation, which appears to be an attempt to decommodify basic services. But this model relies on higher consumption. The higher the consumption, the higher the price. High prices suggest that services become expensive for the poor. Mogale City provides 6kl of free basic water a month to everyone. Using cross-subsidisation as the means to decommodify by offering the first 6kl for free is proving to be ineffective. Once households use more than 6kl, they start paying more for water. Households in townships tend to consume more water arguably not because they waste this scarce resource, but because the number of members in each household is much higher than official estimates. Therefore, the impact of higher prices is mainly felt by the poor. In the case of low-income earners, higher prices either make water unaffordable to them or leave them with debt especially if they are on conventional meters. As for the municipality, it does not generate revenue if people cannot afford to buy water or it could end up sitting on ballooning debt due to defaults. Changes to the transfer system are hardly flexible enough to take affordability into account.

Third, falling transfers in real terms has further weakened Mogale City's ability to meet its operational and capital expenditure needs and thus inhibiting its efforts to provide basic services. As has been demonstrated, South Africa's intergovernmental transfer system has been restructured to fit the requirements of

commodification. It has done so by cutting transfers to municipalities and making local government rely increasingly on internal revenues. Generating internal revenue means that the municipality has to thrive on cost-recovery and sell services to earn income. But Mogale City's expenditure requirements exceed its available financial resources, namely transfers and internal revenue. As a consequence, Mogale City has chronic insufficient capital budget. It is constrained in undertaking capital projects, like upgrading Azaadville's electricity infrastructure. Municipalities' reliance on their own financial resources to fund some of the basic service infrastructure further limits their ability to deliver free basic services equitably. Mogale City spends massive financial resources of its own on the maintenance of infrastructure rather than reducing the infrastructure backlog and improving the provision of basic services equitably. There are no transfers that cover infrastructure maintenance.

Fourth, underspending due to late wiring of transfers to Mogale City also constrains its ability to provide basic services. As has been indicated, national government and provinces engage in "fiscal dumping" to avoid being seen to be underspending. But late transfers do not give municipalities sufficient time to spend the money and this leaves them at the risk of underspending. Underspending suggests that infrastructure plans are either scrapped or delayed altogether. To tackle fiscal dumping, the financial year ends should be the same for all spheres of government.

Fifth, the transfer model itself is flawed as it concentrates on a municipality's income and outdated population statistics. This has direct impact on Mogale City's capability to provide basic services to its poor communities as the demand for these services is increasing rapidly, while transfers have not kept pace with this growth demand. As Shiceka acknowledges, the local government funding model is "limited and narrow", only taking into account population numbers and income. Mogale City is subject to this formula. Mogale City is graded 4. Grading determines how much in transfers municipalities should get. Mogale City is struggling to keep up with rising demand for basic services as informal

settlements continue to sprawl, unemployment rises and non-payment of services continues.

Sixth, transfers are not only insufficient, but they also target few poor people who are listed on the indigent register. The study states clearly that Mogale City uses its indigent register as the conduit through which it subsidises free basic service to the poor. A poor person who is on an indigent register gains access to free basic services. But the indigent register under-represents those who would benefit from this free allocation. There area number of poor people who are excluded from this register. For a poor household to qualify as indigent it has to be assessed in terms of the indigent policy. This means that beneficiaries of common basic services like standpipes and portable toilets predominantly in informal settlements are not necessarily indigents because they have not been assessed in terms of the indigent policy and its qualification criteria. Currently, the provision of these common basic services is poor and unreliable. The national government could add the provision of basic services to informal settlements into its local government equitable share formula.

In their current forms, indigent registers are inappropriate vehicles through which to channel transfers that finance the provision of basic services. Before they enjoy these benefits, indigents are assessed in accordance with the municipality's indigent policy. As one of the qualification criteria, Mogale City requires indigent applicants to have an active municipal account. If poor households are not registered through the indigent programmes because they do not possess a municipal account, another other requirements, they do not receive free basic services. People living in informal settlements, for instance, do not have the proof of municipal accounts. Automatically, they are excluded from the register. The municipality should design its indigent policy in such as way that it accounts for any poor person who requires assistance in accessing basic services whether they are in possession of municipal accounts and other documents or not.

Seventh, transfers do not help Mogale City tackle the challenge of extending free basic services to the "near-poor". Due consideration needs to be taken to define the so-called "near-poor". This group of people fall outside the threshold needed to qualify for indigent assistance, yet they have insufficient money to pay for basic services. Broadly, transfers should consider the "near-poor" in the LGES formula. There is already a heated debate around the income threshold in Mogale City. There has been a proposal to increase the threshold and there has been a recommendation to target certain poor areas and offer blanket approval (Manager 2, December 3, 2010). Both of these ideas have been shot down.

Eighth, administrative problems at Mogale City seem to blunt the effectiveness of transfers. Highlighted in this report is the billing system in Mogale City, which is affecting indigent beneficiaries. Approved indigents receive statements that reflect old balances and their bills do not reflect rebates. In Mogale City, the indigent management process is centralised. The municipality could decentralise the indigent registration process and tap into the existing structures. For instance, every ward in Mogale City has a ward committee. Ward offices are much closer to the people on the ground. At the ward level, ward councillors, community liaison officers (CLOs), and community development workers (CDWs) could be mobilised to get involved in the indigent registrations. This could bolster the municipality's capacity. Involving community structures mentioned above could bring the indigent registration process closer to the people.

Ninth, transfers are proving ineffective in assisting Mogale City counter the negative effects of non-payment off services. Mogale City is battling with the non-payment of services, as has been noted. Some registered indigents, who are using conventional meters, struggle to pay because they cannot monitor their water or electricity consumption, incurring debt. The non-payment of services affects debt collection and will also affect a municipality's ability in terms of available money to provide services. For municipalities, non-payment reduces revenue from rates and services charges. The reduction in revenue has implications for the provision of basic services. Without sufficient internal

revenue, most local governments have no other means of financing the provision of basic services and have to make do with transfers, which are too minimal to make a difference.

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APPENDIX

LIST OF INTERVIEWS

Mogale City Local Municipality

Manager 1	November 10, 2010
Manager 2	January 14, 2011
Manager 3	November 10, 2010
Manage 4	December 8, 2010
Manager 5	November 10, 2010
Manager 6	January 14, 2011
Manage 7	January 6, 2011

West Rand District Municipality

WRDM Manager 1	January 6, 2011

Rand Water

Rand Water Manager 1	February 2, 2011

ANC Councillors

ANC councillor 1	January 14, 2011
ANC Councillor 2	December 3, 2010
ANC Councillor 3	December 14, 2010
ANC Councillor 4	November 26, 2010
ANC Councillor 5	November 26, 2010
ANC Councillor 6	November 26, 2010

ANC Councillor 7	December 3, 2010

DA Councillors

DA councillor 1	December 14, 2010
DA Councillor 2	December 3, 2011
DA Councillor 3	December 14, 2010

Activists

Activist 1	February 4, 2011
Activist 2	February 4, 2011
Activist 3	February 4, 2011
Activist 4	February 4, 2011
Activist 5	February 4, 2011
Activist 6	February 5, 2011
Activist 8	February 4, 2011
Activist 9	February 4, 2011
Activist 10	February 4, 2011
Activist 11	February 5, 2011
Activist 12	February 5, 2011
Activist 13	February 5, 2011
Activist 14	February 5, 2011
Activist 15	February 6, 2011