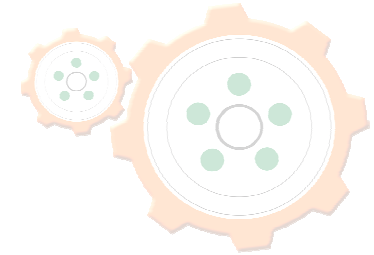




**cooperative governance  
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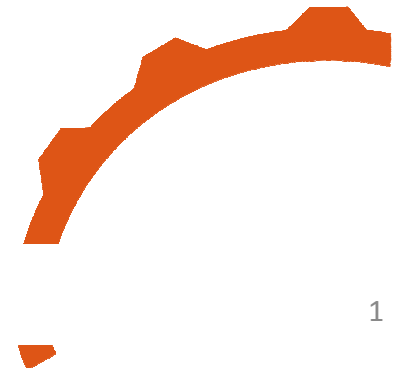


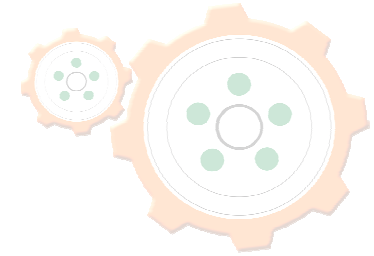
# **EXTENT OF POVERTY, INABILITY TO PAY FOR SERVICES AND INDIGENT SUPPORT AT MUNICIPAL LEVEL**

**LOCAL GOVERNMENT CAPACITY BUILDING : INCA SUMMER SCHOOL**

**PRESENTED BY: YUSUF PATEL**

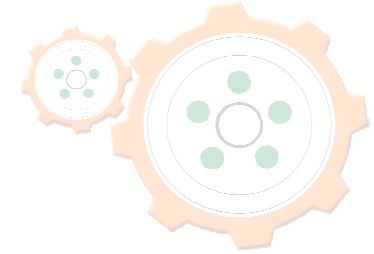
**DATE: 27 OCTOBER 2009**





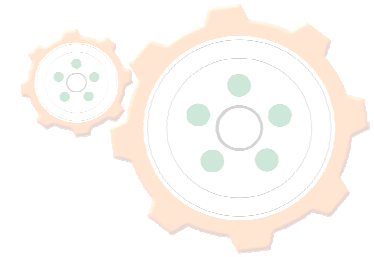
# Outline

- 1. Purpose**
- 2. Poverty**
- 3. Indigent Management**
- 4. Free Basic Services**
- 5. Integrated Project Development**
- 6. Free Basic Services Study**

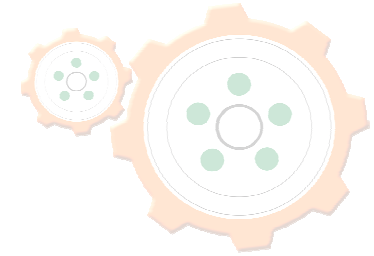


# Purpose

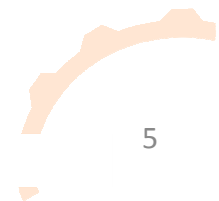
**To explain and discuss the  
relationship between poverty and  
municipal financial viability**

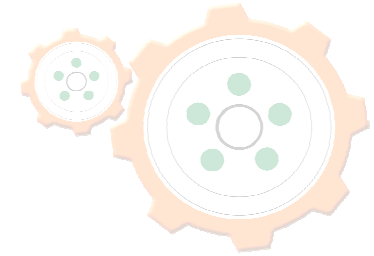


# Poverty



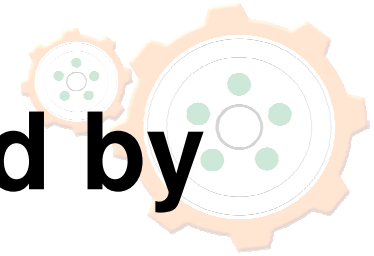
# Poverty





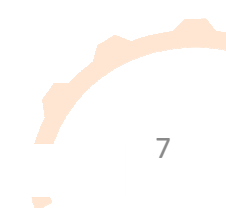
# Understanding poverty

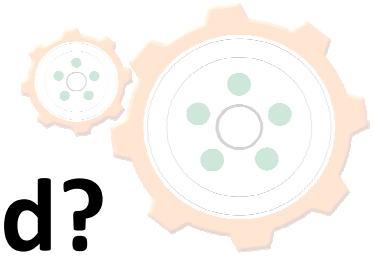
- **The experience of poverty is multi-dimensional. While the inability to access income remains one of the most obvious expressions of poverty, definitions of poverty typically refer to the absence of capital such as land, access to natural resources, or to the importance of social and intellectual capital and even the climate of democracy and security necessary to enhance the capabilities of the poor and excluded. Further, there is an additional institutional dimension of poverty that recognises that the poorest in the nation are those who are unable to access state assistance designed to provide a social safety net because of institutional failure.**
- **Poverty is located throughout South Africa, across the full range of settlement types from deep rural areas to inner cities. It is thus the concern of all municipalities. Due to the inequitable economic development policies of the past, centred on Apartheid, with the 'homelands' system being the spatial manifestation of this policy, approximately one third of South Africans remain excluded from the mainstream, formal, economy.**
- **The experience of economic exclusion by indigent households is often linked to exclusion from access to basic services and, given the primary role which municipalities have in providing such services, they can, through rapidly increasing access to services, have a major impact on reducing the exclusion of the indigent.**



# Who are the most affected by poverty?

- Children
- Women
- The Youth
- People living in rural areas
- People with disabilities
- Chronically ill people
- The aged





# Why are they most affected?

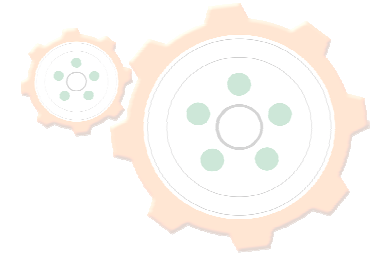
- A substantial majority of the poor cannot take advantage of economic opportunities due, amongst others, to:
  - Location – half of poor households are in the former Bantustans and townships
  - Poor education or skills
  - Absence of working adults in the family
  - Lack of day-care for young children
  - Disability or chronic illness
  - Weak social capital/networks
- Lack of resources needed for self employment: land, education and skills, infrastructure and basic services, access to markets and credit

## Social assistance support (MTR, 2007)

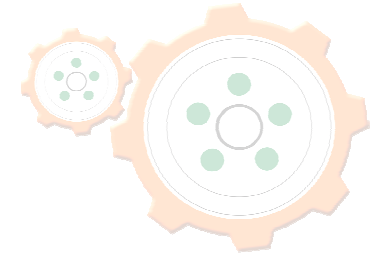
Social Assistance Support	1999	2000	2001	2002	2003	2004	2005	2006	2007
Old age	1 812 695	1 860 710	1 896 932	1 946 313	2 009 419	2 060 421	2 093 075	2 149 406	2 210 288
War veterans	9 197	7 554	6 175	5 266	4 594	3 961	3 340	2 795	2 108
Disability	633 778	612 614	641 459	732 928	953 965	1 270 964	1 307 459	1 332 547	1 404 842
Grant in aid	8 496	8 748	8 529	10 435	12 787	18 170	23 131	27 252	34 705
Foster care	71 901	79 937	85 315	108 207	138 763	200 340	256 325	209 093	449 009
Care dependency	16 835	24 438	33 545	43 325	58 140	77 934	85 818	88 997	100 294
Child support	34 471	352 617	1 102 957	1 751 563	2 630 826	4 309 772	5 633 647	7 170 564	8 053 545
Total beneficiaries	2 587 373	2 946 618	3 774 912	4 598 037	5 808 494	7 941 562	9 402 795	10 980 654	12 254 791
Growth rate		13.9%	28.1%	21.8%	26.3%	36.7%	18.4%	16.8%	9.5%

# Poverty and unemployment

- The root cause of poverty is lack of earned income
- For many lack of employment is due to lack of adequate level of education – ref to graph in the next slide
  - The majority of youth unemployment is accounted for by individuals with incomplete secondary education. Of the 5.7 million unemployed young people in 2005, 2.1 million (38 percent) had no more than a grade nine education, while 1.6 million (28 percent) had not completed the FET phase (grades 10 and 11)
- Ensuring that the youth stay in school, and complete school would reduce the unemployed by over 2 million and therefore poverty level
- Therefore at the center of the strategy are **economic opportunities and improvement of human capital** – education and skills development within each poor household
- Such interventions reduce the current levels of poverty, reverse it for the youth and prevent intergenerational transmission for the young

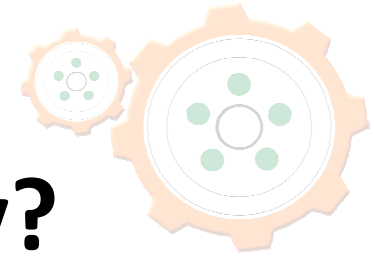


# Indigent Management



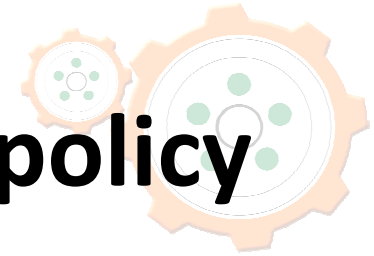
# What is an indigent

- The South African constitution set out the rights which all South Africans are entitled to with respect to essential basic services.
- The term 'indigent' means 'lacking the necessities of life'.
- Broadly, the following goods and services are considered as necessities for an individual to survive:
  - Sufficient water.
  - Basic sanitation.
  - Refuse removal in denser settlements.
  - Environmental health.
  - Basic energy.
  - Health care.
  - Housing.
  - Food and clothing.
- Anyone who cannot afford to pay for these public goods may be considered an indigent.



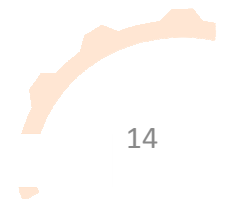
# What is an indigent policy?

- Allows government institutions to target the delivery of essential services to citizens who experience a lower quality of life.
- An indigent policy should define:
  - A municipality's approach to dealing with poverty (plan)
  - A municipality's approach to accessing the indigent
  - Who will benefit
  - Which services will be delivered
  - How much of a particular service will be provided to beneficiaries
  - What process will be used for managing the indigent
  - An indigent policy should detail (emphasize) the linkages between the various poverty alleviation programmes that will result in the indigent moving away from the poverty trap
  - Resources allocated by municipality
  - Process for tracking and assessment



# Why the need for an indigent policy at municipal level?

- Basic services are provided by municipalities, therefore municipalities need to have a policy that regulates how FBS will be provided.
- Indigent policies allow municipalities to plan the scale and scope of their delivery.
- Conditions vary amongst municipalities, thus a local indigent policy will take cognizance of these conditions.
- Criteria for determining beneficiaries will be influenced greatly by local conditions e.g. child headed households, income levels etc.



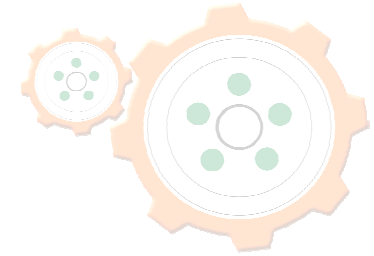
# FRAMEWORK FOR THE POLICY

- Policy Elements

- Definition of who is an indigent
- The social package of services
- Targeting Options
- Administration of services
- Citizen Acceptance

- combined household income of all the persons over the age of 18 falls between the ranges of R0 - R1600 per month
- owner must be a living resident
- reside within the demarcated boundaries of the municipality
- lessee of the dwelling cannot rent two dwellings at the same time
- person owning more than two dwellings cannot be deemed an indigent

- Free Basic Water - 6kl
- Free Basic energy - 50kWh
- Free Basic Sanitation
- Free Health Care
- Social Welfare Grants
- Housing subsidy et al
- Education?



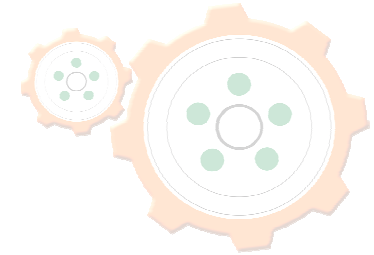
# Free Basic Services

# Overview of Free Basic Services

- ✦ **The Free Basic Services Programme is government's commitment to address the needs of the masses of impoverished South African citizens and to provide basic services to them to ensure that they can begin to live a dignified life.**
- ✦ **Free Basic Services (FBS) at present entails a basket of services that target the poor. These services apply to specified capped services including water, sanitation, energy and refuse removal that are provided to poor communities.**
- ✦ **The Free Basic Services Programme is a cross-cutting initiative that require close cooperation between all spheres of government (national, provincial and local government) to help raise the standard of living by giving poor households access to free basic services.**
- ✦ **The implementation of Free Basic Services falls within the intergovernmental system which is focused towards improving the capacity, efficiency, effectiveness, sustainability and accountability of the local government sphere, and making IDP's the primary mechanism for intergovernmental co-ordination.**

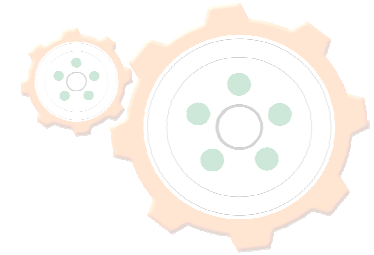
# Why Free Basic Services (FBS)?

- Government made a commitment to ensuring the delivery of a basic level of municipal service to all households. At the heart of this commitment is a belief in the right of all South Africans to receive a minimum standard of service. It is a constitutional duty of all spheres of government to ensure that this occurs.
- Free Basic Services (FBS) at present entails a basket of services that target the poor. These services apply to a specified capped services in water, sanitation, energy and refuse removal that are provided at no cost to poor communities.



# Gaining Access

- The group of people in municipalities who do not yet have access are the most marginalized and, therefore, emphasis must be placed strongly on the gaining access component.



# Maintaining Access

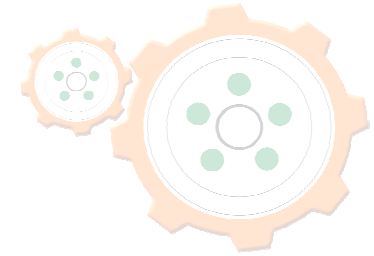
- If the services required by the indigent are not properly operating and maintained, and become dysfunctional, the indigent do not have effective access and, therefore, have to continue to live without the basic necessities of life.
- This relates directly to what has been termed ‘institutional poverty’: where there is a substantial lack of financial and human resources in municipalities, high proportions of the population in such municipalities will remain indigent.

# Provision of basic services

- Develop strategies to speed up infrastructure delivery, particularly eradicating the current backlogs and economic infrastructure for poor areas
- Coordinate and integrate delivery efforts that are currently sector driven
  - Synergise housing delivery and municipal infrastructure delivery processes
  - Improve infrastructure asset management, operations and maintenance
  - Provide institutional support with focus at municipal level
  - Ensure that quality health and education reach all people, especially very poor households
- Inter-Governmental Relations (IGR) centred on firmer national development planning that guides long-term investment and provides direction for alignment of NSDP, PGDSs and IDPs
  - This must be viewed together with remedying weak line department capability and accountability for spatial outcomes as witnessed by inadequate impact in the urban and rural nodal programmes
  - Improve on the skill composition at municipalities
- Further facilitate community empowerment and solidarity
- Prioritize 2<sup>nd</sup> economy sectors e.g. tourism, BPO and agro-processing = IPAP

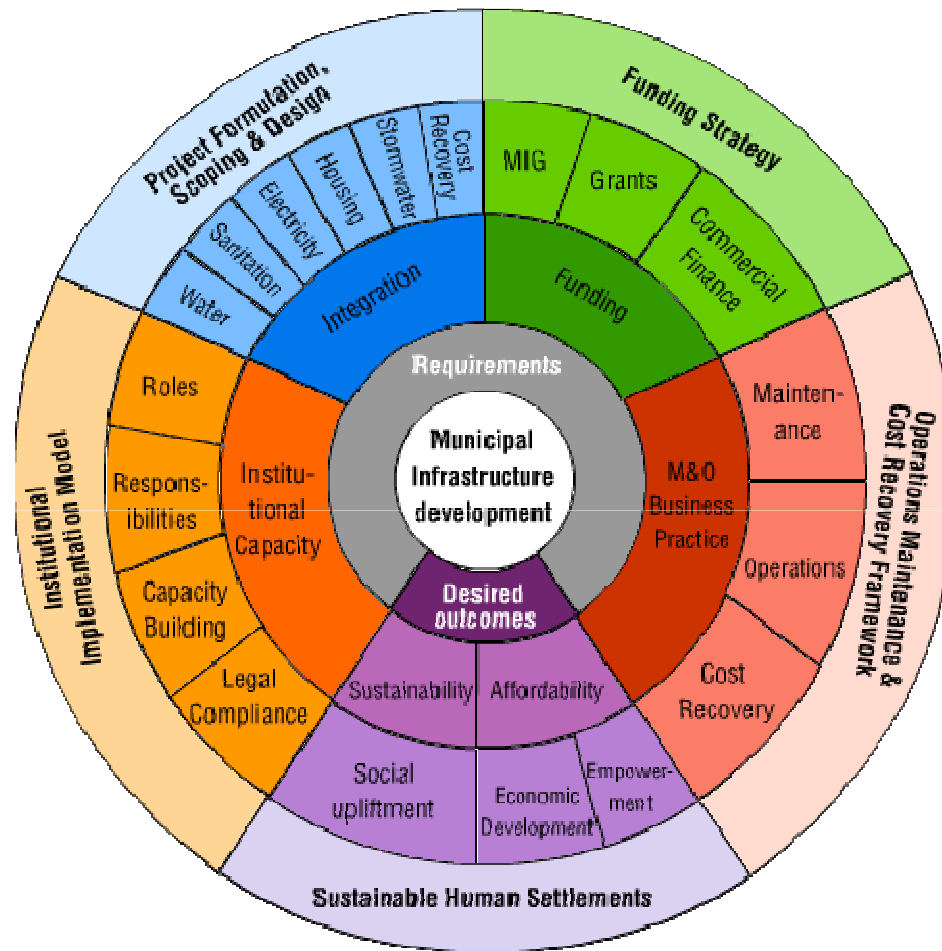
# Provision of basic services

- **Healthcare**
  - Implement the hospitals and clinics improvement plan
  - Modernise technology used in health care facilities
  - Accelerate the training and recruitment of healthcare professionals, coupled with retention strategies
  - Regulate the pricing of medicines and
  - Introduce health insurance
- Proposals on **land reform** should form part of proposals on smallholders and peri-urban agriculture
- **Fast-track Community infrastructure:**
  - Explicit and sustainable strategies to target the poorest regions and to reach remote areas, starting with clinics, schools and police stations
  - Explore ways to expand productive public assets, including rental housing, irrigation schemes, cultural and retail centres and workshop sites for mechanics



# Integrated Project Development

# Indigent support at municipal level



# Integrated Project Development Approach – WHAT?

**Integrated project scoping**  
Conceptual master plan  
  
(In conjunction with studies commissioned by DWAF & WSA's)



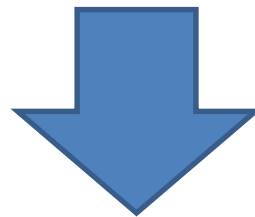
## **Bankable Feasibility Study:**

Scoping/pre-feasibility  
Institutional management –  
Project development agreement  
Finance structure/strategy  
Concept technical design  
Legal review  
Economic impact assessment  
Demographical & indigent survey  
Cost recovery & demand management assessment  
Environment & geotechnical  
Assessment of existing infrastructure  
Assessment of existing projects & interventions  
Surveys, aerial mapping

# Integrated Project Development Approach – WHAT?

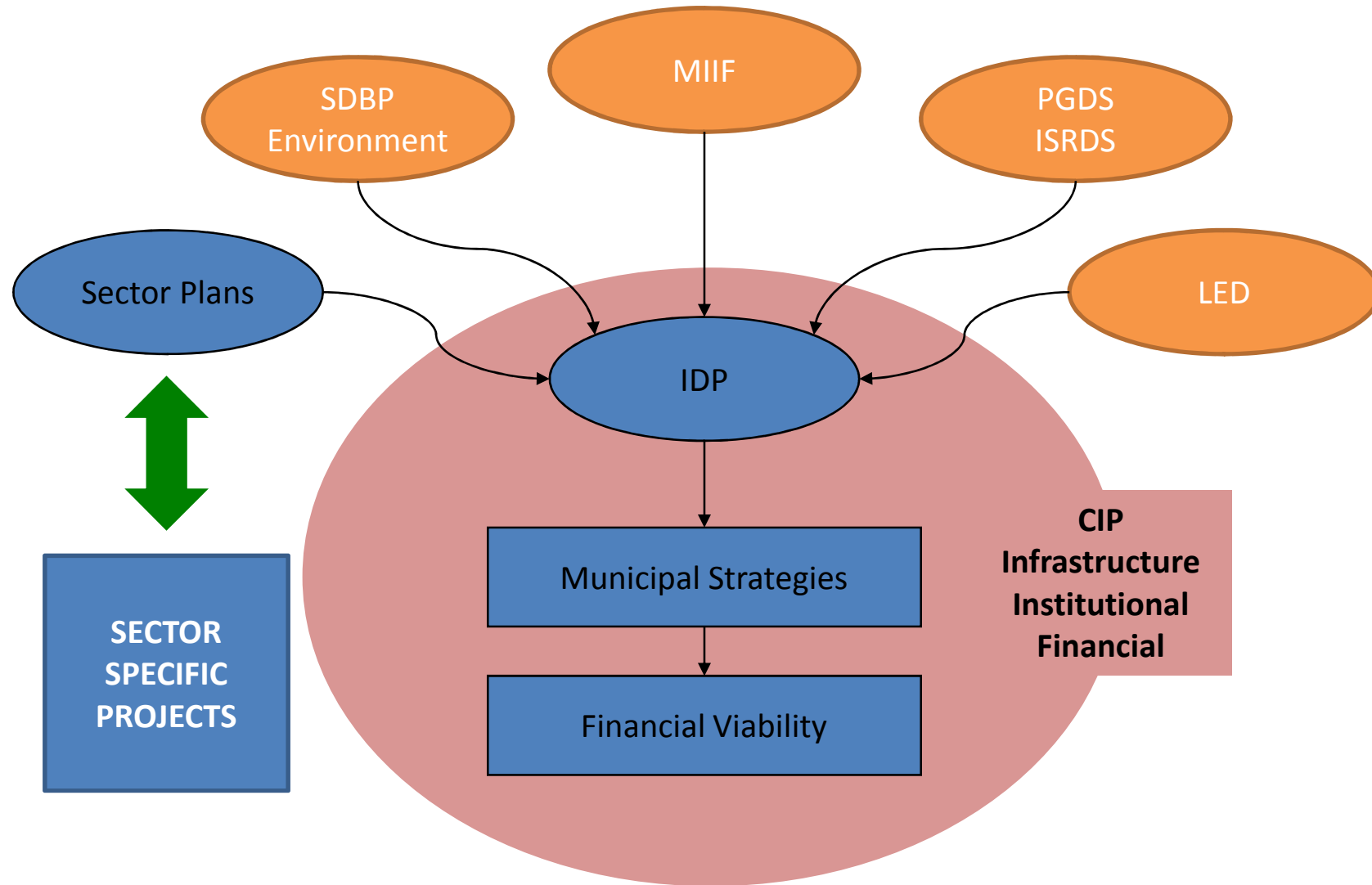
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- Developing a suitable institutional implementation model;
- Appropriate project formulation, scoping & design;
- Appropriate funding strategy;
- Suitable operations, maintenance & cost recovery framework.
- Through this process, the municipality initiates and is in full control of defining a project that unlocks development opportunities within their area and against which they are able to secure development funding. The project is technically, financially and institutionally sustainable and serves the interest and development objective of the municipality.



Aligned with CIP

# Integrated Project Development Approach – WHAT?



# Integrated Project Development Approach – WHY?

---

- To address the substantial backlog in municipal infrastructure
  - households without desired level of service
  - inadequate bulk and link infrastructure
  - Refurbishment backlogs
  - Development restricted
  - Declining income base (real terms)
- To assist municipalities in ensuring adequate service delivery and backlog eradication
- To leverage additional sources of income:
  - Distribution of revenue from National and Provincial Government (conditional and unconditional grants)
  - Own revenue generation (rates, taxes, service tariffs, etc.)
- To encourage a new approach to the development planning process
  - It ensures proper planning, budgeting and long term sustainability
  - Lack of in-house skills, knowledge, experience and capacity to successfully implement developments in an integrated manner
  - Further constraint is the lack of funding for capital investment

# Integrated Project Development Approach – WHERE?

ALL municipalities

focus support

**36 prioritized municipalities**  
selected by DWAF & dplg where poor performance & constraints to fbw impl were identified;  
Verified through consultation with Provincial Government counterparts

**7 municipalities id'ed for an INTEGRATED PROJECT DEVELOPMENT approach through**  
consultation with representatives from Regional DWAF offices & Provincial Depts of LG&H

Ga-Segonyana

Madibeng

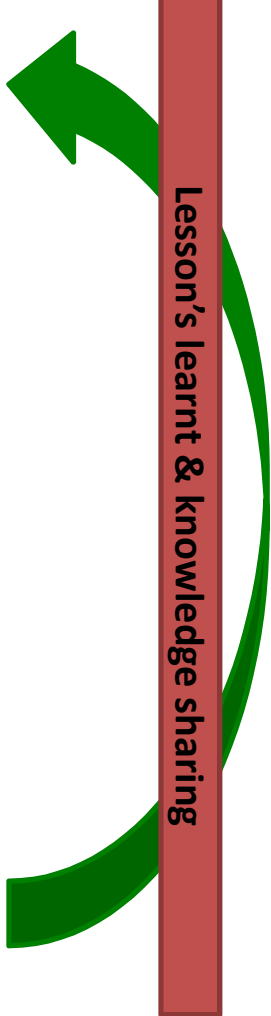
KouKamma & Kouga

Overstrand

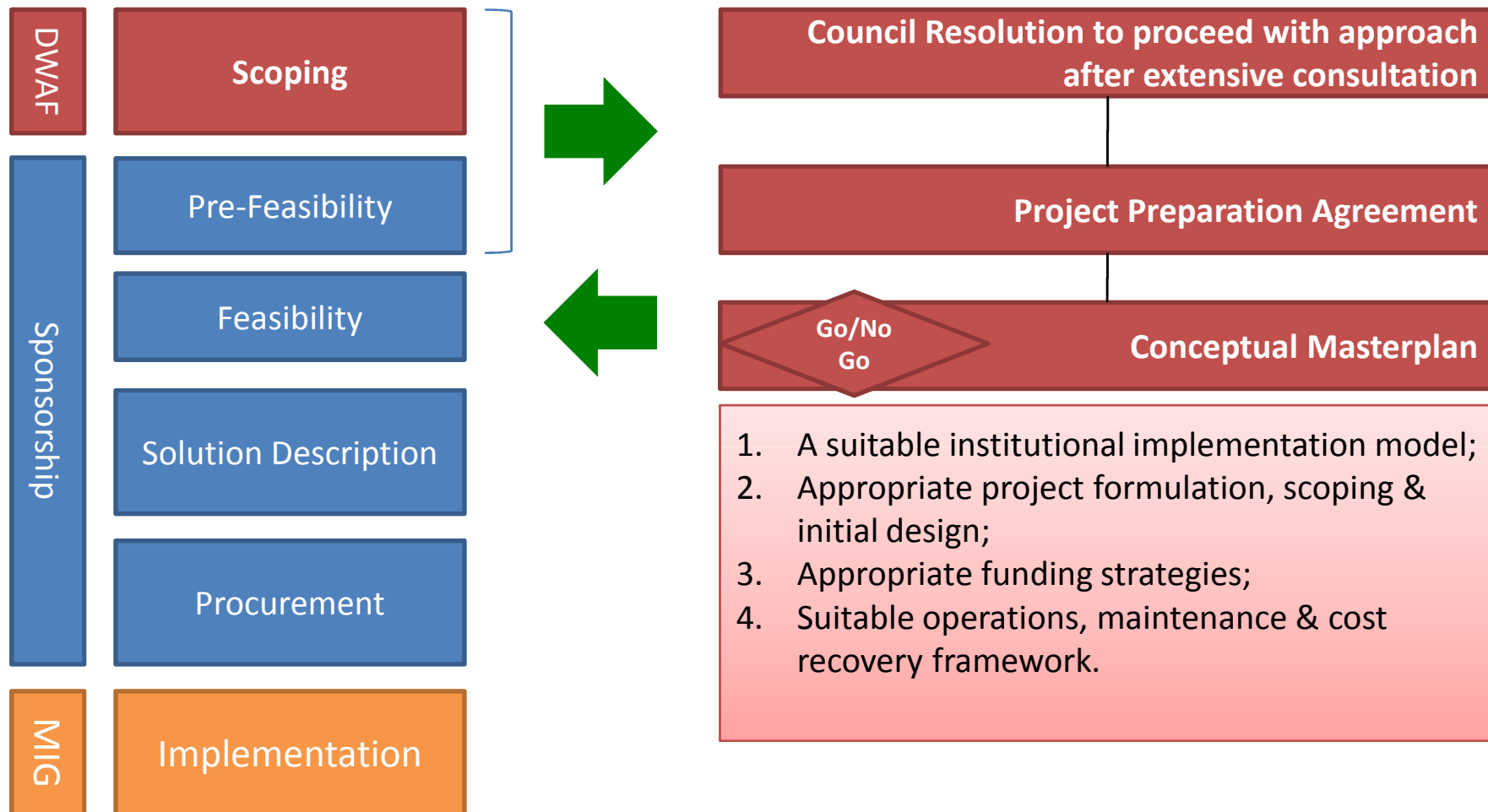
Sekhukhune

Kungwini

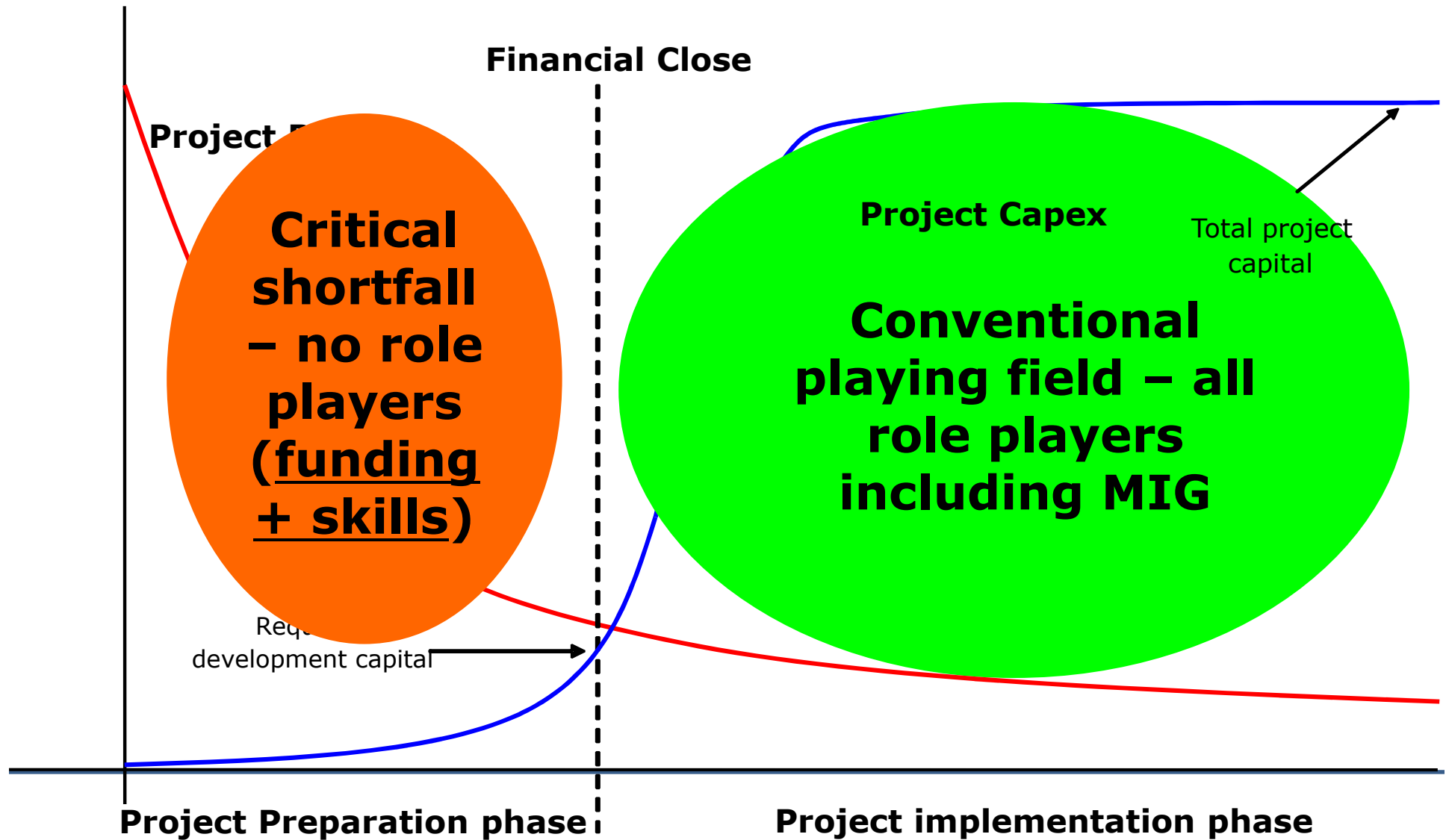
Ilembe (tbd)



# Integrated Project Development Approach – Funded?



# Integrated Project Development Approach – HOW?



# Integrated Project Development Approach – HOW?

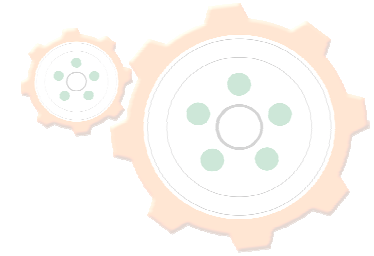
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- Financing in the municipal environment
  - Balance sheet finance vs project finance;
  - All municipalities experience balance sheet constraints;
  - Will have to use project finance to eradicate backlogs;
  - Strong resonance between project finance & the IDP concept.
- Analysis of project finance
  - Over supply of funding available to municipalities, provided that:
    - Projects are appropriately structured & designed
    - Projects are adequately ring-fenced
    - Affordability & sustainability is proven (i.e. adequate and integrated project preparation)

# Integrated Project Development Approach – HOW?

---

- Analysis of project finance
  - Advantages of project finance
    - Attractive rates
    - Long term finance – impacts on affordability
    - Large scale projects can be financed
    - Minimal impact on borrowing capacity of municipality
    - Not Privatisation, Not a PPP
  - Govt and Grant Agencies as potential funders have the same requirements!
  - Dis-advantages of project finance:
    - Requires significant development capital
    - More complex project structure – ring-fencing
    - Legal framework in the Municipal environment is complex
  - These can be overcome through the implementation & financing mechanism
    - Sponsoring of preparation costs
    - Proven mechanism/skills
    - Suitable legal framework



# Free Basic Services Study

## FBS Studies

### **dplg 2005 Study Objectives**

- a) Conduct a survey to determine the progress municipalities have made with respect to the provision of FBS;**
- b) Understand the challenges municipalities face in implementing FBS:**
- c) Develop recommendations for supporting municipalities; and**
- d) Implement support initiatives for pilot municipalities.**

### **dplg 2008/9 Study Objectives**

- a) Study on expenditure trends and utilization of FBS component of the Equitable Share**
- b) Determine the costs of providing FBS factors that influences costs**
- c) Review and establish adequacy of funding for current and future funding**
- d) Review current funding mechanisms and propose amendments**
- e) Review the impact of FBS and experiences (technical, socio-economic, institutional)**
- f) Determine the implications of the institutional, technical, social and political environment in providing FBS**

# Stakeholder Interviews

## Stakeholders Consulted

National Treasury (1), the dplg (2), DWAF(3), DEAT (1), DME (1), SALGA (1), the FFC (1).

### Concerns & Views on FBS Implementation

- a) Municipalities are not providing FBS in areas where there is infrastructure.
- b) Alternative services are also not provided.
- c) Targeting is the main challenge and broad based targeting is attributable to lack of financial viability.
- d) FBS components of the Equitable Share are earmarked for specific purposes. Although these not adhered to, Stakeholders are not in favour of adding administrative burdens to municipalities through conditional grants (obligatory conditions, ring fencing) .
- e) Municipalities are viewed not to be ready to deliver FBS due to lack of capacity.
- f) Capacity assessments should be undertaken first followed by gradual phase-in of FBS functions
- g) Stakeholders are prepared to support the municipalities on the delivery of FBS in line with their respective mandates. However, support should have timeframes.

### Conclusions from the Interviews

- a) There should be correlation between infrastructure grant funding or and FBS provision.
- b) Capital spending decisions should be made independent of the operations and maintenance decisions.
- c) FBS should be included in the process of planning for infrastructure and this should be bottom –up
- d) FBS functions should be adequately funded.
- e) The financial burden might increase to municipalities if additional basic services are to be added to the FBS package.
- f) The infrastructure life cycle management including monitoring and regulation of standards and norms are critical for the delivery of FBS
- g) A single monitoring system should be established focusing on planning, implementation monitoring and data storage, to inform the regulatory function of FBS stakeholders
- h) The **dplg** is expected to enhance its coordination on implementation of FBS whilst encouraging sector departments to ensure implementation of FBS policies.

## Conclusion and Findings

- Municipal Tariff are not cost reflective
- Municipalities do not know if individual services are self sufficient or not
- Indigent registers are understated (84% not registered)
- Current processes of managing indigent registration and data maintenance are ineffective
- The majority of indigent municipal customers are not registered on any official municipal data base
- Credit Control, Billing, customer care and indigent registration work in isolation resulting in the accumulation of uncollectible debt.
- The provision of FBS is poorly managed by municipalities, no formal records exist
- Electricity and water services seemed to be reasonably covered by Equitable Share provision
- Refuse and Sanitation services show the greatest deficit in funding provision
- The future accurate registration of indigents could have dramatic impact on future funding for FBS

# Findings / Challenges / Recommendations

**27 of the 30 Municipalities used house hold income as a criteria for indigent qualification and used field audits to collect information . 14 out of 30 have some sort of system.**

**Cost of collecting data annually is very expensive and data collected is unreliable and time consuming to load onto the Municipal systems**

**Improved customer data management including electronic integration with other Government data bases (Home Affairs and Social Development)**

**STATS SA 1,008 million Indigents (22 Municipalities)**

**158,966 (16%) registered and captured on municipal systems.  
849,322 (84%) not on municipal systems**

**Incomplete customer databases and incomplete Indigent Registers**

**All Municipal customers must be registered on the municipal billing system and all customers must be classified indigent or paying customers**

**Debt continues to be accumulated on indigent accounts**

**This debt is continually escalating, This is uncollectable debt, debtors book is inflated. Municipalities are not managing indigent service usage to required levels**

**Indigent service must be increased to manageable levels (6kl of water can not be managed) effectively. Funding for fbs must be increased**

# Findings / Challenges / Recommendations

**Municipal Tariffs are not cost reflective and are incrementally increased according to inflation, budgets and IDP's**

**The financial implications of FBS can not be accurately ascertained if the cost of providing a service is not accurate**

**All Municipalities establish the true cost of providing services (water, electricity, sanitation and refuse)**

**Very few Municipal Officials are allocated to Indigent management and registration**

**Many of the smaller and more rural municipalities have substantial indigent customer components up to 80% indigent. Insufficient municipal staff focus on the indigent customers**

**Greater integration of Customer Care, Debt Management, credit control and customer data management in the form of an indigent office.**

**Ineffective LED programs**

**Municipalities need to improve their income generating capacity by increasing the ratio of paying customers against non paying customers**

**Integrate LED into the the core business of Local Government**

# Findings / Challenges / Recommendations

**Very little accurate reporting of fbs implementation in municipalities (conventional or alternative services)**

**No way to measure the success of fbs implementation. No formal data to report on.**

**All Municipalities must report on fbs implementation from accurate information from their billing systems where indigent customers are billed for and subsidized for fbs.**

**Equitable Share is not being allocated to the majority Indigent customers as a subsidy for fbs as intended**

**Equitable Share is not always being used for the intended purpose, to subsidize fbs to indigent customers**

**Additional conditionality can be applied to the application of the Equitable Share. This would address service backlogs and reduce uncollectable municipal debt**

**In smaller municipalities with less income generating capacity very little cross-subsidisation is used to fund fbs**

**Funds for cross-subsidisation does not exist because of the small municipal tax base**

**External Funding Mechanisms must be reviewed for additional support and these municipalities must be more vigilant and accurate with the current use of Equitable Share**

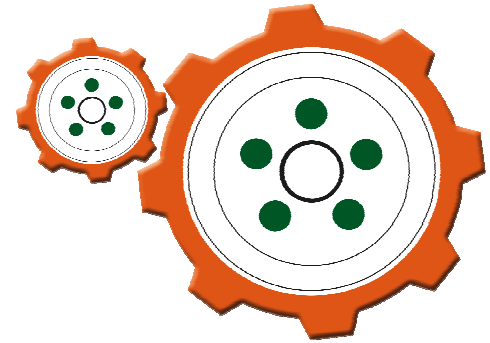
## FBS Study Conclusion

- Current legislation seems to be adequate in terms of providing the framework for the implementation of fbs
- Fbs subsidization through municipal accounts would be a catalyst for fbs service backlog eradication.
- The current basket of municipal services subsidized must be reviewed to include other essential community services (rates)
- Municipal access to equitable share must be derived from accurate municipal indigent register stats not from national stats (bottom up approach)
- If all 30 of the municipalities that participated in the study all registered all indigents there would be a possible R464 million fbs funding deficit.
- More resources should be allocated resources to the support of municipalities in the implementation of fbs
- Municipalities require an indigent registration and fbs implementation **blueprint** that illustrates tried and tested solutions for indigent registration and fbs implementation.



## cooperative governance & traditional affairs

Department:  
Cooperative Governance and Traditional Affairs  
**REPUBLIC OF SOUTH AFRICA**



# THANK YOU

