Policy Brief 4

Assessing support programme impact for local government, Back to Basics (B2B)

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Executive summary

The Constitution of South Africa, 1996 (Act No. 108 of 1996) (Constitution) established a model of intergovernmental relations consisting of three interdependent and interrelated spheres of government. The White Paper on Local Government (1998) envisaged that these newly formed municipalities, through expanding basic services, would be the key to addressing the apartheid's unequal socio-economic legacy and creating a vibrant, inclusive economy. Two decades after the White Paper was published, despite some successes in basic services access and support programmes by the government, the local government (LG) sphere remains fragile, with its finances in disarray. Municipal service delivery protests, together with governance failures, often require these dysfunctional municipalities to be placed under administration. The fact that 87 of the current 257 municipalities have been identified as dysfunctional or in distress is testament to the degree of failure in LG to fulfil its legislative mandate and developmental role as envisaged in the Constitution.

Background

In an effort to turn around the poor performance of municipalities, particularly as far as financial management, infrastructure delivery and human capital are concerned, the government introduced a series of LG support programmes. The most recent programme implemented was the Back to Basics (B2B) programme in 2014, operating on the basis of restoring municipal financial and functional viability, or "getting the basics right". Other key stakeholders, such as the South African Local Government Association (SALGA), the National Treasury and provincial governments participated in the B2B programme to provide support to local municipalities in distress.

The objectives of the study are threefold:

- To review the support programmes and interventions in LG since the advent of democracy in South Africa;
- Based on census data from 2012 to 2017, to assess the success of the B2B programme and determine whether the latest support programme has brought any performance improvement in identified municipalities using a difference in difference (DID) methodology; and
- To provide recommendations that will enhance the support programme designs and interventions of fiscal instruments to improve support impact.

Research findings

The data sources for this research are drawn from Statistics South Africa's (Stats SA) annual non-financial censuses conducted annually in June, and audited municipal finance data from National Treasury. The period under review consists of the three financial years prior to and after the implementation of the B2B programme in 2015 (i.e., 2012-2014 and 2015-2017), in order to draw a time-balanced comparison for statistical inference.

The non-financial census of municipalities datasets, published annually by Stats SA, is exceptionally rich in performance information, especially on institutional capacity and basic services of municipalities. Data on vacancies, human resources, basic services, indigent households, free basic services consumers and policy implementation are included in the dataset. The municipal finance data of National Treasury is comprised of datasets from various financial publications and audit reports of all municipalities, including credit and debit analyses, balance sheets, income statements and cash flow statements.

The total number of observations in the compiled dataset is 1 647, each with 129 variables of financial and non-financial information. The observation units are the municipalities, comprising 257 municipalities in 2017 due to redemarcation effective from 3 August 2016, and 278 in the years 2012-2016. Municipal sub-category classification is imported from Stats SA's community survey of 2016 and has 14 missing values in 2017 due to the redetermination process. Of these 14 municipalities with truncated data, five have been identified as dysfunctional with non-financial information in the censuses.

A DID approach[1] is employed, using 2015 as the year of treatment for the B2B support programme. The treatment group consists of the 87 priority municipalities identified as distressed or dysfunctional requiring urgent intervention (COGTA budget 2018), and the control (non-treatment) group are the remaining municipalities. The classification of the 87

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[1] Difference in differences studies the differential effect of a treatment on a 'treatment group' versus a 'control group'. It calculates the effect of a treatment (i.e., an explanatory variable or an independent variable) on an outcome (i.e., a response variable or dependent variable) by comparing the average change over time in the outcome variable for the treatment group, compared to the average change over time for the control group.

dysfunctional/distressed municipalities in 2018 as the treated group is justifiable in this study for three reasons:
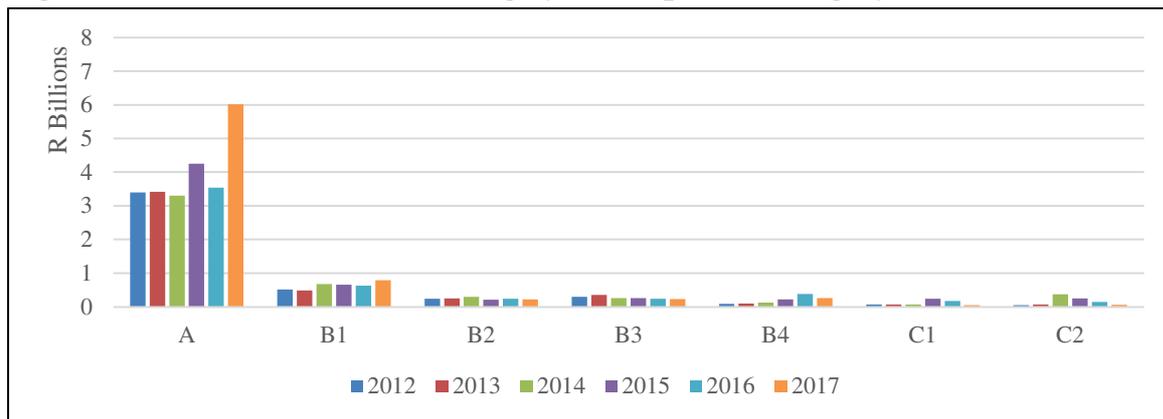
- First, the B2B support programme is a national initiative, implemented across all municipalities in the country. By narrowing down on assessing the impact of the B2B programme on these distressed and dysfunctional municipalities identified in 2018, the Commission is testing as to why the identification and the support programme failed to prevent dysfunctionality in these municipalities in 2018, despite the implementation of the B2B programme.
- Second, not only is the support programme implemented nation-wide in phases, but the extent to which each municipality is supported varies and its heterogeneity depends on assorted sets of criteria, determined separately by the national and provincial departments. In other words, the grouping of municipalities receiving support from different institutions under the B2B programme could vary depending on the focuses of the support programmes, and overall B2B's impact, if any, is most likely to be found among the most vulnerable i.e. these 87 identified municipalities.
- Third, the B2B programme is continuing into the future, which makes the treatment group identification less relevant. What is more important is the response of municipalities to the impact of the B2B programme. Simply put, the treated group here are negative observations, and the DID methodology is measuring how and why these municipalities responded negatively and were classified as dysfunctional, despite the existence of the B2B programme.

The DID impact result for measuring the LG B2B support programme impact is presented in Table 1. It is worth noting that since none of the metropolitan municipalities was identified as dysfunctional or distressed to be treated, it is impossible to derive DID results for the metros. Furthermore, only the treatment-outcome indicators that showed a significant influence are presented.

Table 1: Difference in Difference impact results for the B2B programme, 2012-2017

Variables	B2	B3	B4	C1	C2	Total
Consumer units: waste removal				1.181*		
Domestic consumer units: free basic electricity					-1.006*	
Domestic consumer units: free basic sewerage and sanitation	-4.867**					
Domestic consumer units: free basic waste removal	-5.59***					
Proportion of households: indigent sewerage		-0.111*				
Municipal borrowing			6.7e+6**			
Full-time councillors occupancy rate	0.351***					
Full-time community and services employment rate		-0.071*				
Full-time waste management employment rate						-0.091**
*** p<0.01 , ** p<0.05, * p<0.1						

The analysis shows mixed results for the B2B programme. More specifically, for B2 municipalities, the impact of the support programme implementation is associated with an increase in full-time councillor's occupancy rate, with volumes of domestic consumer units benefiting from free basic sewerage, sanitation and waste removal declined. For the B3 municipalities, the proportion of households receiving indigent support system of sewerage declined, together with full-time community and services employment rate for institutional capacity. During the period under review, municipal borrowing increased significantly for the B4 municipalities, albeit from a low base as identified earlier in **Figure 1**. Interestingly, consumer units for waste removal service in C1 district municipalities improved significantly during this period, while domestic consumer units for free basic electricity in C2 districts declined. Overall, the full-time employment rate of waste management reduced despite the existence of the B2B programme.

Figure 1 Total amounts of borrowing by municipal sub-category

Source: Statistics South Africa (StatsSA) Non-Financial Censuses 2012-2017; National Treasury Municipal Finance Data; and Own calculations

To ensure that the DID analysis presented above is clear of any endogeneity issues caused by the redemarcation which renders some municipalities unobservable in the analysis, Table 2 strips out the effect of the redemarcation by removing the observations in 2017 from the regressions.

Table 2: DID impact results for the B2B programme, 2012-2016

Variables	B1	B2	B3	B4	Total
Domestic consumer units: free basic sewerage and sanitation		-4,153*			
Domestic consumer units: free basic waste removal		-5,246**			
Proportion of households: indigent sewerage	0.165*		-0.124*		
Municipal borrowing				5.5e+6*	
Full-time councillors occupancy rate		0.330***			
Full-time community and services employment rate			-0.086*		
Full-time waste management employment rate					-0.090*
*** $p<0.01$, ** $p<0.05$, * $p<0.1$					

The results in Table 2 again present a mixed reaction by municipalities towards the impact of the B2B support programme for LG. The proportion of households receiving indigent sewerage service in B1 municipalities improved significantly. B2 municipalities show the same result of impact as in Table 1 as both domestic consumer units for free basic sewerage, sanitation and waste removal deteriorated, despite an increase in councillors' occupancy rate. B3 municipalities, as in Table 1 also show that both indigent sewerage units since the introduction of the B2B programme, and the full-time community and services employment rate have declined, showing signs of institutional weakening. B4 municipalities' borrowing still identifies a significant increase during the period under review for those municipalities in

distress. Both C1 and C2 municipalities showed no signs of significance (Table 2), in contrast to the results on consumer units of waste removal and free basic waste removal in Table 1. This implies that the 2017 data with the redemarcation effect has a significant impact on the results of identification and monitoring in LG, especially for district (category C) municipalities. Overall, the capacity for waste management declined.

Conclusion

South Africa's municipalities are in a state of institutional decline, exacerbated by persistent inequalities and widespread poverty, and entrenched administrative dysfunctionality. With 87 municipalities identified as dysfunctional and in distress, the need for an effective and impactful support programme to rescue these municipalities is greater than ever. Since the advent of democracy and the establishment of LG, South Africa has implemented a series of support programmes. This paper concludes with empirical evidence that the latest instalment of the support programme, B2B, has yielded mixed results with negative outcomes.

By means of empirics, this study found that municipal powers and functions are shared, outsourced and cross-substituted between municipalities, which causes problems in terms of monitoring and evaluation of municipal performance over time. The priority areas and associated performance indicators in the B2B support programme design also rely too much on broad concepts of "fundable" "functional" and "efficient", with intangible support objectives such as "anti-corruption measures" and "ward meetings". There needs to be a renaissance of evidence-based identification, monitoring to impart differentiated, targeted supports and interventions. The power and costs of these should be held by those accountable for LG namely, COGTA and provincial departments of LG. Finally, throughout the data analysis it became clear that redemarcation and determination of municipal boundaries essentially "hides" observations, as amalgamated municipalities disappear from the dataset, making continuous monitoring and evaluation of municipal performances impossible. The following are policy recommendations for consideration by the Parliament:

Recommendations
With respect to the B2B Support Programme, the Commission recommends that:
    (a) The Minister of CoGTA narrows the current scope of focus, to performance aspects that are measurable and easily monitored.

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Enquiries: Chen Wei Tseng (Chen@ffc.co.za)
Financial and Fiscal Commission
Montrose Place (2nd Floor), Bekker Street,
Waterfall Park, Vorna Valley, Midrand,
Private Bag X69, Halfway House 1685
www.ffc.co.za
Tel: +27 11 207 2300
Fax: +27 86 589 1038