



National Government's Funding Position

By

Mr. Onesmus Ayaya (CFO DWAF)





In the past, the funds to finance water used to flow from national treasury directly to Department of Water Affairs and Forestry (DWAF) and the Department of Provincial and Local Government (DPLG) and subsequently down to water services providers (WSPs) (Maseko et al 2008). Currently, the provision of water and infrastructure associated with it are largely financed from three main sources, i.e. (a) Municipal Infrastructure Grant (MIG) which is a capital grant intended for basic services, (b) Equitable Share which is meant to support the operation and maintenance costs for basic services and (c) cross-subsidies.

However, certain challenge have been cited with regard to these main sources of revenue. There is a need for research to establish the magnitude of these sources of funding because there are concerns on the sufficiency of MIG to take care of backlog in rehabilitation and there are also concerns on whether the use of the equitable share for water use is guaranteed and the question of whether or not it is sufficient (Moraka, 2006).

The FFC is currently undertaking this research (see Maseko et al 2008).



Other sources of funding for water available to municipalities include the water services operating subsidy grant, related to the transfer of DWAF schemes to municipalities and covers operation and maintenance costs, human resources costs as well as refurbishments.

There are also grants aimed at the schools and clinics backlogs eradication, bulk infrastructure grant, revenue generated from retail water sales and external funding in the form of foreign donor funding and loans. There is need for research to attempt to quantify the extent of these sources of funding and make an assessment of whether they contribute sustainable towards the function of water services provision. Again the FFC is currently undertaking this research (Maseko et al 2008).



On average, local governments finance a substantial portion of public services from locally-raised sources. Because the financial and institutional capacity to raise revenues varies tremendously among local governments, there remain large disparities in both the level and the quality of local public services delivered to South Africans. On the one hand, many of the nation's large cities and long-established towns have for decades provided a full array of high quality services. On the other hand, in many rural areas access to basic services such as potable water, electricity, and flush toilets is still limited.

Again the main issue from my perspective is whether the process of fiscal decentralization in South Africa has encouraged or hindered the expansion of access to basic municipal public services. The data I have demonstrate that while considerable progress has been made in expanding access to basic services during the post-apartheid period, a substantial number of households remain without access to potable water, electricity, and sanitation. For the most part, those households lacking services live in poor, mainly rural, areas where the capital infrastructure necessary to support service delivery is not yet available.



Finally there is the issue of Borrowing that is gathering momentum right now.

My assessment is that this is an exciting possibility for financing water. I have found that sub national borrowing will likely have a positive impact on water infrastructure service delivery and there is room for more borrowing as soon as certain shortcomings are addressed (in areas of regulatory framework, demand and supply of municipal borrowing market).



Problem Statement

How can municipalities expand their overall sources of financing and financial efficiency for WSS?

Related sub questions

Question 1: How can local governments become more reliable financial stakeholders, create incentives for productive investments to expand coverage and improve service, and become more creditworthy borrowers?

Question 2: Should municipalities be allowed to access private finance and under what circumstances? What financing policies can promote an easier transition from public to private sources of financing?

Question 3: Bridging the Financing Gap – How Should Subsidies be Utilized to Promote Efficiency and Incentives for Promoting Greater Cost Recovery Through User Tariffs?

Question 4: When is decentralization not the preferred institutional option for water supply and sanitation services to local communities?



- G (May 2008), MIG Performance Audit indicating that: *“although major backlogs to infrastructure and service delivery still exist there was an approximate R647 million under spending of MIG for the three financial years 2004/05, 2005/06 and 2006/07 resulting from capacity constraints at municipalities”*

- AG (January 2008), audit on the performance of the provision of sanitation services indicated that, *“due to a number of weaknesses identified (unreliable and incomplete management information, inadequate funding, capacity constraints, lengthy procurement process, excessive cost and poor maintenance of bulk infrastructure) there is risk that the targets set by government may not be met unless stringent measures are implemented”*