

CHAPTER 9

Effectiveness of Transfers to Local and District Municipalities for Rural Development

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9.1 Introduction

The Constitution entrenches the developmental role of local government, which is further underscored in the National Development Plan (NDP). Section 152(1) of the Constitution mandates municipalities, among other things to:

- a. to provide democratic and accountable government for local communities;
- b. to ensure the provision of services to communities in a sustainable manner;
- c. to promote social and economic development;
- d. to promote a safe and healthy environment; and
- e. to encourage the involvement of communities and community organisations in the matters of local government.

According to Section 153 of the Constitution, municipalities are expected to:

- a. structure and manage its administration, and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community; and
- b. participate in national and provincial development programmes.

In the NDP, rural local government in particular has a pivotal role to play in reducing poverty and inequalities through providing basic services and infrastructure. The

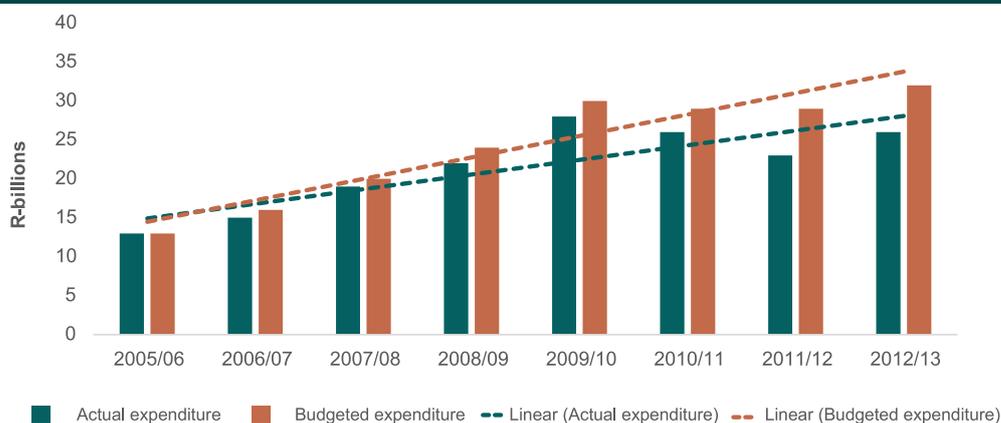
Constitution provides for a Local Government Fiscal Framework (LGFF) that includes own revenue, borrowing and intergovernmental transfers as revenue instruments.

Ideally, increased resources to municipalities translate into improved delivery of basic services and thus development. However, this has not been the case, especially within rural municipalities that have difficulties in executing their constitutional obligations. Difficulties include limited revenue capacities, poor audit results and maladministration, under-spending on capital budgets, service delivery protests and backlogs in virtually all basic services. In addition, rural municipalities are failing to service their debt (to Eskom for bulk electricity and to water services boards for water services) and have been unable to attract and retain skilled managers, professionals, and technicians (COGTA, 2009). These problems are compounded by the ambiguous allocation of powers and functions between district municipalities (DMs) and local municipalities (LMs) that sometimes overlap. Given the persistence of these challenges, this chapter looks at how effective and efficient rural municipalities can be in driving rural development. It also examines whether the distribution of powers and functions of DMs and LMs is conducive for rural development. A data envelopment analysis (DEA) was used to examine the efficiency²⁹ issue, while the role and responsibilities of district municipalities were evaluated through descriptive information.

9.2 Background

Figure 71 and 72 show the spending patterns of rural municipalities between 2005/06 and 2012/13. Under-spending is rampant among rural municipalities. Although DMs have improved their spending, both DMs and LMs spend less than their budgeted amounts.

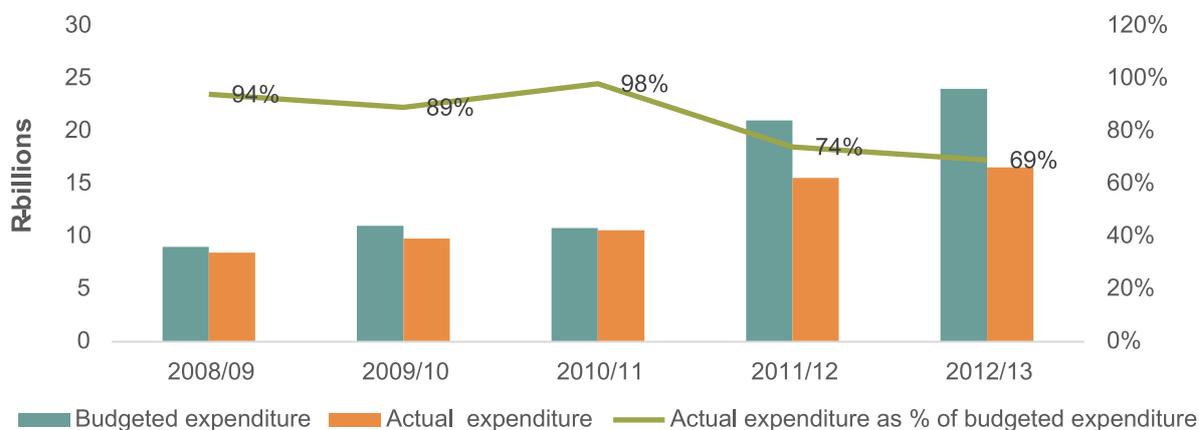
Figure 71. Actual vs. budgeted expenditure in rural local municipalities (2005/06–2012/13)



Source: National Treasury (2012)

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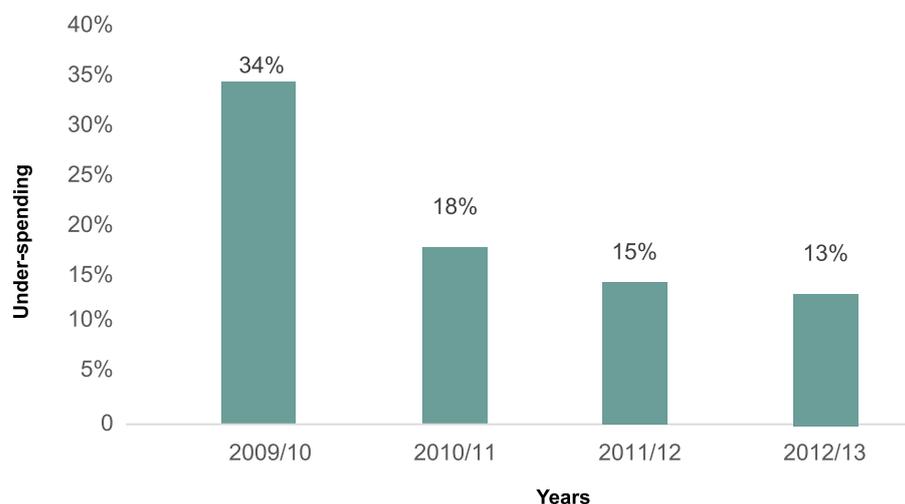
²⁹ Technical efficiency in this context is when goods and services are provided at the minimum cost. It measures the extent of misallocation of resources.

Figure 72. Actual vs. budgeted expenditure in rural district municipalities (2008/09–2012/13)

Source: National Treasury (2012)

A worrying trend is the under-spending of capital budgets in rural areas (Figure 73). Although it has improved, under-spending in 2012/13 still amounted to 13%, which is quite significant for poor communities. Under-spending implies ineffective and inefficient use of resources and, importantly, forgone or postponed investments. Considering the relatively

high infrastructure backlogs, rural areas can ill afford such under-spending. Similarly, rural municipalities do not prioritise maintenance spending: between 2008/9 and 2012/13, the average spending by rural municipalities was about 4%, far below the National Treasury recommended range of 8–10%.

Figure 73. Under-spending on capital grants in rural municipalities (2008/09–2012/13)

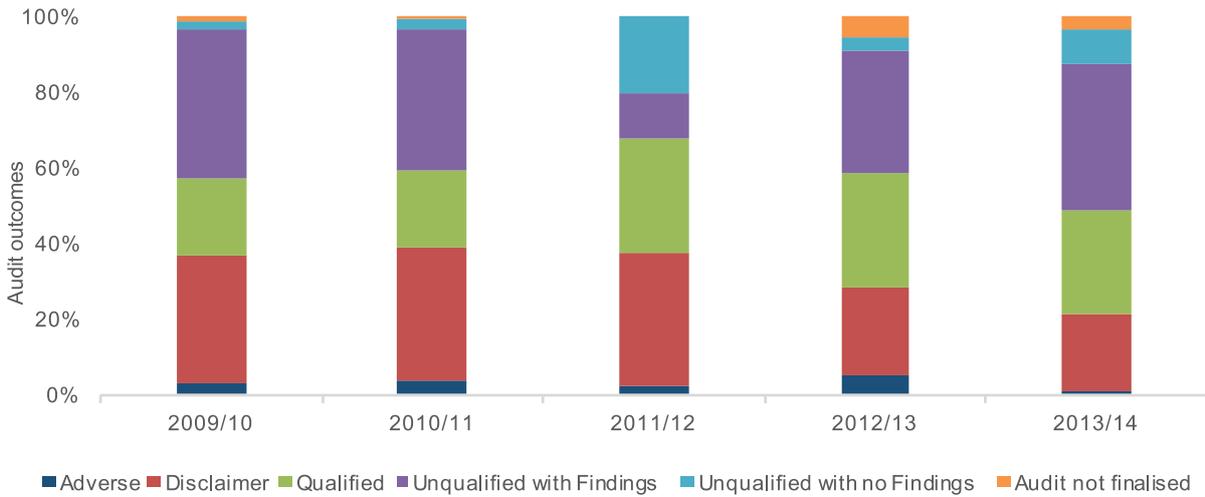
Source: National Treasury (2012)

Audit outcomes are another important indicator, as they measure the overall performance of municipalities in terms of operating and capital expenditure, unauthorised, irregular and fruitless expenditure, supply chain, compliance and governance deficits, among other things. Figure 74 shows the audit outcomes for rural municipalities.

Although audit outcomes have improved slightly, with unqualified audits increasing from 39% to 39.9% between

2009/10 and 2013/14, the majority of rural municipalities continue to receive poor audit results. In 2013/14, nearly half (49%) received adverse, disclaimer and qualified opinions. The Auditor-General (AGSA, 2013) attributes the persistence of poor audit results to the high levels of unauthorised, irregular, fruitless and wasteful expenditure. These findings confirm that rural municipalities are not using resources effectively and efficiently.

Figure 74. Audit findings for rural municipalities (2009/10–2013/14)



Source: AGSA (2009–2014)

9.3 Findings

Table 29 provides technical efficiency scores obtained from the DEA analysis of 87 LMs. These scores measure the ability of a municipality to achieve the maximum output given the set of resources at its disposal. A municipality with a score of 1 is regarded as efficient, while those with less than 1 are regarded as inefficient.

The number of efficient municipalities is low but increased between 2008/09 and 2012/13 from 2 (2%) to 11 (13%). Over

this period, the mean efficiency scores for local municipalities ranged between 0.31 and 0.38. This implies that the municipalities could produce, on average, more than 60% additional output with the same amount of resources. The minimum average efficiency score was 0.04 throughout the period. This implies that technical inefficiencies remain high in certain municipalities, which could produce about 90% additional output if they used their resources properly.

Table 29. DEA efficiency scores for local municipalities

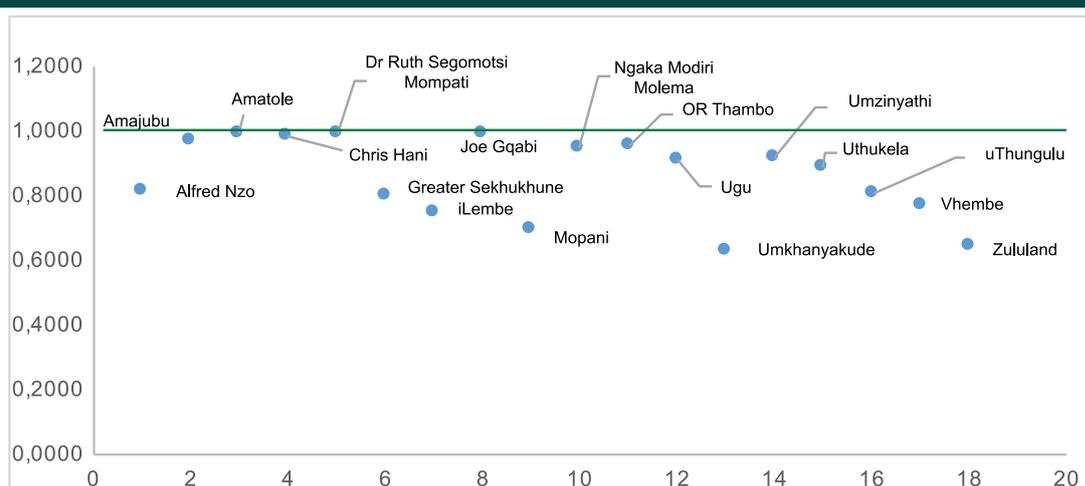
Years	2008/9	2009/10	2010/11	2011/12	2012/13
Number of municipalities	87	87	87	87	87
Number efficient municipalities	2	1	6	8	11
Share of the total sample	2%	1%	7%	9%	13%
Number of inefficient municipalities	85	86	81	79	76
Mean efficiency	0.31	0.32	0.40	0.37	0.38
Minimum efficiency	0.04	0.04	0.04	0.04	0.04
Maximum efficiency	1	1	1	1	1

Source: Commission's computations

Table 30. Average efficiency scores for district municipalities

Years	2008/9	2009/10	2010/11	2011/12	2012/13
Sample size	18	18	18	18	18
Efficient municipalities	0	0	0	7	3
Inefficient municipalities	18	18	18	11	15
Mean efficiency	0.83	0.84	0.86	0.89	0.87
Minimum efficiency	0.56	0.60	0.63	0.66	0.68
Maximum efficiency	0.99	0.99	0.99	1	1
Maximum efficiency	1	1	1	1	1

Source: Commission's calculations

Figure 75. Annual average efficiency scores by municipality

Source: Commission's calculations

Turning to DMs, as Table 30 shows, the DEA indicates that the average level of efficiency in rural DMs ranges between 0.83 and 0.87 (Table 30). This suggests that DMs are producing between 83% and 87% of what is expected given their resources.

Figure 75 depicts the annual average efficiency scores for each rural DM between 2008 and 2013. All of the DMs register scores below the frontier, implying that they have not used their resources efficiently. Umkhanyakude and Zululand are the most inefficient district municipalities, while Amatole and Dr Ruth Segomotsi Mompoti are relatively more efficient.

9.3.1 Factors affecting spending efficiency in rural municipalities

Table 31 presents findings on the determinants of the DEA efficiency scores. The determinants of municipal efficiency used are the provision of free basic services (FBS), vacancy

rate for senior management, reliance on intergovernmental transfers, municipal size and municipal economic performance.

The provision of FBS has a negative effect on municipal efficiency. This is because a municipality is unable to recover the cost of providing services to indigent households that receive FBS. High vacancy rates also result in municipal inefficiency, which concurs with the Auditor-General report of 2014 that highlights the lack of institutional capacity as a major cause of the poor municipal performance (AGSA, 2014). Grant reliance and economic performance have a positive impact on municipal efficiency.

The regression analysis reveals that rural municipalities use their resources very inefficiently. LMs fare much worse than DMs, as DMs have better institutional capacity and so are able to take on more complex strategic infrastructure projects for rural development. Given this, a critical analysis was carried out of the role and responsibilities of DMs.

Table 31. Results from the truncated regression analysis

Independent variable	Coefficient	Standard-error	t-value
Water (FBS)	-7.9854	7.6169	0.9731
Electricity (FBS)	-1.2895	4.8399	6.2348
Refuse (FBS)	-3.8686	1.1599	-3.3353
Sanitation (FBS)	-3.7053	5.3851	-6881
Vacancy rate	-9.444	1.2041	-0.0784
Grant reliance	3.0733	8.269	0.3717
Population	2.5181	2.1086	11.9423
GVA	6.4299	2.70728	2.3789
Sigma	3.1037	2.0275	15.3081
Intercept	7.4123	7.6169	0.9731

Source: Commission's calculations

9.3.2 Powers and functions of district municipalities

The 1996 Constitution of South Africa introduced a three-tier system of local government: metropolitan municipalities (metros), DMs and LMs. However, the Constitution was silent on the role of DMs, which was only clarified in the 1998 White Paper on Local Government. The White Paper conceded that a variable system of district governance was the way to go and envisioned four distinct roles for DMs:

- (i). Integrated district-wide planning
- (ii). Planning and development of bulk infrastructure in non-metropolitan areas
- (iii). Provision of direct services to consumers in areas where municipalities are not established
- (iv). Provision of technical assistance and capacity building in LMs

The mandate of DMs contained in the White Paper found legal meaning in Section 83 of the Local Government: Municipal Structures Act (MSA) (No. 117 of 1998). The Act provided the legal framework for a single-tier metropolitan government system and a two-tier local government system. Sections 84(1)(a) to (p) defines the powers and functions of DMs, and any residual powers not contained in this section are vested in LMs. Two subsequent Acts amended the role of DMs in a fundamental departure from the White Paper, which limited the role of DMs.

- The Local Government: Municipal Structures Amendment Act (No. 33 of 2000) made DMs direct service providers of electricity, sanitation, water and health services.

- The Intergovernmental Relations Framework (IGR) Act (No. 13 of 2005) added the role of IGR coordinator and channel of communication between the province and LMs.

The powers and functions of DMs listed in the MSA are not absolute and can, under certain circumstances, be altered. Section 85 of the MSA allows the MEC for local government in a province to:

adjust the division of functions and powers between a district and a local municipality as set out in section 84(1) or (2), by allocating, within a prescribed policy framework, any of those functions or powers vested-

(a) in the local municipality, to the district municipality; or

(b) in the district municipality (excluding a function or power referred to in section 84 (1) (a), (b), (c), (d), (i), (o) or (p), to the local municipality.

The MEC can re-allocate powers or functions if "the municipality in which the function or power is vested lacks the capacity to perform that function or exercise that power", provided a consultative process is followed. Then, in 2003, the Minister for Provincial and Local Government issued new directives on the powers and functions of LMs and DMs, whereby LMs were to provide bulk electricity until the restructuring of the industry was completed, DMs were vested with powers to provide municipal health services, while water and sanitation functions were to be determined on a provincial case by case basis. In the end, municipalities were authorised to continue providing water and sanitation in 22 of the 46 districts.

This has resulted in a highly variable system of district governance, costly overlaps and duplications, and real risks of confusion, contestations and even conflict in the IGR system, as well as possible further distortions in accountability lines. Furthermore, MECs often alter the powers and functions of DMs and LMs following Municipal Demarcation Board (MDB) capacity assessments, resulting in much uncertainty in the local government space and the potential of compromising development.

Following the legislative and policy changes, the roles of DMs can best be summarised as:

- Provision of services (health, sewage disposal, domestic wastewater and potable water supply) to end user
- Redistribution of resources within their jurisdiction
- District-wide services, such as district roads, airports, solid waste disposal sites, firefighting services, abattoirs, markets, local tourism
- Coordination and district-wide planning
- Technical assistance and capacity-building for LMs in their jurisdiction
- Direct governance of DMAs
- IGR coordinator and link between provincial and local governments

The following sections interrogate the role of DMs against their mandated functions (as listed above) in order to define an appropriate place for DMs in the local government sphere.

9.3.3 District municipalities and service provision

As noted earlier, the MSA mandates DMs to provide services to end users, e.g. health services, sewage disposal systems, domestic wastewater and potable water supply systems, and bulk electricity. However, DMs are not performing their core service functions as envisaged in the MSA (Wahid and Steytler, n.d.). According to the MDB capacity assessment report of 2009, "76% of DMs are performing less than 50 percent of their statutory functions and only two DMs are performing more than 75 percent of their functions" (Steytler, 2010). Money to spend on core services is crowded out by expenditure on non-core activities, with half of the expenditure by DMs going to governance, administration, and planning (Wahid and Steytler, n.d.). From as early as 2007, the MDB's assessments were showing that services

were increasingly being shifted from DMs to LMs (CLC, 2007), in particular refuse removal, roads, firefighting and cemeteries (MDB, 2011). In 2014, only 45% of DMs were providing water and sanitation services (compared to 61% in 2008) and only 2% were providing refuse removal services (down from 23% in 2008).

The reduction in water, sanitation and refuse removal services provided by DMs is more pronounced in urban areas than in rural areas. Between 2008 and 2014, the proportion of urban DMs providing water and sanitation services halved, from 22% to 11%, whereas in rural areas, 54% of DMs provided these services in 2014, down from 71% in 2008 (a decline of 24%). Similarly, in the case of refuse removal services, urban DMs providing these services have declined by 100% compared to 90% for rural DMs. This analysis shows that urban DMs are not providing many services to consumers, whereas rural DMs still play a significant role in rural development. The implication, therefore, is that rural DMs should be strengthened, while the role of urban DMs needs to be reviewed.

In many countries with two-tier systems of local government, large urban municipalities are often left out of the system. In South Africa, strong secondary cities dominate urban DMs in every aspect, e.g. budgets, population size, economic GVA and capacity (Table 32), rendering DMs ineffective in fulfilling their mandated functions.

A solution is to establish a single-tier system in urban areas and to maintain a two-tier system in rural areas. India and Germany have a similar local government system: one tier for urban areas and two tiers for rural areas. In the case of two tiers, the upper tier does not normally supply services directly to households, unless the lower tier lacks capacity or the services are bulk services.

Social participation and social accountability are weak in the current model of DMs, which is why some believe that DMs should not provide services such as water directly to consumers because these services require effective participation by citizens and accountability to society. Only 40% of district councillors are directly elected by voters in the DM – the other 60% are appointed by the constituent municipalities and so are not directly accountable to the electorate.

Despite the weaknesses described above, DMs in rural areas are visible and have a history of providing services directly to consumers. Moreover some rural LMs have weak capacity and need the support of DMs, while some DMs provide services in District Managerial Districts (DMAs), where no direct services exist. This should continue unless close-by LMs have the capacity and could provide services to the DMAs through a service level agreement.

Table 32. Urban LMs by indicators showing relations to DMs

DM	DM population (000)	DM budget in (R'000)	DM GVA (R-millions)	LMs	B1	B1 population (000)	Percentage	B1 budget (R-millions)	B1 GVA (R-millions)	Percentage B1 GVA/DM	Percentage B1 own revenue
Lejweleputswa	686	106251	15295	5	Matjhabeng	426	62%	1579	12482	82%	75%
Sedibeng	947	325263	20242	4	Emfuleni	784	83%	3555	14740	73%	84%
West Rand	888	251977	21710	3	Mogale City	352	40%	1472	9915	46%	85%
Amajuba	520	193514	9146	3	New castle	614	71%	2684	7393	81%	83%
Umgungundlovu	1035	456546	22968	7	Umsunduzi	370	59%	1235	17026	74%	83%
Uthungulu	984	574227	22954	6	Umhlatuze	350	36%	2019	9352	41%	87%
Capricon	1268	571812	26442	5	Polokwane	555	44%	2064	17788	67%	78%
Ehlanzeni	1556	192290	31171	5	Mbombela	513	33%	1804	20560	66%	73%
Gert Sibande	967	257677	34337	7	Govern Mbheki	238	25%	1076	19949	58%	79%
Nkangala	1095	317768	42818	6	Emalahleni	297	27%	1227	19556	46%	84%
Frances Baard	360	104183	12814	4	Steve Tshwete	153	14%	1110	16204	38%	88%
Siyanda	225	95744	8546	6	Sol Plaatje	225	63%	1323	11155	87%	86%
Bojanala	1276	488633	53951	5	Khara hais	87	39%	401	2334	27%	83%
Kenneth Kaunda	643	168938	16976	4	Rustenburg	415	33%	2331	32793	61%	89%
Ngaka Modiri Molema	820	531287	14188	5	Madibeng	373	29%	984	11541	21%	79%
Cape Winelands	728	470063	23864	5	City of Matlosana	385	60%	1740	10591	62%	80%
Eden	525	243277	18554	7	Tlokwe	138	21%	767	5730	34%	100%
					Mafikeng	278	34%	462	8110	57%	72%
					Drakensburg	224	31%	1396	7368	31%	85%
					Stellenbosh	137	19%	904	5791	24%	86%
					George	173	33%	1184	5814	31%	75%

Note: where: *** is statistical significance at the 1% level, ** is statistical significance at the 5% level, and * is statistical significance at the 10% level.

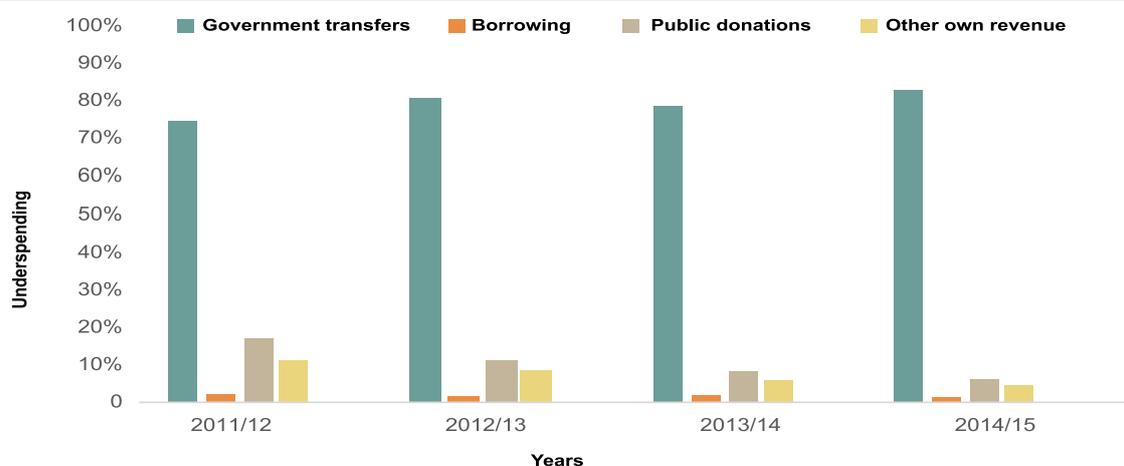
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9.3.4 District municipalities and redistribution

As cross-municipality authorities, the assumption is that DMs will facilitate the redistribution of resources from rich municipalities to poorer municipalities. This may not be possible for rural DMs, as many rural municipalities do not contain a large anchor town whose wealth could be used to subsidise rural areas. The cross-subsidisation argument also presupposes that districts have abundant own revenues to use in order to distribute wealth fairly and equitably. However, since the scrapping of the RSC levies³⁰ in 2006, DMs have no substantial own-revenue sources and remain grant dependent (Figure 76). As a result, DMs have no muscle to influence municipal spending and thus the overall distribution of wealth (Mlokoti, 2007). Therefore, redistribution should be left to national government because, as the Commission has noted before (in 2001), the Constitution provides the national sphere with expenditure (e.g. transfers) and tax levers to redistribute wealth across municipalities (CLC, 2007). National Treasury has also argued that DMs are not the suitable institution to tackle the issue of income redistribution (ibid). Furthermore, achieving equity within a district will not necessarily result in an equal South Africa.

Figure 76. Composition of total revenue for DMs



9.3.5 District municipalities and services with spill-over effects

The central argument for establishing DMs was that they can provide services that transcend many municipal jurisdictions more cost effectively. Such district-wide services include roads, airports, solid waste disposal sites, firefighting services, abattoirs, markets and local tourism. A cross-municipality structure can also benefit from economies of scale in the case of services with high fixed investment costs, such as bulk infrastructure (e.g. water). While this economy-of-scale argument may be true in theory, it is not in practice because of South Africa's

model of local government. A two-tier system of local government is common in countries with many smaller municipalities (e.g. Germany, Spain, and India), whereas a single-tier local government system is found in countries with a few large municipalities (e.g. Canada, Australia and Nigeria). However, South Africa appears to be the exception, as it has a two-tier system of local government but only a few, very large (in terms of population) LMs.

- Average population: an average South African local municipality is home to 200 000 people, whereas in Germany 40% of municipalities (kreise) have populations of less than 1000, and in Spain 80% of municipalities have populations of less than 5000.

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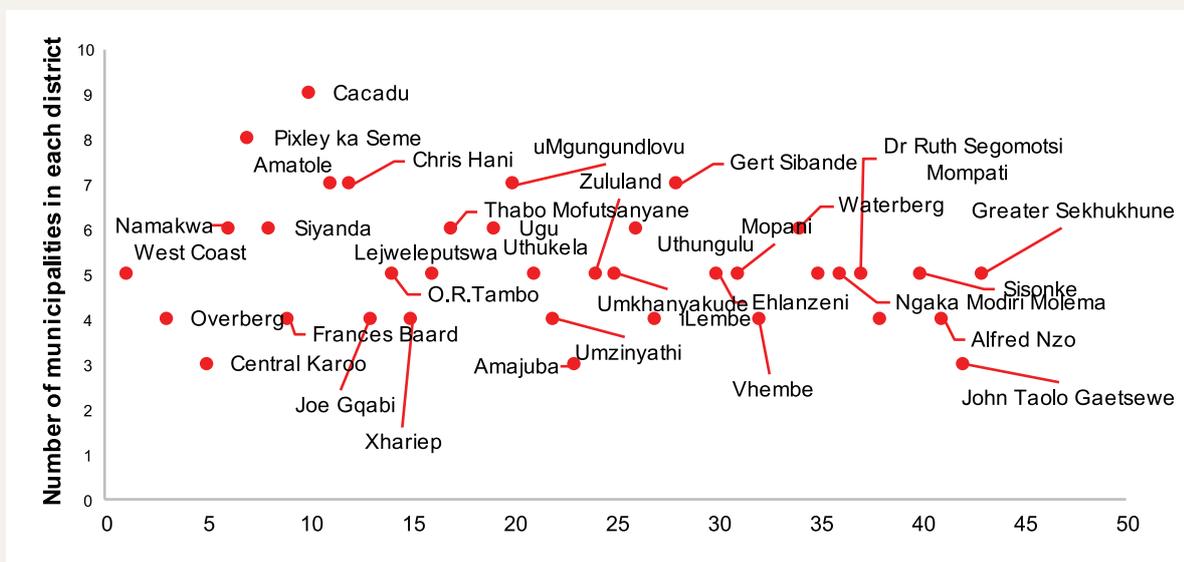
³⁰ Regional Services Council (RSC) levies, which were basically two levies applicable to employers: the Regional Services Levy, based on gross remuneration of employees, and the Regional Establishment Levy, based on the turnover of each business.

- District size: some of the DMs in South Africa are larger than many countries in the world. For instance, Switzerland is smaller than some of the districts in South Africa but is divided into 26 cantons, each with its own parliament, that are divided into 2700 communes (equivalent to LMs).

Thus the economy-of-scale argument is more applicable to the German, Swiss and Spanish models than to the South African model. In South Africa, an average DM covers 4–5 municipalities, and some DMs have even less

municipalities (Figure 77). For example, Amajuba DM contains three municipalities and is dominated by the Newcastle municipality, which is home to 66% of the district’s population. Newcastle is a large town and a B1 municipality with the capacity to provide its own bulk infrastructure. Therefore, the Amajuba DM focuses only on the two smaller LMs: Emadlangeni and Dannhauser, and so no economies of scale are achieved. Economies of scale can be a factor for DMs with six or more municipalities, such as Cacadu DM and Gert Sibande DM.

Figure 77. Number of municipalities in each district



Source: Global Insight (2014)

9.3.6 District-wide planning and coordination

Regional planning and coordination of regional development plans are best suited to a cross-municipality authority. Over the years, all DMs have coordinated district-wide planning through developing frameworks for integrated planning within District Information Forums. These forums comprise of representatives of constituency municipalities and the DM, and are chaired by the district mayor. The district planning frameworks form the basis for local municipal integrated development plans (IDPs). However, many municipalities resent this top-bottom approach to planning and feel that IDPs should inform the district planning frameworks, not the other way round. Anecdotal evidence also suggests that district-wide planning has not been effective in districts containing one or more of the municipalities with a large dominant secondary city. As these municipalities often have better capacity to plan and coordinate their activities than the DM, the DM is left to facilitate the planning and cooperation among smaller municipalities.

Therefore, as suggested earlier, urban areas should be left out of the two-tier system of local government, while a two-tier system would continue in rural areas, where DMs would continue to play a coordination and planning role. This arrangement seems to be the trend elsewhere in the world, i.e. where there is a large number of LMs, a few overarching institutions coordinate the planning process. For example, Spain has 50 provincial governments that coordinate the regional planning for about 8000 municipalities, of which nearly 80% have a population of less than 5000 (CLC, 2007). This proposal also aligns with the ANC 4th National Policy Conference resolution that DMs “should focus on coordinating, planning and support of local municipalities functions’ and that DMs ‘should exists only in areas where there are weak local municipalities” (ANC, 2012).

DMs are also required to coordinate IGR issues in their jurisdiction and to provide communication platforms for provinces and LMs. Again, this makes sense when the DM is speaking for many LMs. However, anecdotal evidence

indicates that many MECs and provincial premiers ignore DMs and deal directly with municipalities on IGR issues, especially in urban areas. Nevertheless, if appropriately resourced and capacitated, DMs are best placed to coordinate IGR policy issues in the rural local government space, and to act as a communication platform for national and provincial governments on one hand, and rural LMs on the other.

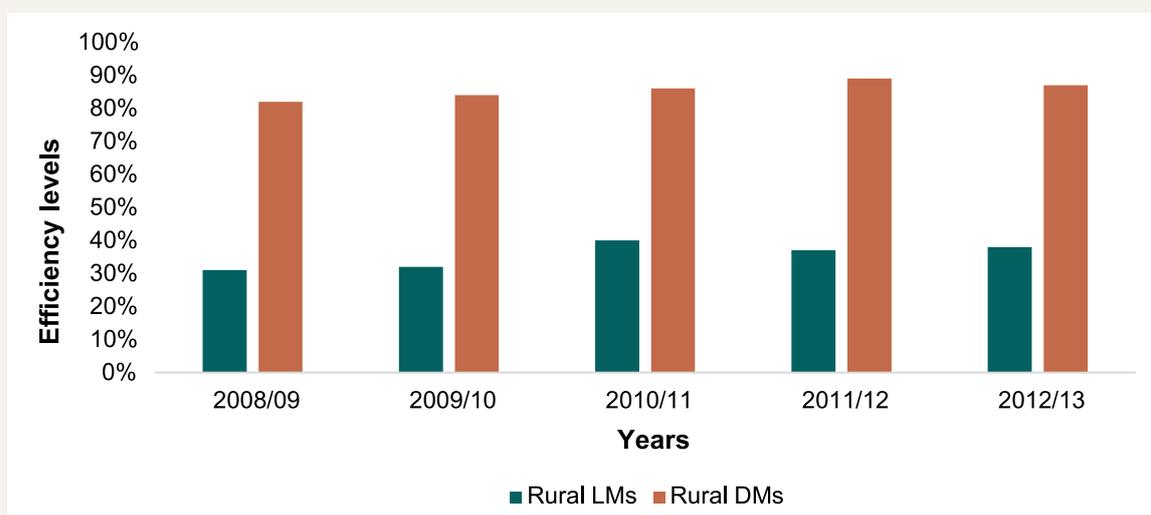
9.3.7 District municipalities and technical assistance to local municipalities

DMs are supposed to build capacity of LMs where necessary and to provide services directly to consumers if the LMs have weak capacity. The question is whether districts have better human and institutional capacities than the LMs within their jurisdictions. Capacity is evaluated by looking at the vacancy rates and efficiency scores of DMs. High vacancy rates signify weak institutional and human capacity, while efficient decision-making units are often better capacitated units. The efficiency scores in Figure 78 reflect whether the DMs and LMs are spending their resources optimally.

Figure 78 shows clearly that, on average, rural DMs are better capacitated than rural LMs. In 2012/13, DMs produced 87% of what they could produce given resources at their disposal, whereas LMs produced just 38%. Over the five years, these scores have remained fairly constant (i.e. above 80% for DMs and below 40% for LMs). The results suggest that there is merit in the argument for using DMs to provide complex cross-municipality services (e.g. bulk water) in rural areas where capacity deficits are more pronounced.

DMs are also better capacitated than LMs based on average senior management vacancy rates. In 2014/15, the average vacancy rate was 2% for DMs compared to 8% for B3s and 9% for B4s (Stats SA, 2014). Therefore, rural DMs should be capacitated to render quality assistance to rural municipalities and, in this regard, government agencies such as the Municipal Infrastructure Support Agency (MISA), COGTA and National Treasury could assist.

Figure 78. Average efficiency levels: rural LMs vs. DMs (2008/09–2014/15)



Source: Global Insight (2014)

9.4 Conclusion

This chapter assessed the effectiveness and efficient use of intergovernmental transfers in South African rural local government space and evaluated the role of DMs in rural development. The budget analysis showed under-spending on conditional grants and on infrastructure repairs and maintenance, which does not augur well for rural development.

The DEA revealed that rural LMs are less efficient than DMs at providing water, electricity, sanitation and refuse removal services. LMs could improve their performance by up to 60% without having to increase the amount of resources at their disposal. The major causes of technical inefficiencies in rural municipalities were found to be the provision of FBS and the lack of institutional capacity, whereas economic performance, municipal size and grant reliance have positive effects on municipal efficiency. Rural LMs can do more with the available resources, but their challenges cannot be solved simply by giving them more money. What is needed is to improve efficiency and human and institutional capacity.

The analysis found that many DMs are not performing their core legislative functions, which is compromising local economic development. Reasons for the poor performance of DMs include:

- DMs have no significant own-revenue sources and are grant dependent, and so do not have the muscle to influence the redistribution of income by LMs.
- Half of their expenditure is on governance, administration, and planning, with little going to their legislated mandates
- The powers and functions of DMs changed following MDB capacity assessments and various policy shifts, resulting in uncertainty and confusion in the local government space.
- DMs have weak accountability because they have no wards and PR councillors and so do not account to any constituencies, which makes it difficult to provide services that require citizen participation.
- Clarity on powers and functions in the local government space is lacking, which results in wasteful duplication, tension and sometimes completion between DMs and LMs.

Despite these structural and performance weaknesses, DMs do have a role to play, especially in rural development and in supporting weaker rural municipalities. However,

DMs in urban areas are no longer playing the role envisaged in the MSA, and so a single-tier local government system should be considered for urban areas in South Africa. The two-tier system would continue in rural areas where the capacity of DMs should be strengthened to enable better support to rural LMs. DMs are also best placed to coordinate region-wide planning and IGR issues and to act as a communication link between the LMs and other government spheres and entities.

9.5 Recommendations

With respect to turning local municipalities and district municipalities into useful vehicles for rural development, the Commission recommends that:

1. National Treasury includes, as part of the principles underlying grants to rural municipalities, more stringent expenditure supervision, in order to minimise wastage and improve efficiency. The national and provincial governments should evaluate the effectiveness of existing supervision methods with a view to strengthening them.
2. The Department of Cooperative Governance and Traditional Affairs:
 - Pronounces on the role that urban district municipalities should play, with a view to introduce a single tier-local government system in urban areas and to strengthen a two-tier local government system in rural areas.
 - Reviews the accountability mechanisms of district municipalities in order to make them more accountable to citizens.
 - Provides clarity, as a matter of urgency, on the functions and powers of district municipalities. In line with the White Paper on Local Government, their powers and functions should encompass district-wide planning, coordination of strategic development and intergovernmental relations policy issues, provision of technical assistance to local municipalities, provision of district-wide services, and provision of bulk water, sanitation, refuse removal, and services to District Management Areas.
 - Ensures that the MISA prioritises the capacity-building of rural district municipalities in the areas of coordination and planning, so that they can in turn provide quality technical support to local municipalities.