

# CHAPTER 13

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## District Municipalities and Rural Development

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# District Municipalities and Rural Development

## 13.1 Introduction

The role of local government is set out in legislation. Section 156 of the Constitution outlines the powers and functions of the local government. Municipalities have “executive authority in respect of, and has the right to administer” the provision of basic services. The Municipal Structures Act (MSA) (No. 117 of 2009) clearly delineates the roles and responsibilities of each local government tier. Category B local municipalities (LMs) share the provision of four major services (water, electricity, refuse removal and sanitation) with Category C district municipalities (DMs), whereas metropolitan municipalities (metros) are mandated to provide all the services under their jurisdiction. Rural LMs form part of category B municipalities.

The Constitution recognises local government’s developmental role, which is further entrenched in the National Development Plan (NDP). One of the NDP’s key objectives is an “Integrated and Inclusive Rural Economy” by 2030, to be achieved through successful land reform, infrastructure development, job creation and poverty alleviation (NPC, 2011).

Poor access to adequate levels and standards of basic services compounds the challenges of poverty and unemployment in rural areas. Dealing with these challenges requires not only a strong national government but also a capable and capacitated local government – the sphere of government closest to the people. However, despite increased funding and interventions over the years (in 2015/16, the sector received over R100-billion in transfers, a huge leap from the R6-billion in 2000/01), this has not translated into commensurate service delivery improvements in the majority of rural municipalities. Initiatives meant to improve the performance of the local government include the recent review of the local government equitable share formula introduced in 2013, the ongoing “Back to Basics” initiative, as well as the infrastructure grant reviews. In addition, amalgamations of municipalities are being experimented with in order to turn around the fortunes of this sphere of government. Many rural municipalities face the dilemma of expanding expenditure requirements and shrinking fiscal space. They have limited scope for economic diversification, as well as deficient services and infrastructure, making it difficult for them to arrest the process of social and economic decline within their jurisdiction.

District municipalities are supposed to play a key role in rural development and in assisting local municipalities to fulfil their mandate. The roles of DMs are spelt out in the 1998 White Paper on Local Government, Section 83 of the Local Government: Municipal Structures Act of 1998, and the IGFR Act of 2005.

Following these legislative and policy provisions, 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 district management areas (DMAs)
- Coordination of intergovernmental relations and link between provincial and local governments.

Based on these roles, DMs could potentially turn around the fortunes of rural local government. However, the effectiveness of DMs has been compromised by the lack of clarity in the division of powers and functions, and “unproductive and often unsatisfactory relations between LMs and DMs” (Joseph, 2012: 28). Debates about the effectiveness and relevance of DMs have been divided between either scrapping DMs (i.e. change to a single-tier LM system) or strengthening DMs (i.e. retaining a two-tier LM system). Some have advocated for something in between, through redefining the role and mandate of DMs, which would be confined to non-urban areas (Steytler, 2007). A review of the DMs’ role is necessary in order to eliminate turf battles in the local government sector, reduce transaction costs and duplication, ensure accountability and streamline decision-making and funding flows. The ANC advocated for the creation of standalone strong urban municipalities (i.e. remove strong B1 LMs from DMs) and the maintenance of rural DMs. The ANC 4th National Policy Conference resolution proposed that DMs “should focus on coordinating, planning and support of local municipalities functions’ and that DMs ‘should exist only in areas where there are weak local municipalities” (ANC, 2012).

As DMs consume large chunks of fiscal resources, their relevance and effectiveness in rural development must be scrutinised. This chapter's objectives are to:

- Assess the effectiveness DMs in rural development.
- Examine the allocation of powers and functions of DMs and LMs with a view to recommending divisions of powers and functions that would catalyse rural development.

### 13.2 Background: DMs in the Local Government Sector

The 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:

- Integrated district-wide planning
- Planning and development of bulk infrastructure in non-metropolitan areas
- Provision of direct services to consumers in areas where municipalities are not established
- 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. Section 84(1) (a) to (p) defines the roles of DMs, and any residual powers not contained in this section were vested in LMs.

Two subsequent Acts amended the role of DMs in a fundamental departure from the White Paper, which had 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 –

- in the local municipality, to the district municipality; or
- 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. 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 to compromise development.

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

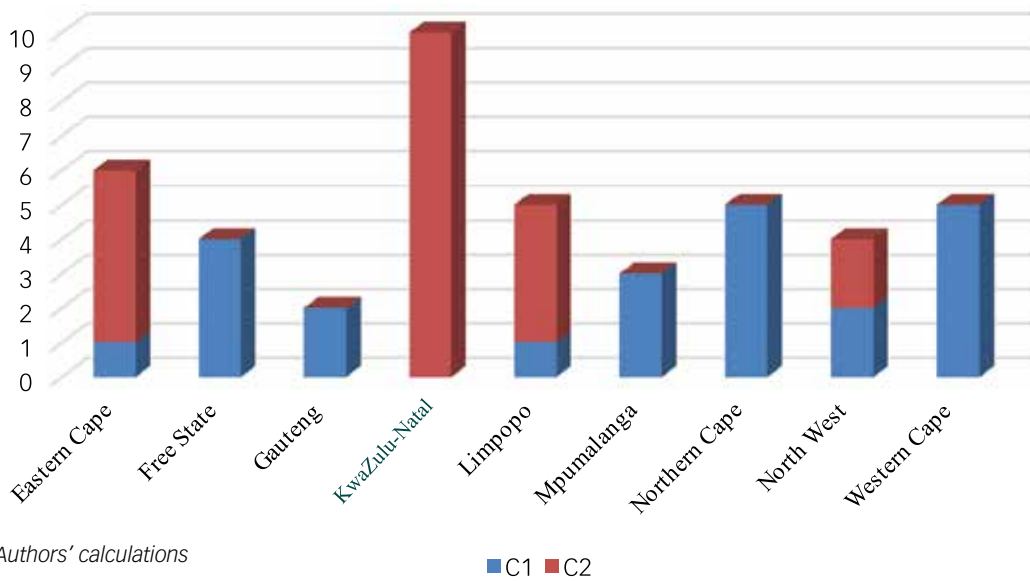
- Provision of services (health, sewage disposal, domestic wastewater and potable water supply) to end user
- Redistribution of resources within their jurisdiction
- District-wide services, such as district roads, airports, solid waste disposal sites, firefighting services, abattoirs, markets, local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

However, in reality many DMs are not performing these core functions in areas where LMs are strong.

DMs are further divided into C1 and C2 categories: C1 are DMs that have no water service functions and C2 are DMs that do have water service functions. Of the 44 DMs, 15 are both Water Service Authorities (WSA) and Water Service

Providers (WSPs), while 21 are Water Service Authorities (WSAs). Figure 109 shows the distribution of DMs across the provinces. Five provinces (Free State, Gauteng, Mpumalanga, Northern Cape and Western Cape) have no C2 DMs, whereas three provinces (KwaZulu-Natal, the Eastern Cape and North West) have a mix of C1 and C2 DMs.

**Figure 109. Provincial distribution of DMs**



Source: Authors' calculations

**13.2.1 Performance of DMs**

In general, DMs have a thin own-revenue base, and most of their funding is allocated through a "temporary" revenue replacement grant. As Table 77 shows, they rely on transfers

for 75–85% of their revenue, while revenues from property rates are virtual non-existent in DMs with water provision powers and functions (P&F).

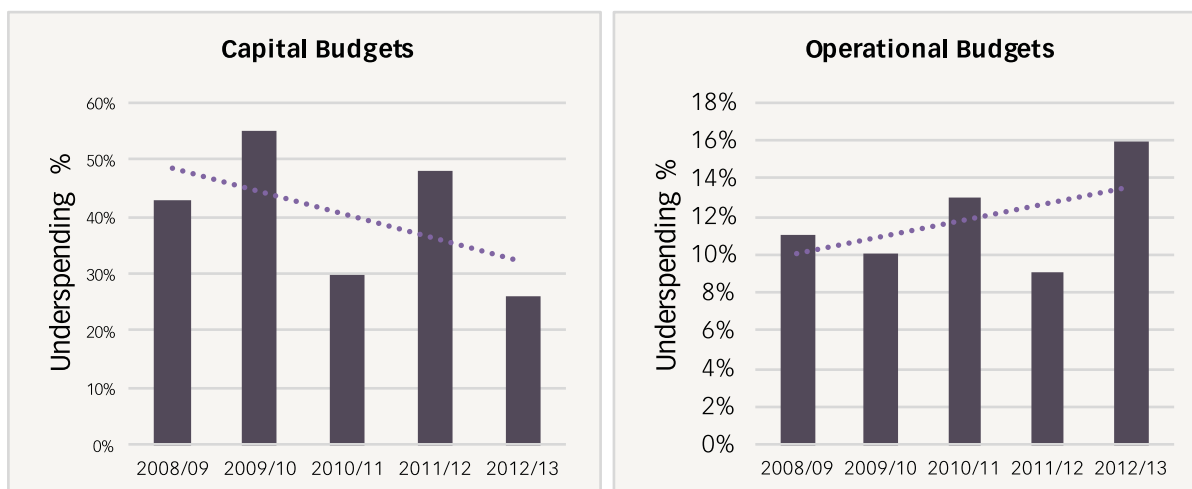
**Table 77. Revenue sources for DMs**

Type of municipality	Government grants	Investment revenue	Other	Property rates	Public contributions	Service charges
DM without P&F	75%	5%	16%	1%	1%	2%
DM with P&F	85%	2%	5%	0%	0%	8%

Source: Authors' calculations

The performance of DMs is similar to that of LMs, as Figure 110 illustrates. All DMs under-spend, especially their capital budgets. Their spending on capital budgets shows signs of improving but is worsening on operational budgets.

Under-spending on any budget is worrying given the high levels of backlogs in the country, as it implies ineffective and inefficient use of resources and, importantly, forgone or postponed investments.

**Figure 110. DMs and under-spending**

Source: Authors' calculations

### 13.3 Literature Review

The debate over whether DMs add value, in particular rural local development, has been raging for some time. Some argue that DMs have no role to play, while others advocate for the role of DMs to be strengthened. The answer may be found between these two extremes.

Reasons for pushing for the scrapping of DMs include their failure to redistribute resources, in particular since the abolishment of the RSC levies<sup>52</sup>, the cost of maintaining a two-tier system of local government, especially as DMs and LMs have overlapping and duplicated functions; their lack of presence in urban areas; and an unviable two-tier system when there are too few LMs to a DM (CLC, 2007).

Atkinson et al. (2003) are in favour of scrapping DMs and converting them into administrative arms or field offices of provinces. Giving their functions to provinces would strengthen the effect of provincial governments; promote inter-sectoral collaboration; remove political jockeying and remove expenditure on councillors.

Completely scrapping the DMs – or maintaining the status quo – would be unwise because of the huge financial and human investments made in DMs (CLC, 2007). Not only would removing DMs be a waste of time, but it would also disrupt service delivery (Joseph, 2012). The two-tier system should not be abolished entirely, as DMs have made a big difference in some (rural) areas, and so should be strengthened in DMAs and in areas where the LMs are weak, but scrapped in urban areas (CLC, 2007).

Baatjies (2008) argues for the scrapping of LMs and instead having a single tier, with DMs providing all services and LMs acting as sub-councils of DMs. However, this option is only feasible if institutional and human capacity to deliver basic services is strengthened within DMs. The other challenge is that this option will increase the distance between the representatives and the represented and will be costly, requiring boundaries to be redrawn and capacity to be built (Joseph, 2012).

The ANC has also weighed in on the debate about the need for DMs. The ANC 2010 Summit on Provincial and Local Government Reform emphasised the need for local government reform. Four reform proposals were put on the table (Joseph, 2012):

- Scrapping of the two-tier system
- Incorporating DMs into provinces, and thereby remaining with a single tier
- Retaining DMs as shared administrative and service centres for LMs
- Retaining DMs only in certain areas.

In 2012, the ANC policy document listed three proposals (Joseph 2012; ANC, 2012):

- Maintain status quo with DMs and strengthen their planning, coordination and supporting functions.
- Incorporate DMs into national or provincial administrative structures and leave LMs to be stand-alone municipalities.
- Remove strong LMs from DMs.

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<sup>52</sup> 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.

The last option, of removing strong (urban) LMs from DMs, has gained more traction than the first two. The question is whether evidence on the ground supports this or any of the options.

### 13.4 Methodology

The effectiveness of DMs in rural development is assessed by evaluating the effectiveness (or the efficiency) of their spending. This is done using the data envelopment approach (DEA) model. The DEA model allows the use of multiple inputs and outputs, and does not require assumptions about the functional form of the regression model and the price of inputs and outputs used (Ngomuo and Kapesha, 2015). DEA measures technical efficiency with output-oriented and input-oriented models. In the output model, inputs are kept constant but outputs change, while in the input model, inputs reduce and output levels remain the same. DEA can be carried out with the assumption of constant returns to scale (CRS) or variable returns to scale (VRS). With CRS, the relevant units are assumed to be scale-efficient, while with VTR they are assumed to be not operating at optimal scale. As it is not known whether rural

municipalities in South Africa are operating at an optimal scale, technical efficiency is estimated through VRS, which allows technical efficiency to be calculated without the effects of scale efficiency. The output-oriented DEA model is more applicable in South Africa because municipalities do not have much control over the amount of resources that are channelled to them, but do have control over the amount and quality of output produced with those resources.

### 13.5 Findings

#### 13.5.1 Efficiency of rural DMs

As noted above, DMs rely heavily on transfers from national and provincial governments. These resources are transferred to DMs so that they are able to fulfil their mandate as set out in the 1998 Local Government White Paper and the Municipal Structures Act. The DEA is used to assess the efficiency of their spending. As Table 78 shows, the average level of efficiency ranges between 0.8246 and 0.8693, suggesting that DMs produce between 82% and 86% of what is expected, given their resources.

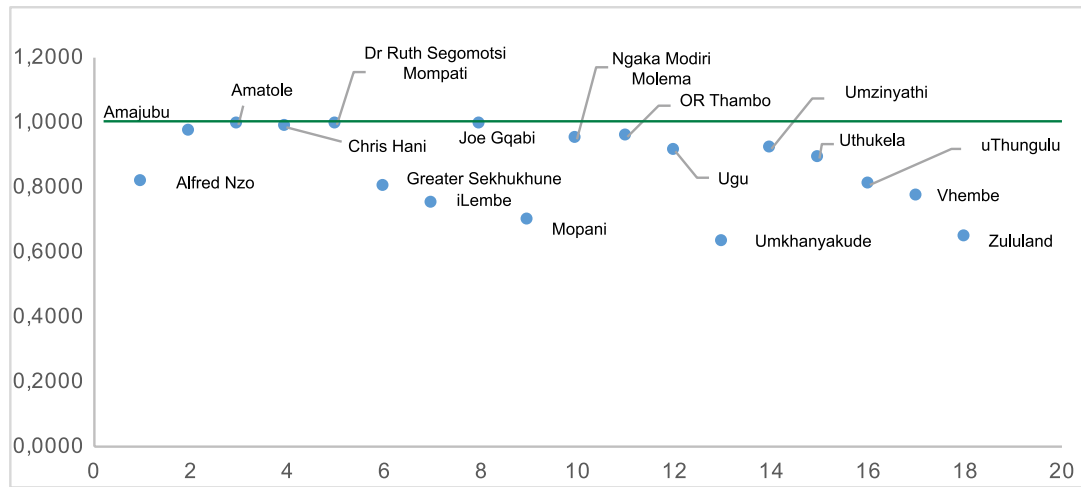
**Table 78. Average efficiency scores for district municipalities**

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	0.8246	0.8396	0.8649	0.8870	0.8693
Minimum efficiency	0.5640	0.5967	0.6325	0.6553	0.6807
Maximum efficiency	0.9891	0.9891	0.9930	1	1

Source: Authors' calculations

Figure 111 gives the annual average efficiency scores for each rural DM between 2008 and 2013. All rural DMs fall just on or below the frontier line, implying that they are not as efficient as they could be in using funds at their disposal.

The most inefficient DMs are uMkhanyakude and Zululand, while Amatole and Dr Ruth Segomotsi Mompati DM are relatively more efficient.

**Figure 111. Annual average efficiency scores by municipality**

Source: Commission's calculations

The high levels of inefficiency and under-spending compromise the developmental role of DMs. If DMs used the resources at their disposal more efficiently and effectively, they could add more value to rural development.

### 13.5.2 The role and responsibilities of DMs: a critical analysis

#### Districts 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% of their statutory functions and only two DMs are performing more than 75% 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 capacity assessments showed 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 1008), 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 a two-tier system 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 79), rendering DMs ineffective in fulfilling their mandated functions.

**Table 79. Urban LMs by indicators showing relations to DMs**

DM	DM pop in Thousands	DM budget in R'000	DM GVA in R' Mil	LMs	B1	B1 POP in Thousands	%B1 POP/DM	B1 Budget In R'Mil	B1GVA in R' Mil	%B1 GVA/DM	%B1 Own Revenue
Lejweleputswa	686	106 251	15 295	5	Matjhabeng	426	62%	1 579	12 482	82%	75%
Sedibeng	947	325 263	20 242	4	Emfuleni	784	83%	3 555	14 740	73%	84%
West Rand	888	251 977	21 710	3	Mogale City	352	40%	1 472	9 915	46%	85%
Amajuba	520	193 514	9 146	3	Newcastle	614	71%	2 684	7 393	81%	83%
uMgungundlovu	1035	456 546	22 968	7	Msunduzi	370	59%	1 235	17 026	74%	83%
uThungulu	984	574 227	22 954	6	Umhlathuze	350	36%	2 019	9 352	41%	87%
Capricorn	1268	571 812	26 442	5	Polokwane	555	44%	2 064	17 788	67%	78%
Ehlanzeni	1556	192 290	31 171	5	Mbombela	513	33%	1 804	20 560	66%	73%
Gert Sibande	967	257 677	34 337	7	Govan Mbeki	238	25%	1 076	19 949	58%	79%
Nkangala	1095	317 768	42 818	6	Emalahleni	297	27%	1 227	19 556	46%	84%
					Steve Tshwete	153	14%	1 110	16 204	38%	88%
Frances Baard	360	104 183	12 814	4	Sol Plaatje	225	63%	1 323	11 155	87%	86%
Siyanda	225	95 744	8 546	6	//Khara Hais	87	39%	401	2 334	27%	83%
Bojanala	1276	488 633	53 951	5	Rustenburg	415	33%	2 331	32 793	61%	89%
					Madibeng	373	29%	984	11 541	21%	79%
Kenneth Kaunda	643	168 938	16 976	4	City of Matlosana	385	60%	1 740	10 591	62%	80%
					Tlokwe	138	21%	767	5 730	34%	100%
Ngaka Modiri Molema	820	531 287	14 188	5	Mafikeng	278	34%	462	8 110	57%	72%
Cape Wine-lands	728	470 063	23 864	5	Drakensburg	224	31%	1 396	7 368	31%	85%
					Stellenbosch	137	19%	904	5 791	24%	86%
Eden	525	243 277	18 554	7	George	173	33%	1 184	5 814	31%	75%

Sources: Wahid and Steytler (n.d.)

One 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 such local government systems. 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 – such 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 DMAs where no direct services exist. This should continue unless nearby LMs have the capacity and could provide services to the DMAs through a service level agreement.

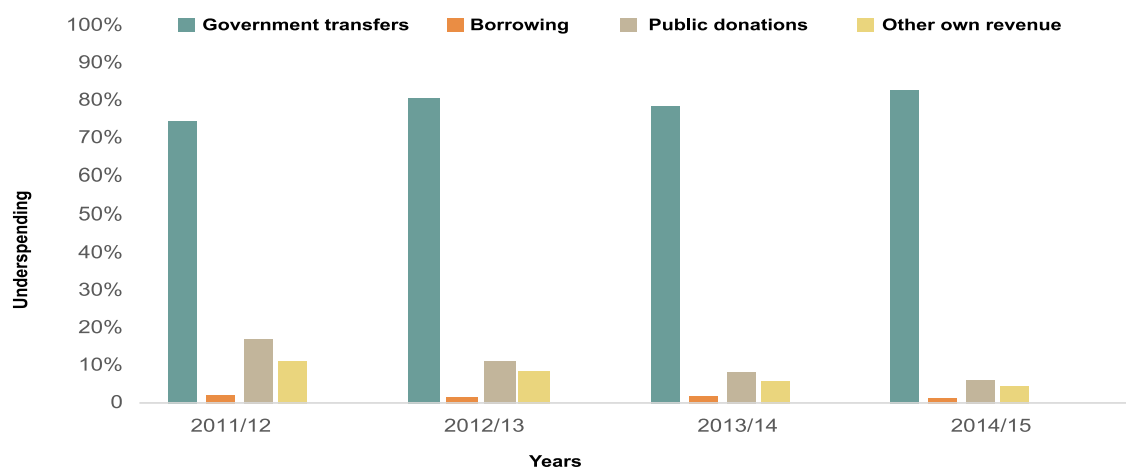


### District municipalities and redistribution

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 levies<sup>53</sup> in 2006, DMs have no substantial own-revenue sources and remain grant dependent (Figure 112). 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 necessary result in an equal South Africa.

**Figure 112. Composition of total revenue for DMs**



### 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.
- 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).

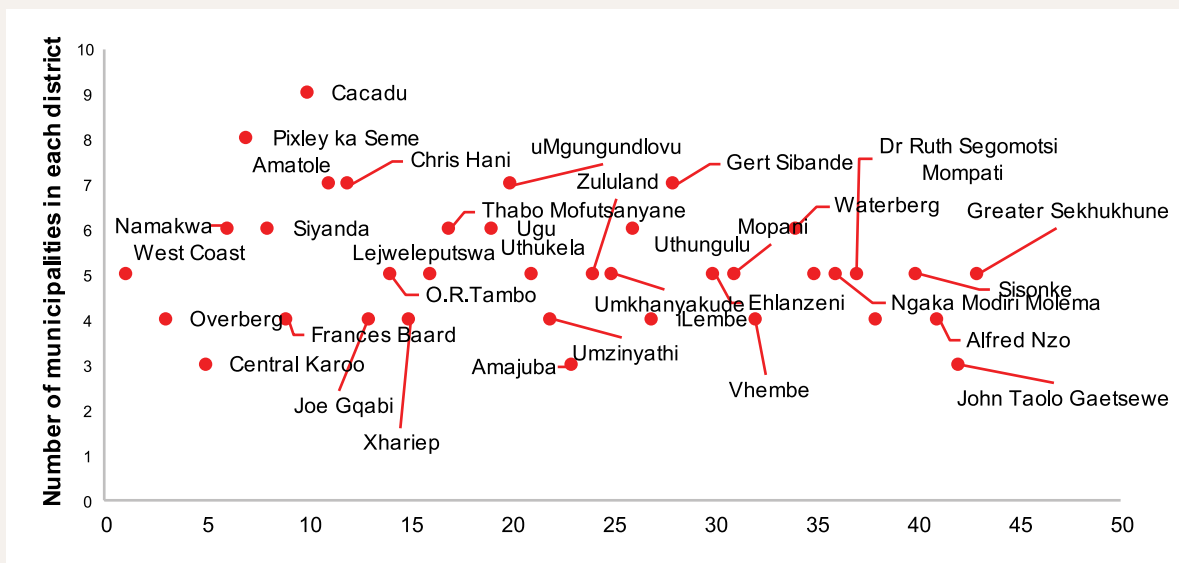
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<sup>53</sup> Regional Services Council (RSC) levies, which were basically two levies applicable to employers: the Regional Services Levy, based on gross remuneration of employees, and the Regional Establishment Levy, based on the turnover of each business.

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 fewer municipalities (Figure 113). 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 Sarah Baartman DM and Gert Sibande DM.

**Figure 113. Number of municipalities in each district**



Source: Global Insight (2014)

**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 are composed 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 around. 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.

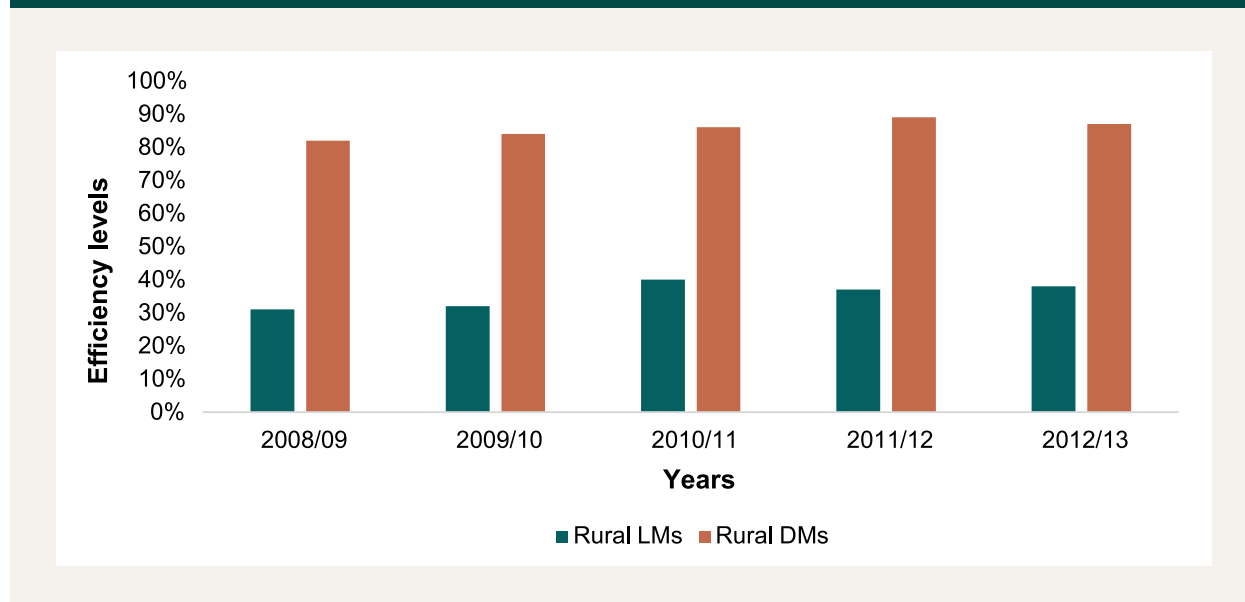
Therefore, as suggested earlier, urban areas should be left out of the two-tier system of local government, while a two-tier system would continue in rural areas, where DMs would continue to play a coordination and planning role. This arrangement seems to be the trend elsewhere in the world, i.e. where 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 exist 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.

#### District municipalities and technical assistance to LMs

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 114 reflect whether the DMs and LMs are spending their resources optimally.

**Figure 114. Average efficiency levels: rural LMs vs. DMs (2008/09–2014/15)**



Source: Global Insight (2014)

Figure 114 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.

### 13.6 Conclusion and Recommendations

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 study found that many DMs are not performing their core legislative functions, which compromises 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 competition between DMs and LMs.

As a structure established through the Constitution, the role of DMs needs to be carefully framed and differentiated from that of LMs. The analysis suggests that a two-tier form of local government should be strengthened in rural areas. In urban areas, DMs are a pale shadow of their former self, and their existence should be reviewed in the long run. Disestablishing urban DMs may be a good idea, as their powers and functions have systematically shifted to secondary cities. This shift is not by design but because secondary cities dominate DMs in many respects and so should be able to champion their own development, with provinces as the immediate overarching authority. Like elsewhere in the world, DMs should be empowered to handle complex and strategic local government issues (e.g. regional planning and coordinating district development strategies), IGR issues (i.e. act as a communication platform for national and provincial government, government agencies and LMs). Ideally, DMs should not be concerned with operational issues that require close accountability to the electorate. As cross-municipality authorities, DMs should be empowered to provide complex infrastructure projects that cover many municipalities, such as in

the areas of bulk water, sanitation, waste disposal and many spill-over services. Rural DMs are already playing a significant role in the provision of many services in rural areas and should ideally cover many small LMs, to enable economies of scale.

Some of the policy options that government could pursue in order to optimise the role of DMs in rural development are:

- Adopt a single-tier local government system in urban areas, and a two-tier system in rural areas. This is because DMs in urban areas are no longer playing their role as envisaged in the MSA. MECs are systematically adjusting powers and functions of DMs in favour of LMs, especially in urban areas. DMs could then focus more on under-capacitated municipalities in rural areas.
- Strengthen the capacity of DMs in rural areas, to enable them to effectively coordinate development planning, support weaker municipalities and provide services to end-users in LMs that lack capacity.
- Strengthen the capacity of DMs in rural areas, to enable them to provide bulk water, sanitation, refuse removal and district-wide services.

In order to make DMs useful vehicles for rural development, the Department of Cooperative Governance and Traditional Affairs should:

- Pronounce on the role that urban district municipalities ought to be playing, with a view to introducing a single-tier local government system in urban areas and to strengthen a two-tier local government system in rural areas.
- Review the accountability mechanisms of district municipalities in order to make them more accountable to citizens.
- Provide 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 inter-governmental 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.
- Ensure that MISA prioritises the capacity-building of rural district municipalities in the areas of coordination and planning, so that they in turn provide quality technical support to local municipalities.

## 13.7 References

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