FINANCIAL AND FISCAL COMMISSION

FINANCIAL
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COMMISSION

For an Equitable Sharing of National Revenue

FINANCIAL AND FISCAL COMMISSION SUBMISSION TO THE SELECT COMMITTEE

ON FINANCE ON THE SIYENZA MANJE

PROGRAMME

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30 JUNE 2011

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1. MANDATE

2. This Submission is made in terms of Section 3 of the Financial and Fiscal Commission Act 99 of 1997 as amended.

INTRODUCTION

In South Africa, lack of and/or inadequate capacity at local government level is often cited as one of the main reasons for poor financial, administrative and service delivery performance. High turnover rates, recruitment, hiring and appointment practices, migration of skills to the private sector are some of the challenges facing the local government sector in general. The Commission has in the past and still continues to express its concerns with the issue of capacity building in municipalities, particularly because significant public resources are utilised in mitigating the impact of weak capacity as well as developing and implementing capacity development programmes and yet the problem continues to persist.

The persistent poor performance of municipalities has triggered numerous support interventions from both national and provincial governments, district municipalities, and private entities as well as international development agencies. Since 1996, numerous capacity building programmes have been introduced in the local government sphere, chief among these being the following:

- Project Viability introduced in 1995 to discourage the culture of non-payment for services among communities.
- Project Consolidate inaugurated in October 2004 and intended to reverse the underperformance of some 140 ailing municipalities, through, *inter alia*, building capacity in municipalities. The Programme was managed by the predecessor to the Department of Cooperative Governance and Traditional Affairs (DCoG), the Department of Provincial and Local Government (DPLG).
- The Siyenza Manje Programme rolled out in April 2006. This was an initiative of National Treasury (NT), the South African Local Government Association (SALGA) and the Department of Provincial and Local Government (DPLG). Siyenza Manje was managed by Development Bank of Southern Africa (DBSA) on behalf of government. The programme allowed national government to leverage on the expertise and project management skills of the Development Bank of Southern Africa (DBSA) to build local government capacity.

- A comprehensive program called the Local Government Turnaround Strategy (LGTAS) was launched by Government in 2010 whose priorities included among others the significant reduction infrastructure backlogs; giving access to affordable universal basic services to all citizens, reducing unfavourable audit outcomes and the formalisation of all informal settlements.

In 2008/2009, the Commission undertook research and made a number of recommendations regarding capacity building in South Africa. In particular the Commission examined the funding and outcomes of such programmes. The Commission made the following recommendations:

- That local government should be central to setting the agenda for capacity building programs.
- That prior to capacity programs being developed and implemented,
    - a comprehensive assessment and design process should be undertaken
    - capacity development programs should be aligned to each stage of the developmental transition of municipalities.
    - capacity development programs should be comprehensive and not only focus on training of personnel and deployment of experts within municipalities
    - government must establish an intergovernmental wide framework for understanding what constitutes a lack of capacity within the context of local government
- That each capacity building program must have a clear outline of measurable objectives, targets and timelines
- That a variety of grant instruments should be used for addressing different capacity challenges within different functional areas.

Furthermore, in 2010/11 the Commission recommended that when programmes of the nature of Siyenza Manje come to an end, they should be subjected to an independent and impartial evaluation.

The Commission wishes to draw on this work to highlight the pertinent lessons that Government needs to take into account as it transforms and takes forward the new Siyenza Manje programme. This should also assist Parliament in its deliberations on how to appropriately address issues of capacity building in municipalities as part of Parliament's oversight function. This Report has benefited from consultations that the Commission has had with relevant stakeholders, namely the National Treasury (NT), Department of Cooperative Governance and Traditional Affairs (DCOG), Development Bank of Southern Africa (DBSA), SALGA and KZN Treasury.

3. BACKGROUND

The initially purpose, of Siyenza Manje Project was to strengthen engineering and project management capacity, but this was later expanded to include financial management capacity. The support was planned to mainly include unblocking and fast tracking expenditure of the Municipal Infrastructure Grant (MIG) funding. The scope was extended to include Integrated Development Plan (IDP) Reviews, Project appraisal, Planning, Registration, Procurement and Contract Management. The programme had two main aspects – the first entailed the deployment of retired/senior professional engineers, planners and finance professionals to municipalities with poor capacity, and the second entailed the deployment of "young professionals[1]" to municipalities.

Between 2006/07 and 2010/11 the Siyenza Manje project was allocated an amount of approximately R1.445 billion. Of this amount the contribution of the national fiscus was slightly above R1 billion and that of the DBSA Development Fund was in the region of R433 million (see Table 1).

Table 1: Siyenza Manje budget allocations from the National Fiscus and DBSA Development Fund- (2006/07-2013/14)

R million	Audited outcome				Revised estimate	Medium-term estimate		
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Fiscal Transfers - Siyenza Manje	258.3	168.9	246.8	267.4	93.0	100.0	110.0	121.5
DBSA - Siyenza Manje	-	36.4	94.0	137.0	143.0	157.3	173.0	190.3
Total	258.3	205.3	340.8	404.4	236.0	257.3	283.0	311.8

National Treasury: Estimates of National Expenditure: 2010, 2011

Some of the challenges that the initiative had to contend with included inadequate oversight and strategic guidance from National Treasury and DCoG which were the lead government departments; the perception that DBSA would manage the programme in totality; high vacancy rates in municipalities which, in some cases, resulted in deployed experts having no one to train.

To address these and other constraints, Cabinet decided in April 2011 to unbundle the Siyenza Manje Programme into two components, namely: the financial management capacity building component and the infrastructure-related capacity building. National

[1] The term Young Professionals was misleading to many municipalities as it created the impression that these deployees were young but qualified, when in fact these were inexperienced graduates from colleges and universities. Municipalities were expecting people who "will hit the road running", and not people who themselves required mentoring and on the job training.

Treasury assumed control of the former and DCOG, the latter. On 1st June 2011 the Select Committee on Finance (SCoF) held a hearing on the Siyenza Manje project. At the conclusion of the hearing, the Financial and Fiscal Commission undertook to make a written submission to the Committee on the Commission's views on the unbundling of Siyenza Manje as well as thoughts on the new model. The Commission herby submits its comments on the unbundling of Siyenza Manje and recommendations on the way forward.

In the subsequent paragraphs, the Commission presents its views on the unbundled Siyenza Manje Project and proposals on the way forward.

4. GENERAL VIEW:

4.1 The Evaluation Report and its Independence

The Commission welcomes the fact that the Siyenza Manje initiative was subjected to an evaluation process at its conclusion. This evaluation process as a principle is in line with the Commission's previous recommendations (see FFC 2010/11 Annual Submission, page 154) that when programmes of this nature come to the end of their lifespan, they should be evaluated by an independent and impartial party. However the Commission is of the view that the Report tabled by DBSA is lacking in many fundamental areas including:

(i) The Report could have objectively addressed and evaluated DBSA's capacity to plan, implement and monitor a large government programme of this nature. Increasingly the DBSA has been requested to manage government projects from different sectors at an unprecedented rate. For example, a number of initiatives in the health and education, and even the task of disbursement of the R9 billion jobs fund, have or are in the process of being parceled to the DBSA for execution. On the part of the Commission, the challenge of "mandate creep" for the DBSA raises the important question about its capacity and efficiency to deliver on all the projects that seem outside its core mandate as an investment bank. In addition, the Commission is concerned about government requesting the DBSA to execute certain tasks that are within the mandate of government departments without changing the legal statutes that spell out the mandate of the DBSA. If government wishes to expand the mandate of the DBSA and related institutions, it is imperative that this is done in a deliberate manner and the expected impacts appropriately evaluated.

(ii) The actual impact of the Siyenza Manje project cannot be fully established or understood from the Genesis Report. The Report suggests a successfully implemented project while it is possible that some of the successes could not be ascribed to the Siyenza Manje project, especially since there were other intervening initiatives during the period. In other words, the Commission is of the view that a more rigorous impact assessment should have been carried out. In summary, the evaluation would have shed light on some of the pertinent issues that are being raised by many stakeholders, *inter alia*, :

- An objective assessment of the achievements and failures of the Siyenza Manje project
- Capacity of the DBSA to implement Siyenza Manje
- Role of deployees in gap filling
- Extent of staff movement from Municipalities to the DBSA.
- The conflict of interest question on the part of the DBSA: i.e. whereby the commercial interest of DBSA of extending loans to municipalities may have conflicted with its other interest of providing "free" capacity support to needy municipalities.

In a nutshell the Commission welcomes the noble undertaking of subjecting the Siyenza Manje to a review process. This is in line with the Commission's past recommendations. However, the choice of the lessons and recommendations arrived at in the Report could have more from a thorough impact assessment undertaken with no role in it for the DBSA. The Commission is of the view that in future all capacity building initiatives should be subjected to totally independent assessments.. Such evaluations should focus on the qualitative service delivery impacts of programmes with the goal being that of generating lessons that will help in the design and implementation of future programmes.

5. SPECIFIC VIEWS

The Commission still feels that there are some challenges that the new programme is not clear about how they would be overcome. Without clear cut measures or strategies of how some of the past weaknesses will be addressed, the Commission sees the project facing the same challenges again. The subsequent bullets give a snapshot of some of these problems.

5.1 Coordination

The Commission supports the unbundling of Siyenza Manje, with NT taking control of the financial aspects (i.e. under what is known as the Municipal Finance

Improvement Programme) and DCOG overseeing the infrastructural component (i.e. under what is known as the Municipal Infrastructure Support Agency (MISA) programme), as this will have some potential positive spinoffs. However, the Commission is of the view that service delivery can be enhanced through this delivery model only if coordination structures that have been put in place are strengthened, especially in the areas of governance, financial management and infrastructure development. Furthermore, the Commission is of the view that NT, DCOG, Provincial Governments, and SALGA should engage on a more regular and structured basis to share support and capacity building initiatives so that they can respond quickly and effectively to challenges and changing circumstances of municipalities.

5.2 Targeting

When the Siyenza Manje project started, the then Minister of Finance, Trevor Manuel in the 2006 budget speech noted that,

> "The Development Bank of Southern Africa is currently assembling a task force of engineers and project managers, to be named Siyenza Manje, to contribute to operational and strategic capacity in distressed municipalities, and to accelerate the roll out of basic services"

The Commission would encourage NT and DCOG to target more specifically municipalities that are deemed to lack capacity only in the new initiatives. Metros should be treated differently as they have the resources to compete for skills from the open market.. This requires an objective and common definition of lack of capacity to be established that would screen municipalities on the basis of the severity of capacity constraints.

5.3 Capacity & Sustainability

The other area worth watching is the capacity to implement and monitor the infrastructure component within DCOG. DCOG is establishing the Municipal Infrastructure Support Agency (MISA) to run with the technical component of the project. Capacity is needed to design, plan, implement and monitor the project. DCOG is presently seized with the Turnaround Strategy. Now, with an added project (MISA), DCOG needs to reflect on its capacity with a view to increasing it to sustain these projects. The Commission is also concerned with the state of readiness of DCOG.

5.4. Dependency Problem

The Siyenza Manje project had the potential of creating a dependency syndrome within some municipalities. As the Siyenza Manje was better paying, it attracted skilled and experienced people from municipalities, thus creating huge vacancy rates, and leaving capacity to root the programme within municipalities thin. DBSA experts became gap fillers, instead of transferring skills. As a result the possibility of municipalities being perpetually dependent on the Siyenza Manje experts was high.

In the new restructured programme, the Commission would recommend that:

- Vacancy rates are filled so that deployees have full time employees to mentor and skill. The Commission is of the view that in future there should be a clear cut strategy to fill the vacancies so that the "new" deployees find people to capacitate in municipalities. Where necessary, interns should be deployed to understudy deployed experts and these interns should be absorbed by municipalities in need.
- A balance should also be struck between salaries of deployees and those of municipal employees. Deployee salaries should be adequate to attract experts, but should not be exorbitant enough to attract municipality and other government employees into the capacity building programmes.

5.5 Time Frames

The Commission in its annual submission for the 2010/11 Division of Revenue made a pertinent point that capacity building initiatives should have specific timelines or a "weaning" strategy. The MISA should be a permanent institution with its focus evolving with changing needs of municipalities. However at municipal level, the programmes should be time bound. The danger of not having specific time frames at municipal level is that it creates an expectation of long-term support. The Commission wishes to reiterate its recommendation that the project of this nature should have a clear cut "weaning" strategy of municipalities, guided by realistic time frames and regular independent and impartial evaluations.

5.6 Mode of Delivery and Governance

In the new programme DCOG will be responsible for infrastructure and NT for all financial matters. Below are the Commission's views on each component ..

National Treasury (NT): In the new approach, NT will provide strategic direction, implement the project activities and monitor the performance and activities of the deployees, while DBSA will be retained and specifically for managing the human resource aspects of the project. The deployees will report directly to NT. The Commission is in agreement with this approach as NT will provide the political authority and strategic guidance on the project. However, the Commission will add that provinces need to be directly involved in the project, as they are closer to, and understand local level challenges better. In addition, the Commission would suggest that capacity in the provinces should be built gradually, so that in the long-term, the provinces take over the responsibilities.

The Commission believes deployees can report to NT for overall management and auditing of performance, and that the Municipal Manager or CFO sign off on their monthly progress reports, which will contain information on actual number of municipal staff trained, etc. This will ensure that local tensions are minimised. Tensions between Municipal Managers and other municipality officials, on one hand, and deployees on the other, should be avoided as it may have been responsible for some of the service delivery challenges experienced under Siyenza Manje.

The Commission would also recommend the opening up of a service provider's market than relying solely on DBSA. Other service providers can be used to provide HR management.

Department of Cooperative Governance (DCOG): DCOG proposes to run with the project through the MISA, which will be an entity reporting to the DCOG Minister. The Commission supports this proposal. The Commission is concerned with two issues on the DCOG leg of the programme. First, the "standoff" between the DBSA and DCOG on the fate of the deployees is of concern to the Commission. The delay will affect service delivery and the momentum that has already been created around the project. It is the Commission's view that DCOG should inherit DBSA deployees. Assume DCOG were to start the process again, the project will lose out on the efficiencies that had been built by DBSA around the project, hence putting the project many years back and poor service delivery being the consequence. The Commission is of the view that the transition phase should have minimal disruptions as service delivery is bound to suffer. Thus the Commission would recommend that the two institutions, DCOG and DBSA work together and manage the transition well.

Secondly the Commission is concerned with how the DCOG component of the programme will be evaluated. DCOG is proposing that an independent component within MISA will be established to monitor the programme's performance in relation to project objectives and targets. The Commission would urge DCOG to use independent organisations outside MISA to evaluate the performance of the project.

6. CONCLUSION AND RECOMMENDATIONS

The Commission welcomes the bold government decision to restructure the Siyenza Manje programme with a view to seriously dealing with capacity deficits in the local government sphere. In light of the foregoing discussion, the Commission's recommendations are:

1. That National Treasury and DCOG apprise the Committee on how the new project will be implemented.
2. That, in future all capacity building initiatives are evaluated by an independent and impartial party and identify lessons that could be taken into account when a new programme is designed and implemented.
3. That the principals (NT, DCOG and SALGA) meet regularly to share information and align the programme of support in response to the changing environment. The Commission believes this approach would assist in integrating efforts rather than fragmenting them.
4. That the new support model should target poor performing (distressed) municipalities that have limited capacity to compete in the open market and that conditions be set for permanent absorption of such capacity and transfer of skills to permanent municipal employees.
5. That each capacity building programme must have a clear outline of measurable objectives, targets and timelines detailing conditions under which a programme can be withdrawn from a respective municipality and after a detailed monitoring and evaluation of the programme is done. DCOG and NT need to strengthen their capacity to manage and monitor the new programme.
6. That deployees should report to their Principals through Municipal Managers. This will ensure a harmonious relationship and uncompromised service delivery in the affected municipalities.
7. That the new programme should be augmented by a clear cut strategy to fill the vacancies in municipalities, a robust internship programme, and an appropriate balancing of salaries of deployed experts and senior municipal officials to avoid expert migration from municipalities to the capacity building programmes. .
8. Finally, the Commission reiterates its 2010/11 recommendations that there must be an intergovernmental wide common understanding of what constitutes "lack of capacity" within the context of local government and that local government

should be central to setting the agenda for capacity building programmes intended for their own improvement. Capacity development programmes should be comprehensive and not only focus on training of personnel and deployment of experts within municipalities. They must also focus on other organisational and human resource issues (recruitment and retention of permanent municipal staff), supported by regulations on minimum competencies, and where appropriate unlocking fiscal and institutional constraints that impact on the overall performance of municipalities. [2]

For and on Behalf of the Financial and Fiscal Commission

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Acting Chairperson/CE

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[2] In this regard the Commission is assisting the process by carrying out a comprehensive research on capacity. The research will seek to shed light on capacity questions in the local sphere. The findings of this research will be contained in the Commission's 2012/13 Submission.