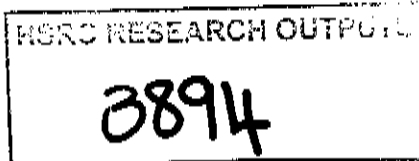


TEN YEAR REVIEW OF LOCAL GOVERNMENT

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Chapter Three

Deepening democracy

At the opening of parliament in February 1999, then President Nelson Mandela gave a glowing report of the achievements of his administration since 1994. Just five years after the historic, first democratic election, Mandela claimed that running water had been delivered to more than 3 million people, a further 2 million households had been connected to the electricity infrastructure, 500 new clinics had been built and 3 million people had been provided housing, with 750 000 houses still under construction (cited in Khosa, p. 40). Trevor Manuel, Minister of Finance, delighted: "We have made substantial investments in social development over the past four years, in social welfare, education, health, housing, water and sanitation, electrification and other social infrastructure" (cited in Khosa, p.40). Meshack Khosa agreed, noting that roughly R100 billion had been spent on social services during this period. Few other countries in the world," he noted, "spent as much on social services as South Africa" (Khosa, p.40). Yet, for all this expenditure, Khosa was not yet ready to share the government's sense of satisfaction. Can the infrastructure and the services be sustained, he asked? Are they reaching the poor?

In September and November 2000, the Human Sciences Research Council (HSRC) undertook a national survey to pose precisely these questions. On the basis of its findings, Meshack Khosa concluded that: "official facts and official statistics about service delivery were often mere fabrication, as they bore little resemblance to reality" (Khosa, p. 63). Yet, on Khosa's own terms, his findings were a little severe. He was not necessarily disputing government's claims about the quantity of services delivered. He was disputing their reputed benefit for the poor. In this regard, the HSRC survey had found that, generally, poor and rural households paid more for services than urban and middle and wealthy users (Khosa, p.56). It confirmed, Khosa claimed, "that access to services have largely been class-based" (Khosa, p. 44). The survey had used an innovative methodology to measure costs. It had not simply considered unit prices for services such as water and electricity, but had factored-in what it called the 'indirect costs'. These included variables such as the time travelled to access the service in question as well as its quality. Poor residents often had to walk long distances to get water, they were most likely to receive unhygienic or inferior quality services and they were more likely than other users to have their services disrupted. At fault he argued, was a delivery machinery that he described as 'technicist' and 'dis-empowering' (Khosa, p. 63). Despite the existence of a "vibrant civil society" (Khosa, p. 63), Khosa implied

the poor were excluded from the decision-making processes that affected their lives. The only opportunity they had to engage in the delivery process, he argued, was through mass protest and demonstration. In the absence of effective participatory governance, Khosa warned, the new Mbeki government might face mass, popular action (Khosa, p. 63). He was wrong that this dissatisfaction would have negative electoral consequences for the ANC nationally. He was correct, however, that municipalities would become targets of increasingly vigorous protest.

In June 2004, approximately 3,000 protestors marched on the streets of Diepsloot near Johannesburg. In the same month a demonstration in Harrismith turned violent and one protestor was killed by the police. In January this year Bayview residents in Chatsworth, Durban, demonstrated against the disconnection of water meters. Then in February 2005, residents in Phomolong, near Hennenman in the Free State, protested against the lack of service delivery. In the same month, under the headline 'Another Free State town erupts', the Mail and Guardian reported that "Mmamahabane, near Ventersburg, was the second township in two days to be engulfed in unrest in the beleaguered province" (M&G, 11 February 2005). On the 6th of April Phomolong was again in the news, this time because a public library was burnt down and a police station was stoned. These protests came days after about 500 youths in Phomolong had barricaded streets and burnt tyres. In March, about 5 000 residents of Embalenhle township, near Secunda in Mpumalanga, took to the streets to protest the lack of service delivery. On March 19, 750 people from the Kennedy Road informal settlement in Clare Estate, Durban, blockaded Kennedy Road with burning tires and mattresses for four hours. The media reported that residents in the informal settlement had been promised land for housing development but which was eventually cleared for a brick factory. April saw Phomolong erupt again over the bucket sewage system, lack of housing and slow municipal service delivery. Burning tyres blocked roads and a library was set alight. In the same month, about 500 residents of Kliptown, Soweto, marched to the police station to protest the lack of housing delivery. From early May onwards, protests spread around the Cape Town area. Shantytown residents held protests in the Eastern Cape and Western Cape, and in Mpumalanga during the week ending May 27. In the Cape Town neighbourhoods of Langa, Gugulethu, Khayelitsha and Happy Valley, protesters invaded unused land, made barricades, burnt tyres and marched through the streets. In Khayelitsha, the protesters poured the contents of their night-soil buckets on a busy highway to express their anger at the lack of proper sanitation. Also on May 25, in Blackheath near Cape Town, around 1,000 protesters set up barricades on one of the main streets. Police used rubber bullets, tear gas and stun grenades to disperse demonstrators in Happy Valley, Blackheath, Gugulethu and in several other areas. Over 30 were arrested between May 23 and May 27.

Some of the protests were reported to be the result of growing anger amongst “backyarders,” residents who live in shacks in the backyards of their family or friends, while others were against the squalid conditions in the shantytowns. Others set “Cape-borners” against *amaKwaduka* (rural newcomers), bringing to the fore the capacity of local governments to manage urbanisation. Protests spread to other areas such as Secunda in Mpumalanga, Nelson Mandela Metro in the Eastern Cape, Ocean View in Western Cape, Cato Manor in Durban and Harrismith and Vrede in Free State. In Free State, demonstrators stoned local government officials and in Pretoria protestors took to the streets of Lotus Gardens and Mamelodi to vent their anger at the lack of services.

Some elements of the State were deeply suspicious of these protests. In June 2005, the Minister of Intelligence, Ronnie Kasrils, asked the National Intelligence Agency to investigate the hand of a ‘secret force’ in the Free State demonstrations. There was a sense that these protests were motivated by more than local grievances. If some in government worried about the intentions of protestors, President Thabo Mbeki had already given cause to take some of their claims seriously. In September 2004, at the national conference of the South African Local Government Association (SALGA) in Cape Town, Mbeki quoted widely from a weekend newspaper report detailing lamentable conditions in some municipalities. Rather than simply dismiss it, he used it to raise the key challenges of local government. Thabo Mbeki outlined several issues, though foremost amongst them were:

- First: improve service delivery, and
- Second: improve the accountability of municipalities to communities and the participation of communities in municipal decision-making (Mbeki: September 2004).

“Existing legislation,” he noted, “spells out minimum requirements of municipalities in terms of public participation, including communication, ward committees, consultation on such matters as IDP’s, budgets and others”. Yet, he complained, “many municipalities view this participation as an irritating compliance issue, rather than a necessary prerequisite for sustainable service delivery and accountable government” (Mbeki: September 2004). Sydney Mufamadi took up this theme in three keynote speeches on local government between June and September 2004. Patrick Laurence reported at the time: “A problem that appears to be preying on his mind is the failure of 500 ward councillors to establish ward committees as required by government. While 2 700 ward committees have been established out of a possible total of 3 200, Mufamadi seems particularly upset by the 500

who did not. He states: 'There is no way you can exaggerate the pathology of the situation: 500 outstanding ward committees is 500 too many'" (Laurence: 2004).

At stake is the relationship between good governance and local democracy. Whereas so many commentators locate the crisis in service delivery at the door of municipal competency, the shortage of skills argument) and economics (the absence of a large-enough tax-base), President Mbeki was, like Khosa above, suggesting that it lay in a crisis of democracy. There were no effective forums for residents, especially the poor, to express their needs and to hold municipal officials and councillors accountable.

Local Democracy and Good Governance

One of the key features of the anti-apartheid struggle during the 1980's was that it coupled resistance to the apartheid city with demands for democratic local government. In opposing Black Local Authorities, and the authoritarian model of development associated with apartheid, civic organisations and other political and community organisations put forward a vision of development that emphasised community participation and democratic accountability. In multiple local negotiating forums countrywide, civic organisations argued that development was:

- 1) a process rather than the delivery of a set of products to individual consumers;
- 2) about empowering people and communities with the skills, knowledge and capacity to act effectively;
- 3) aimed at gaining greater control for communities over resources, especially at local-level;
- 4) about sustainable production of needed goods and the just distribution of these goods; and
- 5) about meeting basic needs and continuously improving the lives of as many people as possible (Planact: 1991).

So important was the sense that development in a democratic society would be radically different to that which took place during the apartheid era, that community participation was later enshrined in the constitution. Section 152 provides that municipalities must encourage the involvement of communities in the matters of local government. The first attempt to translate this principle into practice, on a large scale, came with the launch of the Reconstruction and Development Programme (RDP). Local/Community Development Forums (L/CDFs) were established in municipalities throughout the country to provide for

public participation in the planning and oversight process. In the period before the first democratic, local government elections, forums proved to be contentious for several reasons. In the first place, it was often difficult to resolve who was eligible for entry into the forum and who was not. Who qualified as a 'community organisation'? In the second place, civic leaders often claimed privileged rights to represent the community, sometimes sparking tensions within these organisations themselves and with other social groups. After 1995, forums proved to be especially unpopular with newly elected councillors. In the absence of clear cut guidelines stipulating their respective powers and functions, elected councillors worried that unelected forums usurped their authority. In 1996, the White Paper on Local Government recommended ways of resolving some of these problems. It proposed that authority be vested unambiguously in councillors and that forums or participatory committees be restricted to an advisory role. In the Municipal Structures Act (MSA), these suggestions were taken forward in an innovative institutional arrangement. The Act sought to reconcile the role of councillors and that of participatory forums in what it called Ward Committees. To be established in each ward, these committees are supposed to *advise* councillors in respect of development (Section 74), as it pertains to:

- the preparation, implementation and review of integrated development plan (IDP);
- the establishment, implementation and review of its performance management system (PMS);
- the monitoring and review of its performance, including the outcomes and impact of such performance;
- the preparation of its budget;
- the strategic decisions relating to the provision of municipal services.

The Act requires that committees are chaired by the municipal councillor allocated to the ward in question. Section 73(2) states that "a ward committee consists of (a) the councillor representing that ward in the council, who must also be the chairperson of the committee and (b) not more than 10 other persons". The exact composition of the committee is left up to municipalities to decide. Sections 72 and 78 of the Act, however, do give the following guidelines. Ward committees are to be established with respect for diversity of political and social groups and gender equity in mind. Section 73 (3) makes this explicit.

Laila Smith and Ahmeid Vawda see these provisions in the light of what they call a compromise between the "social interventionist goals" of the Reconstruction and Development Programme and the "market-driven strategies" of the Growth, Employment and

and Redistribution Strategy (Smith & Vawda, p. 28). They call this the idea of 'developmental local government' and characterise it as follows:

- Cultivating citizens by ensuring first generation rights and promoting second generation rights
- Promoting good governance as a question of intergovernmental relations etc.
- Democratising development by moving towards participatory democracy
- Managing economic growth (Smith & Vawda, pp. 29-30).

These provisions seek to overcome the tension of having two competing sites of municipal authority – the council and the community forum – while still combining elements of direct democracy in the framework of a representative structure . Instead of organising participation through an extra-municipal forum with unclear powers and functions, from now on, community participation is organised in and through the political structure of the municipality (wards). It is managed and presided over by a councillor who, moreover, is the link between the ward committee and the Council.

It was precisely the effectiveness of this structure that both President Mbeki and minister Mufamadi worried about above. At stake was their ability to hold councillors accountable and to influence municipal development agendas.

In their research into the effectiveness of ward committees the Institute for Democracy in South Africa (IDASA) found that "ward committees established through a resolution are less likely to be effective than the ward committees established through by-laws" (IDASA: 2002). What matters for the institute is whether ward committees are established through a simple resolution or through the enactment of a by-law. Their survey found, moreover, that ward committees established through a resolution represent less diverse interests of the ward than those that are established through the enactment of a by-law. Secondly, ward committee members are much less aware of their role and functions in ward committees when established through a resolution, as their role is not clearly spelt out" (IDASA: 2002).

Given that the Act leaves it to municipalities to define the powers and function of ward committees, IDASA found that a simple resolution of the municipality was inadequate to properly lay the foundation for effective committees. In Polokwane municipality in Limpopo Province, for example, and in Matjhabeng and Ngwathe municipalities in the Free State and Kwadukuza municipality in Kwazulu-Natal, committees were established through simple

council resolutions. IDASA found that "in these municipalities, the establishment of ward committees was only based on sections 72-78 of the MSA. The ward councillors in charge of establishing a ward committee in these municipalities had to try and give effect to the provisions of the MSA through oral rulings and informal processes. [...] The ward committees established through a simple resolution do not represent a wide diversity of interests and their ward committee members are not clear what the role of ward committees is" (IDASA: 2002). In contrast, in Johannesburg, in the Greater Tzaneen municipality in Limpopo Province, Rustenburg municipality in the North West Province and Umhlathuze municipality in Kwazulu-Natal, where ward participation was provided for in by-laws, IDASA found that they were "representative of a diversity of interests and have the capacity to work as advisory committees in the developmental issues of the ward" (IDASA: 2002). The reason for the difference, according to IDASA, is that in passing a by-law, the municipality usually gave more serious thought to the legislation in question and paid more attention to how they should be established. They also thought about their appropriate powers and functions.

More damning was a report done by Professor Susan Booyens in 2005 for ACNielsen. Summarising the findings of a survey that interviewed 2500 respondents from urban and metropolitan areas across South Africa, Booyens wrote: "The survey indicated experiences of *dismally* low levels of local representation, as measured by visibility of, and contact with, councillors and ward committee members. Across all demographics, municipal councillors and ward committee members are virtually invisible to 80 percent of South Africa's metropolitan and urban population" (Booyens: 2005) (my emphasis). Three quarters of survey respondents reportedly 'hardly ever' seeing their councillors and ward committee members (Booyens: 2005). Yet the ACNielsen survey draws a more complex picture than simply one of absent councillors. Research was undertaken from July this year and had the opportunity, therefore, to include areas recently affected by protests and demonstrations. One might expect disaffection and unhappiness to be highest in those municipalities where municipal councillors and ward committee members were least visible. Yet this was not the case. In the Free State, municipalities which have been the focus of the most aggressive protests, recorded, ironically, the highest levels of councillor 'visibility'. 66% of respondents reported 'hardly ever' seeing their representatives in selected Free State towns as opposed to the 75% average (Booyens: 2005). What this suggests is that even when councillors and ward committees are present, they do not necessarily represent the concerns and needs of local constituents. Indeed, it suggests that the visibility of representatives in wards and amongst constituents created expectations that were then unrealised. Was this perhaps a catalyst for protest in the municipalities concerned?

Research commissioned by the Department of Provincial and Local Government itself confirms some of these findings. Although the report, *Reviewing the Establishment and Operation of Municipal Ward Committees in South Africa*, prepared in 2003 for the Department of Provincial and Local Government is effusive about the democratic potential of these participatory forums (DPLG: 2003, p. 8-1), it found that, generally, in the 279 municipalities that it surveyed, there was a lack of public participation and interest in ward committees (DPLG: 2003, 8-6). Similar conclusions were reported in the 2004/2005 surveys. Describing ward committee meetings, DPLG found that meetings are not held because:

- some ward committees do not have the prescribed number of members and cannot quorate (take decisions)
- some ward committees do not have members
- in some instances meetings are not held regularly because of a lack of interest in the community [...]
- in other instances meetings were not held because of the overlapping wards
- councillors were not available to attend meetings or did not call meetings (DPLF: 2004, p. 7).

The research above suggests that the crisis in local government, over and above the question of skills and local economic development, is a crisis of local democracy. Municipalities are either not 'hearing' the voices of local residents, especially the poor, or somehow ignoring them when they do listen. Why is the existing system of public participation not working? Is President Mbeki correct to diagnose the problem as a lack of will on the part of councillors and municipal officials? This resonates with a growing concern within and outside government about the problems of corruption, clientalism and nepotism as it effects local government. Thabo Mbeki recently complained about public servants that put their own interests above those of the communities they were supposed to serve (Mbeki: 2005). We might note in this regard the probe by the Auditor-General Shauket Fakie into corrupt tendering practices amongst provincial and local government officials. Here the problem is deemed one of 'bad apples' in the government system. Yet, we might wonder if the crisis of representation in local government is more than one of corruption and/or of rotten individuals

The DPLG report mentioned above outlines several other factors that limit the effectiveness of the ward committee system. In rural areas, for example, popular participation is

discouraged by the fact that residents often have very long distances to walk to attend meetings. In other cases, it found that ward committees were seen to be initiatives of the “strongest party” in a particular ward, such that opposition parties distanced themselves from it (DPLG: 2003, p. 8-6). Yet we might also wonder about the role of the system of proportional representation as it affects the accountability of councillors to local wards. The ward committee system presupposes that councillors will be eager to build strong relationships with their local constituents so as to secure their re-election. Two factors, however, mitigate against such a relationship. In the first place, according to the system of proportional representation, residents do not vote for individual councillors but for parties. In the second place, political parties select councillors on the basis of the share of the vote that they won in an election. Hence, an individual candidate becomes a councillor, not because he or she was directly elected by voters in a ward, but because he or she was selected by the political party in question to represent it in the council. What this means, is that a councillor’s prospects of re-election are more dependent on their popularity and status in the Party itself, than on their immediate relationship with ward residents. This may begin to explain why councillors have proven to be so tardy about their commitment to ward committees. Compounding this situation is that ward committees are little more than ‘talk-shops’. Unless a councillor vigorously represents his or her ward committee in council deliberations, ward committees in and of themselves have no authority or access to resources over which they can decide.

It is worth dwelling on an exception to the state of affairs described above. It is the case of area planning in the City of Cape Town. It is important not simply because it moderates the otherwise gloomy picture above, but because it suggests a way through the existing impasses in the current ward committee system. At stake is a certain idea of local government and development.

Different Conceptions of Local Government

In his foreword to the *White Paper on Local Government* (henceforth the White Paper) Pravin Gordham, then chair of the political committee overseeing the writing of the document, proposed that the urgency of local government transformation followed from two world-historical processes: globalisation and the redefinition of the nation state; as well as a new “emphasis” on decentralisation. His short remarks did not establish the relationship between these processes, although he used a phrase that is deeply telling. “The White Paper”, he explains, “is the expression of the belief that our *decentralisation of a special type* can work” (Gordham, Pravin, p.viii) (emphasis added). What the latter refers to, Gordham tells us, is a unique system of co-operative governance established to mediate relations between the respective spheres of

government (national, provincial and local). Yet his choice of phrase is by no means neutral or merely descriptive. It is resonant with allusions to the theory of National Democratic Revolution (NDR) and more precisely to the theory of Colonialism of a Special Type (CST). But what should we make of its usage in such an unfamiliar context? Here it certainly lacks the political and theoretical weight of its parent phrase. It seems likely that his surreptitious reference to NDR and CST is intended as a warning or a refrain. In discussing what is required for the policies discussed in the White Paper to succeed Gordham remarks: "It will require our participation and rolling up of sleeves, our acting like citizens, as opposed to mere atomised consumers of municipal services" (Ibid, p.viii). This is not simply a broadside at GEAR, although it may well be that as well, but a call to vigilance in the face of local government reform. It is a warning, reminiscent of the Reconstruction and Development Programme, but by no means identical, that local government will not realise its developmental role simply by relying on the private sector and the market. But let us note too a certain a curiosity of phrase in his remarks. What should we make of the conditional tense in which his words are framed? Certainly for Gordham it may only have been a stylistic preference, but it nonetheless points to what is the potential novelty of the developmental approach discussed in the White Paper: that it demands of "role players" to act as citizens. It does not assume, in other words, that they already do; indeed Gordham worries that they might not. There is an implicit distinction here between a citizen *in right* and a citizen *in practice*; where the developmental role discussed in the White Paper "requires" a movement from the one to the other. We might say that Gordham is alerting us to the fact that those with *de jure* rights and duties might not exercise them in practice; and that the success of development will be measured by the extent to which they do. What is important to note about the White Paper, therefore, is that it centre-staged the figure of the citizen and, consequently, conceptualised local government in relation to democratisation. This is precisely the importance of the Cape Town practice. It sought a model of development that gave a central role to citizens in and through a participatory process

What is at stake in the White Paper is the granting to local governments of their proper autonomy as *political* bodies, elected by and responsible to their *citizens*. This marks an important departure from previous conceptions of local government in two respects. Research done for the White Paper research process dealt with this more fully, but we can summarise some of its conclusions as follows: in the first instance, the Reconstruction and Development Programme cast third tier government as the "hands and feet" of delivery initiatives; that is, essentially as administrative bodies charged with the execution of tasks mandated from above. In the second instance, development was conceived primarily as an institutional task where the ostensibly political role of municipalities was limited to "change management" or "transformation" to realign their institutional capacity to implement their RDP mandate. I have

considered this more closely elsewhere (Chipkin:1997), but very briefly what can be said is the following: it presupposed that the essential role of local government was a technical, bureaucratic one, where the challenge for service delivery was construed principally as ones of skills development and finances. The novelty of the White Paper lies in the way that this relationship is reconceptualised. In that section dealing with a *developmental local government* such¹ a role is defined as follows:

“Developmental local government is local government committed to working with citizens¹ and groups within the community to find sustainable ways to meet their social, economic and material needs and improve the quality of their lives” (White Paper on Local Government, p.17).

What is striking about this formulation is what is not said. If we compare it, for example, to the task of local government as it is defined in the Urban Development Strategy, the difference becomes more apparent. The 1995 document states:

“The primary responsibility of local authorities is to ensure the delivery of services at a community level within an agreed planning framework. In support of this, local authorities will be responsible for development and physical planning as well as the preparation of 5-year infrastructure investment programmes” (Urban Development Strategy, p.35).

Whereas the UDS is emphatic that the *primary* role of municipalities is that of service delivery, the White Paper definition does not even mention it. This is not because the term ‘development’ is used as a synonym for service delivery. Nor does it mean that the provision of household infrastructure and services is somehow neglected in the document. It does mean, however, that service delivery is no longer judged the sole measure of development. It is subordinated to another objective: working with citizens to find sustainable ways to meet the social, economic and material needs of communities. In other words, ‘development’ in the White Paper is not measured against how many homes are built or sites are serviced but against the degree to which ‘citizens’ are able to sustain themselves and their households. In other words, service delivery is no longer conceived as a technical problem, but a *challenge of democratic consultation*. This implies a radical reworking of how local government works. If, during what is termed the ‘interim’ phase, municipalities have been chiefly preoccupied with “deracialising” their institutions and installing effective management and financial systems to deliver services, the ‘final’ stage envisaged by the White Paper implies that local governments will have to grapple, not simply with the ‘*how*’ of development but, as importantly, with the ‘*what*’. In other words, they are asked to address the following question: what public interventions will assist

¹ Note that the term ‘citizens’ here simply refers to those residents with de jure rights and obligations.

residents in the area under their jurisdiction to sustain and improve their material needs and the quality of their lives?

Let us note the institutional consequences that follow from these respective approaches. In the case of the former what is paramount is building the managerial, technical and financial capacity to do the job at hand. In this model, citizen participation is judged an add-on extra, if not a nuisance, to the key functions of local government. In the White Paper approach, however, the measure of development emerges in and through citizen participation and democratic deliberation. It emphasises the rights of citizens to help define what they need and to hold councillors and officials accountable to their mandates. It implies that good governance is achieved, not simply by developing municipal skills and capacity and/or through local economic development, but by holding councillors and officials accountable through robust democratic forums. This is precisely the importance of the Cape Town example. It sought a model of development that would locate real authority in the participatory forum without undermining the role of the municipal councillor.

In 2000, the City of Cape Town launched the Manenberg Area Coordinating Team (ACT). The forum was open to any organization in the area and was intended to facilitate community involvement in the setting of development priorities and the drawing up of the municipal budget. Right from the beginning the committee was chaired by a senior council official, the chief medical officer for Cape Town, Dr. Ivan Toms with the local ward councillor active and instrumental in its establishment. Unlike traditional ward committees that are merely advisory bodies, the ACT became, in effect, the locus of decision-making about development in Manenberg. Furthermore, the participation of senior officials in the forum, together with the councillor, meant that the ACT was able to secure substantial municipal investment for its projects. Ahmedi Vawda was then director of the Department of Community Development in Cape Town. In an article together with Laila Smith he suggests "the ACT provided an opportunity to train political councillors, community representatives and officials [...] in understanding how to manage the delivery, maintenance and consumption of services" (Smith & Vawda, p. 47). "Residents," they continue, "were empowered through their participation in the ACTs by learning how the organisation and local government worked" (Smith & Vawda, p. 47). In this kind of informed environment, Smith and Vawda, imply, participants had realistic expectations about what the municipality could and could not do.

It is perhaps premature to reach a definitive judgement about the effectiveness of the Area Coordinating Team. There is, however, some persuasive evidence that it has been

successful. After nearly three years of persisting in the process, Dr. Ivan Toms made the following observations. I quote his notes:

- Officials held accountable
- Service delivery has improved
- Communication between council, community and local councilors has improved
- ACT still going strong (50-60 people at every monthly meeting) with a consistent core membership who attend all the time
- Moved from reactive complaints to proactive solutions
- Improving safety: decreased crime stats and gang activity

Generally he noted that the Area Coordinating Team had been meeting every month since the 6 March 2000 – more than three years. In that time Manenberg has: (I quote from his notes again):

- Seen improved delivery – not just a talk shop
- Building community confidence and capacity building of the community
- Crime stats have dropped because the ACT has helped strengthen civil society and particularly because the role of the pockets where courts have claimed back ‘their space’
- Community now reclaiming turf

Beyond these minutes, is there other evidence that something has changed in Manenberg?

In their report for the *Western Cape Anti-Eviction Campaign*, Sophie Oldfield and Kristian Stokke, respectively researchers at the University of Cape Town and the University of Oslo, list and describe community-based organizations active in the campaign against housing evictions, water and electricity cut-offs and furniture repossessions. Not one of the 17 organisations discussed is from Manenberg (Oldfield and Stokke: 2005). Given that levels of unemployment are higher in Manenberg than in the areas where the campaign is active, it is impossible to conclude that questions of affordability are not relevant to Manenberg residents. What it does suggest is that there is a responsible forum outside of the campaign where these issues can be addressed. It is surely testimony to the effectiveness of the Area Coordinating Team (Chipkin: 2005, forthcoming).

Concluding Remarks

Let us conclude with a number of questions raised by this review of the state of local democracy. We have seen how the White Paper on Local Government and the Municipal Structures Act draw a link between democratic local government, citizen participation and good governance. We have seen too that existing legislation provides for participation through ward committees. In reviewing the current state of ward committees, however, we must conclude that they are not working as intended. We might wonder, therefore, if the current crisis in local government is also a crisis of democracy: a crisis, that is, of local communities to hold councillors and municipal managers to their developmental mandates.

The Cape Town experience also invites us to think about a way forward. It suggests that the answer does not simply lie in improving the technical (skills) and financial (local economic development and/or inter-governmental transfers) capacity of local government. Rather, the Manenberg experience suggests that such capacity is developed on the ground – through working with residents to resolve actually existing problems and by being held accountable at regular public meetings. In other words, deepening democratic participation at municipal level is a path to improved governance and service delivery.

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Chapter 4

Municipal financial viability - Building financially viable Local Government

1. Introduction

South African local government has, since the coming of democracy, been through a number of important changes regarding their financial responsibilities. Outlining the challenges that lie ahead for municipalities, the Minister of Finance, in his 2001 budget speech, referred to the following:

We have to merge different local authorities with diverse needs, financial systems and procedures, and we must build a new ethos of financial responsibility. It is important, however, not to think of the challenges ahead only in fiscal or monetary terms. There is a larger challenge of developing capacity and governance systems. Improving the credibility of municipal budgets, adapting strategies to meet local needs and circumstances and enhancing the quality of service delivery within affordable bounds are immense projects.

2. Constitutional Framework: Local Government Finances

According to Section 153 of the *Constitution of the Republic of South Africa, 1996* municipalities are obliged to structure and manage their administrations, budgeting and planning processes so as to be able to prioritize on the basic needs of the community and also for the promotion of the social and economic development of the community. Secondly, municipalities should participate in national and provincial development programmes.

Section 195(1) of the Constitution, provides that public administration in all spheres of government should be efficient, economic and effective in the use of resources and that it must be accountable. This indicates that the Constitution provides and requires for a responsible way of collecting and spending public monies. Section 213 of the

Constitution, provides for a National Revenue Fund. All monies received by the national government have to be paid into that Fund. Withdrawal from this Fund can only be done in terms of an appropriation by an act of Parliament or as a direct charge against the National Revenue Fund in terms of the Constitution, 1996 or an act of Parliament.

The Constitution, goes further on Section 214(1) and provide for an equitable division of revenue that was raised nationally among the three spheres of government (national, provincial and local). Provincial governments, organized local government and the Financial and Fiscal Commission have to be consulted to enable the national sphere of government to come with a relevant act regarding this matter.

Further, Section 215 of the Constitution 1996 prescribes the requirements that should be met by national, provincial and municipal budgets. During the budgetary process, transparency, accountability and the effective financial management of the economy must be promoted at all costs. The national government needs to come up with a legislation that prescribes the form of the different spheres of government's budgets. All spheres of governments' budgets must show their sources of revenue and also how the proposed expenditure will comply with national legislation.

It is therefore the responsibility of the national Treasury to enforce compliance with the measures established. Treasury may again with the concurrence of Cabinet, stop the transfer of funds to an organ of state only if it commits a serious or persistent material breach of measures established in terms of Section 216(1) of the *Constitution of the Republic of South Africa, 1996*). Section 17 of the Constitution provides that in contracting for goods or services, organs of state in all the spheres of government must do that in accordance with a system which is fair, equitable, transparent, competitive and cost-effective. State organs may, however, implement procurement policies providing for the following: categories of preference in the allocation of contracts, and the protection or advancement of persons, or categories of persons, disadvantaged by unfair discrimination.

Local government has a core responsibility of providing basic services and also performs any other functions allocated to it. Therefore, Section 227 of the Constitution, 1996 provides that local government and each province are entitled to an equitable share of

revenue raised nationally. They can also receive other allocations from national government revenue, either conditionally or unconditionally.

3. Review of Local Government Finances

No institution can expect to perform its activities without finance. Public finance is defined as the study of the financial activities of government and public authorities. It describes and analyses the expenditures of governments and the techniques used by governments to finance these expenditures (Aronson 1985: 7). This statement is confirmed by Rosen (1988: 8) who states that public finance, also known as public sector economics, focuses on taxing and spending activities of government and their influence on the allocation of resources and distribution of income.

It can be argued that in South Africa, government determines financial policies directed to specific goals to promote the general welfare. Within this context, local government financing could be construed to include a series of processes involved in the collecting, budgeting, appropriating and expending of public funds; auditing income, expenditure receipts and disbursements; accounting for assets and liabilities and for the financial transactions of the government; reporting on income and expenditures; receipts and disbursements, and the condition of funds and appropriations (Reddy 1996: 186).

Several essential activities constitute local government financial management. These activities include:

- The exchequer function that entails payroll, creditors, income, pension, VAT administration and insurance
- Coordination, control and accountability aspects that include financial and strategic planning, budgeting control, financial accounts and debt management
- Both internal and external audit function and
- Information and advice aspects including financial advice, management advice and information and performance review (Reddy 1996: 188).

Municipal councillors, municipal managers (chief executive officers), the chief finance officers and heads of departments, play a major role in the management and

administration of local government finance. Councillors and chief executive officers are expected to provide dynamic leadership to achieve the goals of local government transformation. The chief finance officer (CFO) functions both as an accountant and financial advisor to the council; he/she provides, develops and operates a centralised accounting system for a municipality; develops and maintains a central audit system; makes all arrangements for income of the council; participate in the planning and supervision of the council's annual budget in conjunction with the chief executive officer and heads of departments; and administer all funds of the council subject to the chief executive officer and finance committee and council's direction (Reddy 1996: 191-192).

Current sources of financing in the South African local government include assessment rates/property tax, service charges, revenue from trading enterprises, subsidies, equitable share, savings and maximum revenue collections. Municipalities are empowered in terms of Section 229 of the Constitution, 1996 to impose taxes and rates on property and surcharges on fees for services provided by or on behalf of the municipality, and if authorized by national legislation, other taxes, levies and duties appropriate to local government or to the category of municipality into which that municipality falls. However, no municipality is allowed to impose income tax, value-added tax, general sales tax or customs duty. When municipalities impose such taxes and rates, they should not prejudice national economic policies, economic activities across municipal boundaries or national mobility of goods, services, capital or labour; and such may be regulated by national legislation.

From the foregoing, it may be deduced that municipalities often need to incur debt. have little freedom to expand or adapt their sources of revenue to meet new demands. During periods of high inflation municipalities will always find it difficult to make ends meet as a result of the increasing costs of material and labour. Rates and service levies cannot be increased indiscriminately, as the indigent will then be unable to own their homes and pay for basic services. With the restructuring of municipalities informal settlements have been included in the different categories of municipalities. The abilities of the inhabitants of some municipalities to pay rates and service levies are limited. Such municipalities are under serious pressure to provide satisfactory services with their inadequate sources of revenue (Cloete & Thornhill 2005: 174).

In order to perform their functions, municipalities often need to incur debt. The Municipal Finance Management Act, 2003 makes specific provision for municipalities to incur debt to finance their actions. Short-term and long-term debts are two categories of debts that can be incurred by municipalities. A municipality may, by resolution (decision of council) provide security for, e.g. any debt obligation or contractual obligations of the municipality and may issue a guarantee for any commitment or debt of any organ of state or person only if the guarantee is within the limits specified in the municipality's approved budget.

Loans as well as surplus amounts in revenue accounts are used by municipalities to acquire assets for the municipalities: for example tarred roads, municipal buildings including town (city) halls, water works and museums.

4. Intergovernmental Fiscal Relations

4.1 Constitutional responsibilities

According to the *Constitution of the Republic of South Africa, 1996*), all spheres of government are obliged to co-operate with one another in mutual trust and good faith through fostering relations; assisting and supporting one another; informing one another of, and consulting one another on, matters of common interest; and co-coordinating their actions and legislation with one another. Co-operative governance framework refers to what has been alluded to above.

4.2 National government's role *vis-à-vis* local government

National government has a responsibility in terms of Sections 156(1), 155(7) and 125(3) of the Constitution, 1996 of supporting, assisting and even developing capacity at provincial and local spheres. This would enable self-sufficiency and interrelated governance. The majority of municipalities lack capacity and skills, and as such this arrangement would be of great benefit to them.

Section 40(2) of the Constitution further provides that all the spheres of government are equally bound to adhere to the principles of Chapter 3 of the Constitution. These principles are: respecting the constitutional status, institutions, powers and functions of

government in the other spheres; not assuming any power or function except as conferred by the Constitution; and exercising powers and functions in a manner that does not encroach on the geographical, functional or institutional integrity of government in another sphere.

The roles and responsibilities of national government with respect to local government include:

- *A strategic role:* National government must ensure that local government operates within an enabling framework and is structured and capacitated in a way that best enables it to promote the development of citizens, local communities and the nation.
- *Providing a legislative framework for local government:* National government has provided an overall legislative framework for local government within the general legal framework set out in the Constitution, 1996. Through this arrangement, a framework for intergovernmental relations needs to be put in place; including the structures, procedures and mechanisms to promote and facilitate positive intergovernmental relations and the resolutions of intergovernmental disputes within and between the different spheres of government. The process of reviewing and reforming the regulatory system of local government has however been completed through the *Local Government: Municipal Structures Act*, the *Local Government: Municipal Demarcation Act* and the *Local Government: Municipal Systems Act*.
- *Providing a framework for municipal capacity building and supporting municipalities:* Section 154(1) of the Constitution provides that both the national and provincial governments should support and strengthen the capacity of municipalities. This would enable municipalities to manage their own affairs, exercise their powers and perform their functions well. National government is responsible for establishing a framework for municipal capacity building and support.
- *Support for key institutions:* national government should again facilitate capacity building that is lacking in organized local government. This would enable organized local government to execute its constitutional mandate effectively. Organized local government is specifically faced with a challenge of co-

coordinating activities of municipalities that have far differing budgets, viz: large metros as compared to small towns.

- *Local government finances:* National government has a responsibility for fiscal provisions for local government that includes managing the system of intergovernmental fiscal relations, situating local government's fiscal powers within the national tax structure, and passing legislation to determine local government's "equitable share" of revenue raised nationally and on a range of other financially related topics, such as municipal budgetary reforms and processes. As such organized local government need to be provided with both human and financial resources so that it could be able to discharge its constitutional mandate.

4.3 Provincial government's role *vis-à-vis* local government

The provincial government's roles on this aspect include the following:

- *A developmental role:* the province, to form a viable development framework across the province should combine municipal integrated development plans. Provinces are also to provide financial grants to municipalities for bulk infrastructure, housing, public works, amongst others. In addition, provinces should ensure that Section 153 of the Constitution is respected wherein municipal planning and budgeting processes give priority to the basic needs of the community.
- *An intergovernmental role:* Provincial governments establish forums and processes so that local government could also be engaged in decision-making processes where it is affected.
- *Regulatory role:* Section 155(7) of the Constitution gives national and provincial government the legislative and executive authority to see to the effective performance by municipalities of their executive authority with respect to the local government matters listed in Parts B of schedules 4 and 5, and any other matter assigned to local government by legislation.
- *An institutional development and capacity-building role:* Provincial government should in terms of Section 155(6) of the Constitution, 1996 promote the development of local government capacity to enable municipalities to perform

their functions and manage their own affairs. In doing this province should ensure that there is institutional development in municipalities.

- *A fiscal role:* this mainly concerns the issue of equitable share of resources, as currently economically advanced municipalities are the ones that get more and poor municipalities less. It is, therefore, important that a formula that will benefit poor municipalities be formulated.
- *A monitoring role:* provinces monitor municipal activities in order to maintain a high standard of public service and good government. In doing this local government should be empowered, and impeding its functions.

The Constitution empowers municipality's taxation and borrowing powers, but these powers are subjected to national legislation and regulation. Municipal taxation powers are so limited that they cannot "unreasonably prejudice" national economic policies and economic activities. The Constitution vehemently prohibits deficit budgeting at the local sphere of government.

The Constitution addresses the issue of intergovernmental fiscal relations in two respects, viz:

- *Intergovernmental transfers:* Section 227 of the Constitution entitles the local sphere to an "equitable share" of nationally raised revenue in order that it may "provide basic services and perform the functions allocated to it". Municipalities may also receive additional grants from national or provincial government on a conditional or unconditional basis.
- *Oversight and regulation of the financial affairs of municipalities:* Sections 139(1)(a) and (b) and 155(7) of the Constitution give national and provincial government executive and legislative authority to oversee the performance of municipalities with regard to their functions. Sections 229(1)(b), 2(b) and 230(1) of the Constitution provide for national regulation over the fiscal powers of a municipality. Sections 229 and 216 and some provisions on chapter 13 also grant powers to the national Treasury to regulate the financial affairs of municipalities. If ever there is gross financial mismanagement, there should be intervention in terms of Sections 100 and 139 of the Constitution.

Local governments generate revenue through local taxes, levies and user charges. Because they are able to raise some of their own funding, they get a smaller percentage of government transfers as compared to provinces. Grants that municipalities get mainly cover operating expenditures.

Main transfers to municipalities via the formula comprise:

- *A municipal basic services grant:* which is meant to enable poor residents in local government jurisdiction to receive access to basic municipal services.
- *A municipal institutions transfer:* this is to cover for basic administrative capacity to raise his or her own revenue and improvement of infrastructure.

Conditional grants emanate from two sources, viz:

- Firstly, the grants come through provinces, which are to assist in the transfer of functions and staff to local government and to ease the adjustment by municipalities to the formula distribution of the equitable share
- Secondly, the grants come through national government in the form of the consolidated municipal infrastructure programme, a medium to long-term capital grant programme administered by the Department of Provincial and Local Government.

National government encourages municipalities to spend monies received through grants in a way that is consistent with the stated goals of the transfer programmes. This is the case because national government does not have the power to regulate how municipalities should spend monies they received in the form of grants. In this case the Department of Provincial and Local Government is the most appropriate one to assist in defining clear monitoring mechanisms to facilitate the oversight process. Although conditionalities may not be imposed on equitable share transfers, the transfer may be stopped if there is a material and persistent breach of expenditure measures by a municipality.

4.4 Local government intergovernmental institutions

The Budget Forum: The Budget Forum was established by the *Intergovernmental Fiscal Relations Act, 1997* (Act No. 97 of 1997). It is a body in which the national government, the provincial governments and organized local government consult on:

- fiscal, budgetary or financial matters affecting the local sphere of government;
- proposed legislation or policy which has a financial implication for local government;
- matters concerning the financial management, or the monitoring of the finances, of local government; or
- other matters which the Minister has referred to the Forum

The Minister convenes these meeting and their decisions are not binding.

The Department of Provincial and Local Government: The role of the Department of Provincial and Local Government is to facilitate co-operative governance at local government sphere, to create an enabling environment and to build capacity of municipalities, especially since there are significant disparities amongst municipalities in terms of capacity and ability to generate revenue.

The Department of Provincial and Local Government has undertaken various tasks to implement transfers to municipalities, which include:

- *An audit of all transfers:* An exercise was undertaken to determine actual allocations for the past six years. A decision was taken to set a minimum allocation below which municipalities would not fall;
- *Verifying treasury capabilities:* This was based on a recognition that not all municipalities had functioning administrations and treasury capabilities to receive transfers;
- *Determining municipal level of transfer:* The level of local government providing essential basic services was determined. For certain municipalities with no functioning administrations, transfers had to be made to the district council level; and

- *Data collation:* Data used in the formula for allocating transfers had to be assembled and factored into the model to assign allocations for each municipality.

Provincial departments of local government: Constitutionally, provinces play a major role in supporting and enabling local government to deliver the socio-economic needs of the community. The Premiers Forum, together with the national department, oversees the whole exercise. Provinces also have a responsibility of capacity- building and oversight role.

4.5 Advantages and disadvantages of current intergovernmental fiscal relations

The current intergovernmental fiscal system has a number of associated advantages and disadvantages.

The advantages are:

- The equitable share enhances the revenue base of municipalities and extends service delivery and infrastructural development to previously disadvantaged areas.
- Grants are focused on provincial and national government objectives. The burden of meeting these objectives is borne by the respective sphere of government. Housing, for example, is a national government priority. However, the actual building of houses happens at the local sphere of government. Government has therefore developed a housing subsidy scheme that funds the major portion of housing costs. Local government has access to this funding. Housing development would suffer if local or provincial governments were expected to provide such funding.
- Grants can be structured to address specific challenge or problem in provincial or local governments. The local government Support Grant is an example of money set aside to assist those municipalities that are in financial distress.

There are, however, also a number of disadvantages:

- National government policies and priorities may not coincide with those at local sphere. Municipalities may not be able to sustain developments financed by national government.
- There is lack of capacity to apply and manage grant funding at a local sphere. As a result, those municipalities that require assistance may be denied it because of a lack of capacity.
- The risk of a lack of co-ordination is high. There is lack of infrastructure and capacity to render services at a local sphere, for example, the housing developments may be commissioned in such an area and local government cannot predict when grants will be received and, therefore, are unable to plan accordingly (Reddy, Sing and Moodley 2003: 50-51).

5. Municipal Viability Support Initiatives

Project viability is a national intervention programme, which aims at building financial and administrative capacity of financially compressed municipalities to make them financially viable. It is the responsibility of the Department of Provincial and Local Government and was launched in 1995 by the then Department of Constitutional Development (Project Viability, 1998: 2). The programme is charged with the following tasks:

- monitoring of the financial position of municipalities on a quarterly basis;
- conducting management audits in those municipalities, which seem to be in financial difficulties as revealed by the results of the quarterly survey. The aim is to identify the cause of the problem and determine the level of support required by these municipalities;
- instituting management support programmes in those municipalities that are in financial difficulties; and
- implementing a training and mentoring programme (Department of Constitutional Development (DCD), Annual Report 1998: 53)

The Department of Provincial and Local Government always monitored the finances of municipalities in the whole country. Information gathered during this process is put on a database, which is updated on a quarterly basis. This exercise is undertaken in order to

establish the financial status of municipalities. This can only be determined after the information has been analyzed. Information required for this exercise is: outstanding debtors, creditors, cash balances, investments, loans, funds and reserves, amongst others. Information is collected using questionnaires that are issued to municipalities throughout the country. From the information collected, it has so far been discovered that approximately 275 municipalities are experiencing financial difficulties of which 82 are facing imminent financial failure (DCD 1998:53).

Municipalities that are facing those difficulties have so far been issued with instructions by MECs for Local Government as required by the *Local Government Transition Act, 1993* (Act No. 209 of 1993). The requirements require municipalities to take corrective measures.

There are municipalities that have been identified as facing serious difficulties. Such municipalities are receiving assistance from the Department through support management programmes. Affected municipalities together with their respective provincial local government departments should appoint management support teams for the sake of implementation. The programme will mainly focus on the following: financial management and credit control; institutional restructuring; infrastructure needs and performance; and business process review.

The Department has already developed a framework for implementation of the programme. The framework is based on management best practices (DCD 1998: 54).

6. Project Consolidate

In undertaking the exercise of providing management support programmes, municipalities should develop a practical programme that will recognize the results of the municipal profiling exercise and work together with national and provincial government to address these challenges. This will never be the responsibility of the local government only, but the other spheres of government as well. As such the other spheres of government will have to engage and interact with municipalities and the local communities in partnership with state-owned enterprises, private sector organizations, labour organizations, civil society and development agencies.

Project Consolidate is government's short to medium-term attempt to deal with the challenges of lack of capacity in many municipalities in selected provinces (e.g. Eastern Cape). This project does not give funding to any new projects but only seeks to 'unblock the blockages' of service delivery in those that are already existing.

Project consolidate facilitates service delivery in several ways. First, by determining why specific funds have not been utilised and whether funds that have been utilised have been utilised for the intended purposes. Second, by determining the capacity of those people who are running the projects. If there is lack of capacity, Project Consolidate will attempt to ensure that people are capacitated for them to perform their duties effectively and efficiently. In other words, they can be provided with "refresher courses" on service delivery improvement, project and financial management. The Project was devised as a temporary measure to resolve the problems of municipalities that struggle to render services to their own people, and will be coming to the end of its project cycle some time in 2006, though it could be renewed subject to new conditions and funding. Thus, solutions that have been developed and applied in different conditions during this short-term will inform any further process of institutional development in the medium to long-term.

Certain key elements of project consolidate need to be seriously taken into account, and they are as follows: a targeted hands-on support and engagement programme on building the capacity of municipalities to perform their mandate and a complementary process of systematic refinement of policy, fiscal and institutional matters that will enable the consolidation of the local government system in the long term. The details of complementary processes to refine policies and frameworks are: intergovernmental relations; financial viability of different categories of municipalities and revenue generation; intergovernmental fiscal relations; and long-term economic growth path.

A large number of municipalities do not have the capacity to provide services to members of the public. As a result, the Minister of Provincial and Local Government Mr Mufamadi, has recently announced the assistance DPLG is providing to 136 municipalities (almost half of all the municipalities). He has stated on a number of occasions that government would empower financially and administratively weaker

municipalities to enhance their service delivery. The three spheres of government, in conjunction with the South African Local Government Association, since April 2005, have started deploying experts to assist in the capacity building of municipalities. Mufamadi stated that in some cases those deployed would work in municipalities where ward committees had not yet been established. Mufamadi is of the opinion that this will ensure that a positive legacy of skills transfers be created. It is expected that this will enable the municipalities to manage their own affairs in a professional and efficient way.

7. An Anti-Corruption Strategy for Local Government

Bad governance in municipalities is one of the factors contributing to ineffective and inefficient service delivery. Bad governance includes mismanagement of resources; nepotism and favouritism in appointments, promotions and awarding of tenders; patronage and outright corruption.

The establishment of a new Local Government Anti-Corruption Unit by the DPLG is a critical step in rolling out the Public Service Anti-Corruption strategy to municipalities in a coherent manner. The work of the Unit, together with the DPLG, SALGA and – provinces, are informed by the following elements of the Anti-Corruption strategy:

- Raising awareness on good governance
- Implementing the current legislative framework to ensure compliance
- Severe penalties for corrupt councillors and municipal officials
- Mobilising and empowering communities to expose corrupt practises and
- Providing technical support to municipalities and mayors to champion the Anti-Corruption Campaign (Local Government Review, 2003/2004: 54-55).

Improvements in municipal financial management are also required to fight corruption. Considered "one of the most important pieces of legislation passed by the democratic government", the Public Finance Management Act (PFMA) came into effect in 1999 with one of its key objectives being to "eliminate waste and corruption in the use of public assets". It is equally an important instrument, that "enables authorities to make sure that the public financial interest is protected" (Pauw, *et al*, 2003: 4) against abuse for private gain, which is corruption.

To deal specifically with municipalities, the *Local Government: Municipal Finance Management Act, 2003* (Act No. 56 of 2003) was promulgated. This Act came into effect in order to give guidelines for municipalities to comply with the provision of Section 216 of the *Constitution of the Republic of South Africa, 1996*. The Section provides for a National Treasury, which will prescribe measures to ensure proper expenditure control in all the spheres of government.

In passing the *Local Government: Municipal Finance Management Act, 2003* (Act No. 56 of 2003), Parliament wanted to: regulate financial management in municipalities, require that all revenue, expenditure, assets and liabilities of municipalities and municipal entities are managed economically, efficiently and effectively, determine the responsibilities of officials and councillors entrusted with local sphere financial management and provide for other financial matters concerning municipalities.

The government has succeeded in putting the institutional framework for fighting corruption in place. The SALGA Report (in City Press, 18 September 2005: 23) points out that the state of financial accounting and auditing in some municipalities is, nonetheless, lamentable. The other challenges that continue to contribute to this situation in municipal finances are non-compliance with legislation, lack of internal audit units and the lack of capacity in municipal finance departments. The report states that most municipalities are not ready to implement the Municipal Finance Management Act, which imposes strict adherence to sound financial management and accounting.

The other factor is that most municipalities have not appointed chief financial officers, and in those who have appointed them, performance contracts have not been concluded with their municipal managers. In some municipalities, the academic qualifications of chief finance officers are not relevant to their positions. Some problems emanate from tensions and corruption within municipalities, finance departments being understaffed, non-existence of audit committees and the suspension of municipal managers due to corruption.

Schedule 5 of the *Local Government: Municipal Structures Act, 1998* contains a code of conduct for councillors. The *Local Government: Municipal Systems Act, 2000* sets out a

code of conduct for officials in terms of Schedule 1. The sections dealing with general conduct emphasize values such as loyalty, good faith, honesty, transparency, credibility, integrity and impartiality. These values are essential to addressing and meeting the basic needs of the local community and for engaging in social and economic development. Both codes stress the performance dimension of local government activity.

Councilors have to report back to their constituencies on the performance of the municipality using established indicators. Officials have to foster a positive work ethic to serve the members of the public and a collective sense of responsibility for standards and targets of delivery.

Steps, which have already been taken in trying to implement the Codes, are as follows:

- the Code of Conduct was distributed to all employees;
- pamphlets on aspects of the Code were distributed to all employees on an ongoing basis;
- newly appointed staff and managers were introduced to the Code through the orientation package of the Training Section;
- an introductory workshop for managers on Ethics for the Public Service, including the Code, was held;
- thematic notes on the Code were circulated to supervisors on a monthly basis; and
- a draft implementation strategy on the Code has been distributed to all employees (DCD 1998: 67-68).

8. Municipal Debt Management

Pauw, *et al* (2002: 311) define debt management as the obligations that municipalities have to pay their debt on time and according to the contractual agreements that they agreed upon with the other parties who deliver the goods or services.

The debt would include loans and interest on such loans that a municipality has acquired which must be paid back in a certain period of time. In view of the above, a municipality's cash flow management must be aligned with its debt management

programme. This would ensure the availability of money for the repayment of such loans. If that is properly managed, a municipality's debt can be well managed and kept within the means of the municipality. If a municipality does not manage its finances properly and fail to repay its loans as per agreements, lending institutions might stop providing further assistance (Pauw, *et al* 2002: 311-312).

Municipal debt management is a big challenge for municipalities. The reason for this is that there is no uniform strategy for all municipalities to ensure the effectiveness of debt collection. Some of the debtors' problems municipalities face had been caused by unemployment, making it difficult for people to pay for services. Some problems emanate from tensions and corruption within municipalities and lack of aggressive measures to apply effective credit control, and this was influenced by increasing unemployment and poverty (SALGA Report, in *City Press*, 18 September 2005: 23). In addition, members of the public are hesitant to pay for services, which do not exist and where they exist, are of low quality.

9. Concluding remarks

One of the main challenges facing municipalities is the matter of municipal financing. In addition to the fact that many municipalities in the new constitutional dispensation have to supply services to much larger population without a corresponding growth in the tax base, they also experience service backlogs, a deteriorating infrastructure, and a scaling down of creditworthiness and borrowing capacities. Furthermore, many municipalities also have inadequate financial management capacities (Kotze 1998: 4).

To ensure that municipalities are financially viable, municipal councilors and officials have to be capacitated in terms of municipal financial and project management.

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CHAPTER 5

SERVICE DELIVERY, ECONOMIC DEVELOPMENT AND POVERTY ALLEVIATION

1. Infrastructure and Local Economic Development

The end of apartheid in 1994 ushered in a new era of democracy and development in South Africa. The legacy of apartheid, however, remained intact and was especially acute in the rural areas and formerly 'African townships' and surrounding informal settlements. Economic Development (LED) is one of the strategies to address past imbalances and bring development to disadvantaged communities.

Rogerson defines LED as "a process in which partnerships are established between local governments, the private sector and community-based groups in order to manage existing resources for job creation as well as the stimulation of local economies" (Rogerson: 2002). On his terms, LED is concerned with development in the local government areas through building partnerships between the municipalities, private sector, NGOs and the local communities. This has been underscored by the Department of Provincial and Local Government (DPLG) when it argued that LED is an outcome stemming from local initiatives and driven by local stakeholders (DPLG 2003). This understanding envisages the use of local resources, ideas, and skills to enhance development in the local government areas.

Discussions about the meaning of LED in South Africa form part of an international scholarship that is concerned with issues of development and underdevelopment. In this context, LED is debated as a means of overcoming some of the negative consequences of neo-liberal economic policies and the phenomenon of globalisation (Simon 2003). In this sense, LED is deemed a strategy for promoting economic growth and development, including the creation of infrastructure and employment. LED is, "both in logic and practice", a market-led approach to development. According to Abrahams (2003) communities expect LED to create investment in human capital, public-private partnerships, retention and expansion of existing local firms. In the same vein, Rogerson (2003) concurs that LED should assist localities achieve sustainable economic growth, job creation and attract investment. In this regard, the measure of local economic development is not simply economic performance measured as the rate of increase of the local economy, but the contribution of such development to improving the living conditions of local communities.

2. Foundations of LED

Local Economic Development is provided for and supported by various pieces of legislation. The Local Government: Municipal Systems Act of 2000, for example, stipulates legal requirements for integrated development plans in local government areas. The IDP's are intended to achieve more consistent and coordinated government actions to better realise local economic development (Abrahams 2003, p.185).

LED has been founded on three pillars. One of these is the promotion of partnerships between the municipalities and the private sector and the communities. Local governments usually contract the private sector to provide services and goods on its behalf; especially in those circumstances when municipal capacity is lacking or when private companies are deemed able to do a better job. This kind of relationship is referred to as public-private partnership (PPP). Here the local community often acts as a subsidiary and is subcontracted by the private sector, usually to provide labour, although Some municipalities have been attempting to empower the local communities to play a more central role in the process.

This leads to the second aspect of LED. Following the measure of *LED* viz the improvement of local living conditions, it implies that local stakeholders *participate* in the making and execution of decisions related to development. Theoretically, communities should be involved in policy making and other affairs of the council. In practice the local government takes decisions and expect the communities to follow. This is a top-down approach. In many cases, the council imposes inappropriate LED strategies that do not take cognisance of local communities needs. Oyugi (in Matovu 2004: 128) argues, for example, that "participation, especially by the citizens, remains a major missing link in the development process".

Thirdly, accountability, *transparency* and *responsiveness* enhance chances of Local Economic Development in localities (Matovu 2004: 132). These pillars also serve as indicators of good governance in local government areas It is local economic development as good governance, therefore, that, on Rogerson Oyugi and Matovu's terms, can ensure smooth and speedy delivery of services and goods to the local communities.

In essence, therefore, these authors suggest that the LED should seek to improve:

- Social equality
- Environmental quality; and

- Sustainable Development

There are various tools that municipalities have at their disposal to encourage and promote local economic development. One of these is *procurement*. Procurement is a tool through which a client acquires services from service provider with procurement defining the roles and responsibility of both parties. Watermeyer explains that procurement "provides business and employment opportunities and depending upon how it is structured and conducted, can be used as an instrument of government policy to facilitate social and economic development" (cited in Rogerson 2002: 199). The Preferential Procurement Framework Act (PPFA) of 2000 provides a framework within which procurement happens in South Africa. In this way procurement becomes an instrument of social policy and it becomes effective if it allows the utilisation of local labour and choice of appropriate technologies, and create employment. This tool has been used to considerable effect in the field of Black Economic Empowerment, where companies or firms that rely on State work are penalised if their employment policies and practices are not in line with national policy and legislation.

Tourism is another instrument that can be used to encourage LED. Rogerson warns, however, that tourism is only a catalyst to development when it is production, rather than consumption based (Rogerson 2004: 95). He explains: "for tourist activity at any locality to be considered a success, it must not only provide a satisfactory experience for visitors but it must also maintain or improve the quality of life of local populations as well as protect the local natural, built and cultural environment or resources" (Rogerson 2004: 109 -111). He discusses Stilbaai as an example of where this worked. There, local fishermen, faced with a declining fish industry, were able to sustain their livelihoods by shifting to tourist activities. In this regard, fishing vessels were used, for example, to take visitors on whale watching expeditions and general sea cruises.

Finally there are agricultural and industrial activities respectively. The agricultural activities are basic to economic production and growth in the rural areas. Scholars have also written about agricultural activities in townships and cities. However, urban agriculture has been constrained by many problems. In particular urban areas lack sufficient available land to make of town farming a serious going concern. Municipal interventions to promote industrial development include support to SMME's and firms, especially those involved in labour-intensive activities (construction, for example) in fledgling industries and from poor local communities.

Problems and criticism of LED

There are several criticisms levelled against LED. One of these is that LED is too inward looking, leading to parochial considerations of broader, regional questions. What is required is for local government to strike a meaningful balance between economic growth and developmental objectives such as employment creation. The fact that LED is a market driven developmental strategy has led to it being difficult to implement in the municipalities with the vast rural surroundings that do not have developed market infrastructures. The perfect example is the one given by Abrahams (Abrams 2003, p. 188.), when he examined delivery of services in Municipalities such as the Buffalo City in the Eastern Cape, and the Mangaung in the Free State. In this regard, Abrams found that when local economic development privileged the private sector, it was unable to accommodate urban and rural nodes in a coherent and mutually beneficial programme. Rural areas simply lacked the capital resources and infrastructure to participate equally.

Another problem with LED is that the Export Processing Zones (EPZ's) or Spatial Development Initiatives (SDI) concentrate on capital intensive techniques of production that cause damage to the environment and displace workers, create temporary employment rather than long term jobs (Bond 203). This problem arises from planning procedures which do not adequately involve or take seriously people's preferences and approaches on the ground. Bond (2003) also finds that corruption is still a big problem that hampers delivery of services and awarding of tenders in the local government areas. Corruption, for instance, in the procurement and awarding of tenders and contracts can hamper the implementation of the LED by enlisting the services of firms or companies that are not well placed to advance to local developmental agenda (Matovu 2004: 131). It is important for government to clampdown on corruption if the LED is to succeed.

Corrective measures taken to address the above challenges include project consolidation and the establishment of Local Government Anti-Corruption Unit by the Department of Provincial and Local Government.

Free Basic Services (FBS)

The provision of services to the rural poor is both a constitutional requirement and a social necessity for post-apartheid society. Current local government acts and policy do not provide a clear definition of what "basic services" are. The FFC WHAT IS THIS? , however, defined

3 criteria that should at least be met for a municipal service to qualify as a “basic service.”

These conditions are:

- The service is classified as a function of local government in schedule 4B and 5B of the Constitution
- Access to the service is essential for life, in other words “...necessary to ensure an acceptable and reasonable quality of life, and if not provided, would endanger public health or safety or the environment...” (Municipal System Act, 2000)
- The service conforms to section 153(a) of the Constitution, which links “basic needs” to the promotion of development:

“A municipality must structure and change 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.”

- The municipal service is highlighted in policy and legislation as an essential service.

There are thus three (3) broad principles that should apply to municipal services designated a ‘basic need’. The first relates to a situation where the municipality prioritises a service that, given local circumstances, is deemed especially useful and important. For instance, one community may prefer the establishment of a road, another prioritise the provision of electricity. It is a matter of consultation with the communities and adopting a flexible approach based on what communities want to be provided first. This helps to define what a basic service is.

Secondly, once a service has been defined as basic need, municipalities have a responsibility to provide this service as if it is a ‘right’.

Thirdly, and nonetheless, in the short to medium terms some municipalities will not be able to provide the full range of services due to a lack of capacity”. Some will argue that if municipalities do not deliver the full range of services they should not receive the equitable share. The Fiscal and Financial Commission? puts forward the argument that the government could phase the approach to allocating resources from equitable share as they have done in the past and this is certainly an option that should be seriously considered (Joseph 2002: 4-5).

Proposed list of basic municipal services

The application of the above criteria to the functions outlined in schedules 4B and 5B of the Constitution provides us with eight basic services. According to Joseph, "For most of these services basic standards have been developed in policy and legislation, making it easy to develop a costing mechanism for each" (Joseph 2002: 5). These services include: : (1) potable water, (2) sanitation, (3) municipal health, (4) fire fighting, (5) stormwater management in built up areas, (6) solid waste removal, (7) municipal roads, and (8) and electricity. The usefulness of these services is provided for in the constitution and the legislation.

Difficulties of delivery

The government has further decided to provide "indigent" residents in urban and rural areas with free basic services. There has been lack of managerial capacity in these areas and identification and registration of indigent households has been slow. Free basic services are funded from the 'equitable share grant' provided by central government to every municipality to fund service delivery. In the areas where there have been public private partnership to deliver services (such as water), municipalities have struggled to fund free basic services – this because, the 'free' provision of services runs counter to the spirit and letter of these agreements. Private partners, that is, have required payment for the services they have rendered even if they have been designated as 'basic free services'. Confusion also resulted when people exceeded permitted quota. Often local residents were not informed about such limits and when asked to pay, they often refused. When this happened, the private companies supplying water simply cut-off the supply. Some councils have thus sought technologies to limit the amount of water households can use daily. In this regard, some have introduced trickle meters into people's houses to 'trickle' 200 litres of water per day to ensure that 6kl of water is delivered to the household for that month (Grice 2004: 3).

The provision of free basic services such as electricity to the indigent households has not been adequate. The cost of supplying basic services to the remote rural areas is much higher when compared to the areas on the outskirts of urban areas. For example, it costs roughly R5000 per person to be provided with water in the far rural areas as compared to R600 in the urban and surrounding areas (Hemson 2004: 5).. The difficulties of providing basic services have been exacerbated by the high unemployment rate. There have also been problems of sustainability associated with the management of projects on a stand

alone basis. Low levels of operations can be kept up but difficulties present themselves when the project needs to be sustained over longer periods of time. (Hemson 2004: 5).

Assessing progress achieved in delivering services to poor communities.

Since government has identified the provision of water and electricity as essential services that should be provided to the poor, it is proper to assess government's performance in this regard.

By the end of 1993 South Africa, over 40% of South Africans were without access to electricity, that is, about 4,5 million households. There has been a rapid progress towards provision of electricity. By 1997 the Energy Supply Commission (Escom) had connected nearly 1,5 million homes at an average rate of between 270 and 290 households per year. South Africa has installed generative capacity of some 48 gigawatts, which extended national grid spanning some 281 000 km of high voltage transmission and distribution lines(Hemson 2004: 6). The price of electricity has been kept low and cited as low in comparison to international prices. South Africa's electricity connections amounted to a half a million a year.

There have been problems with delivery of and achieving a sustained and sustainable service. One of the common problems has been the low consumption of the newly connected electricity, another has been meeting normal operation costs. Because of high costs in the rural areas it became obvious that the electrification project was "not commercially viable" and was thus perceived as "fundamentally a long-term social investment programme with an indirect future on capital" (Kotze, in Hemson 2004: 8).

Some scholars such as Clark (in Hemson 2001: 8) argue that there has been a decline in investment for new networks and for maintenance, especially in response to growing demand. Moreover, electricity levies often bear no relationship either to the quality of service, the costs of supply or the ability of consumers to pay (Clark 2001: 8).

Integrated Sustainable Rural Development and Urban Renewal Programme

The introduction of the Integrated Sustainable Rural Development Programme (ISRDP) and the Urban Renewal Programme (URP) in 2001 represented a new approach to integrated development at the municipal level in South Africa. Key nodal areas were identified as catalysts for wider regional growth. The central focus is to deal with the challenges of the

second economy, especially as they pertain to poverty alleviation. The Department of Provincial and Local Government does this through the Municipal Infrastructure Grant; the provision of free basic services; land restitution and housing, all of which seek to address income, human capital and poverty. The government has finalised the Financial Protocol, meant to integrate departmental spending and align them with plans to develop key nodes. Over and above Cabinet Ministers and Deputy Ministers, Premiers and Mayors have been appointed as political champions to oversee and actively drive the implementation of the two programmes (Mufamadi 2005: 1).

These programmes made significant strides in realizing their objectives in the past years and, judged against their stated objectives, are firmly on the path to sustainable development. Some of the key areas where the programmes have made significant progress include:

- The completion of Integrated Development Plans (IDPs), the identification of anchor projects and the combined resources from the three spheres that have been brought together in implementation show that government is giving meaning to the idea of integrated governance.
- Through various interventions in the nodes, mutually beneficial partners between government, the community, civil society and the private sector are being established. In Kgalagadi District Municipality in the Northern Cape, for instance, partnerships have been established between the Bendel community and Eskom Enterprises. The value of these partnerships goes beyond demonstrating government's ability to forge partnerships, to demonstrating concrete improvements in people's quality of life (DPLG, Annual Report 2002/03: 31)

In 2002, the number of anchor projects increased significantly. The total number of anchor projects in the ISRDP nodes has increased from 155 in June 2003 to 177 in February 2004. These projects straddle a number of sectors and will have a positive impact on people's quality of life in the nodes. More than 80% of the anchor projects have been implemented across the nodes and 53% have been completed and 27% were at the implementation phase (Mufamadi, 2004: 2).

Emphasis on infrastructure has to do with the government's intention to create conditions for sustainable local economic development. In the process of creating infrastructure, jobs were

created, some permanent and others temporary. The permanent jobs arise out of the continuing need for infrastructure maintenance (Mufamadi 2004: 2).

It is essential to note that the ISRDP and the URP have a ten-year lifespan and 2005 marks the fourth year of implementation. During the first three years, the programmes focused mainly on structural and institutional arrangements. In the next years, 2005 to 2011, the government intends to accelerate implementation, bringing visible local development and transformation (Mufamadi 2005: 1).

Municipal Infrastructure Grant

Municipalities have made a remarkable progress in delivering municipal infrastructure to the previously deprived areas with 50% of the R4, 4 billion allocated for this purpose having been spent by the end of December 2004. The municipal Infrastructure Grant (MIG) operates within the principles of the Expanded Public Works Programme, which emphasises labour intensive methods of construction. By the end of the local government financial cycle in 30 June 2005, municipalities have spent the funds allocated to them. The total MIG allocation for municipalities over the medium term expenditure framework is R15, 5 billion (Mufamadi 2005: 2).

Mufamadi further indicates that a total amount of R11, 2 billion from MIG has been specifically allocated to the 21 nodes in the current financial year. Therefore, there are about 1 million jobs created in both programmes. This has benefited approximately 656 000 households from infrastructure projects. The amount spent in the rural nodes and the one spent in the urban with equivalent number of beneficiaries indicates that infrastructure rollout is expensive in rural areas due to sparse densities.

Through the MIG programme, the Department of Water Affairs and Forestry (DWAF) has allocated R765 million for eradicating the water supply and sanitation backlogs in the nodes, while 48% of the total nodal population at present are served with Free Basic Water by their municipalities (and a sizable proportion of the remainder get free water from DWAF run systems).

Conclusion

What is important to note about local economic development as it is discussed in government, legislation and by commentators, is that it does not simply refer to initiatives to launch economic growth per se. The key indicator for LED is the degree to which it improves the quality of life in local communities. In this regard, LED has a mixed success rate in South Africa. While there are clearly examples where projects have had immediate and measurable benefits to local stakeholders and communities, it is too often the case that LED is gaged strictly by economic performance alone.

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