

**Municipal Financing Mechanisms**  
**Focus on District Municipality as Water Services Authority**  
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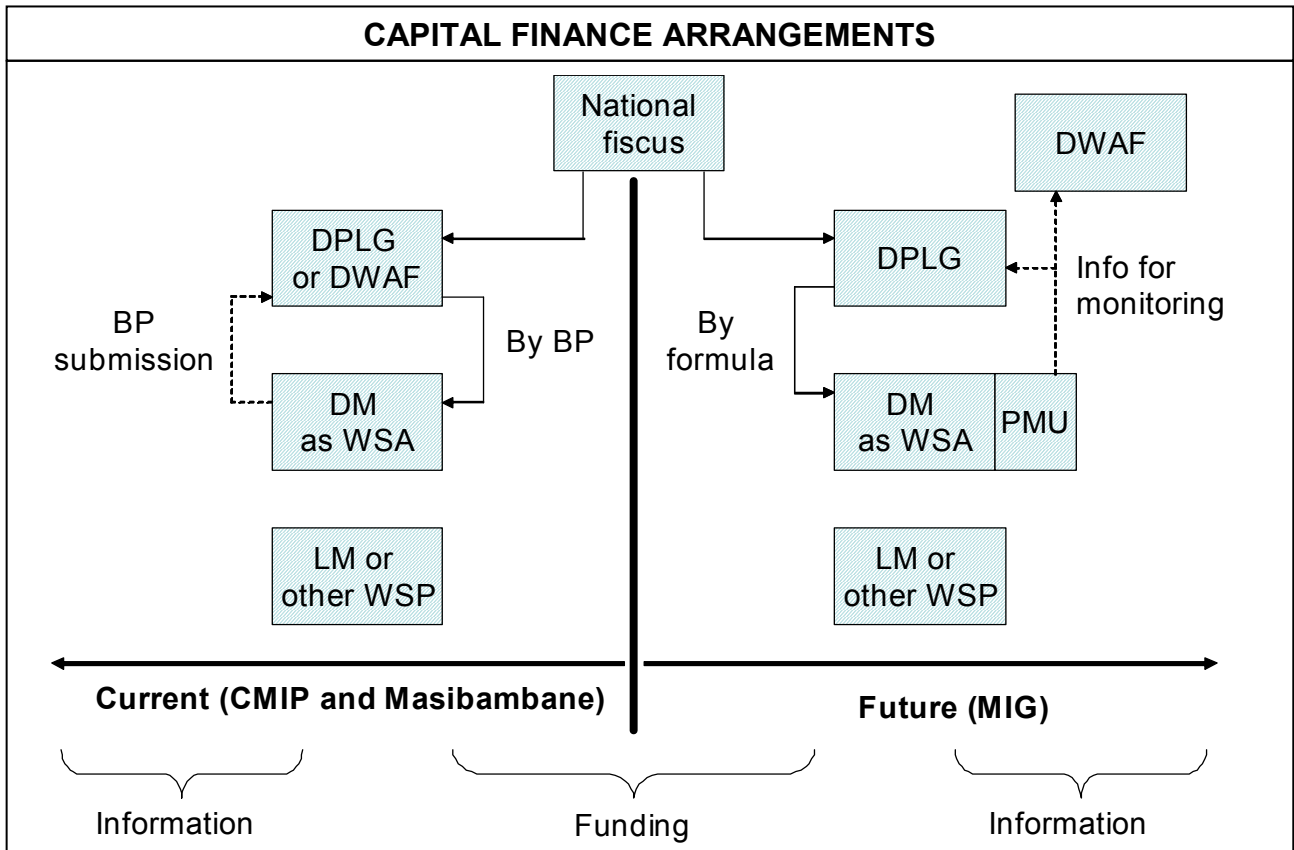
<b>Acronyms used in this chapter</b>	
BP	Business Plan
CBG	Capacity Building Grant
CMIP	Consolidated Municipal Infrastructure Grant (DPLG)
CWSS	Community Water Supply and Sanitation (DWAF)
DM	District Municipality
DPLG	Department of Provincial and Local Government
DWAF	Department of Water Affairs and Forestry
ES	Equitable Share
LM	Local Municipality
MIG	Municipal Infrastructure Grant
PMU	Project Management Unit (within municipality to implement MIG projects)
WS	Water Services
WSA	Water Services Authority
WSP	Water Services Provider

This chapter looks at municipal financing mechanisms where the District Municipality (DM) is the Water Services Authority (WSA).

In situations where the Local Municipality (LM) is the WSA the flow of funds from the national fiscus for water services goes directly to the LM. LMs still have the obligation of passing on operating subsidies to external services providers, where these are appointed.

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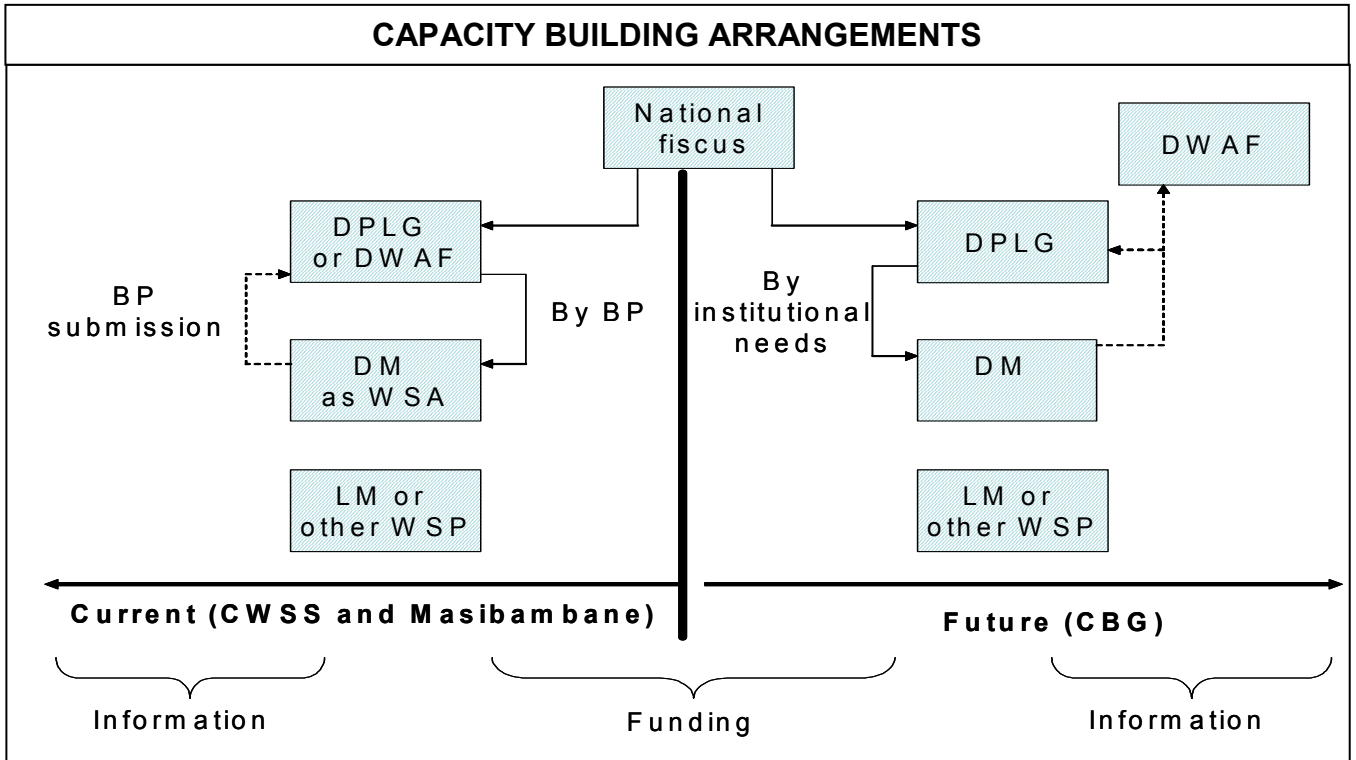
**Current arrangement  
- KEY FEATURES -**

- Funds allocated to DWAF (for Masibambane) and DPLG (for CMIP) via national budget process
- DWAF and DPLG require funding motivation from the WSA for specific projects in the form of a BP
- Upon approval of the BP the funds are paid out to the WSA for the specific project
- WSA implements projects on behalf of WSPs or may delegate implementation to them
- DWAF and DPLG keep separate monitoring databases for their programmes

**Future arrangement  
- KEY FEATURES -**

- Funds allocated to DPLG (for MIG) via national budget process
- DPLG makes annual funding allocations to WSAs by formula which is based on backlogs in each WSA
- Municipalities which are not WSAs will not get MIG funds for water services
- Districts and large LMs will be required to set up PMUs to implement MIG projects
- Where external WSPs are appointed (including LMs) the PMU will implement projects on their behalf
- DPLG, acting together with DWAF, will monitor performance
- Where WSAs under-perform, MIG funds will be reduced “in-year” or in the next year

## CAPACITY BUILDING ARRANGEMENTS

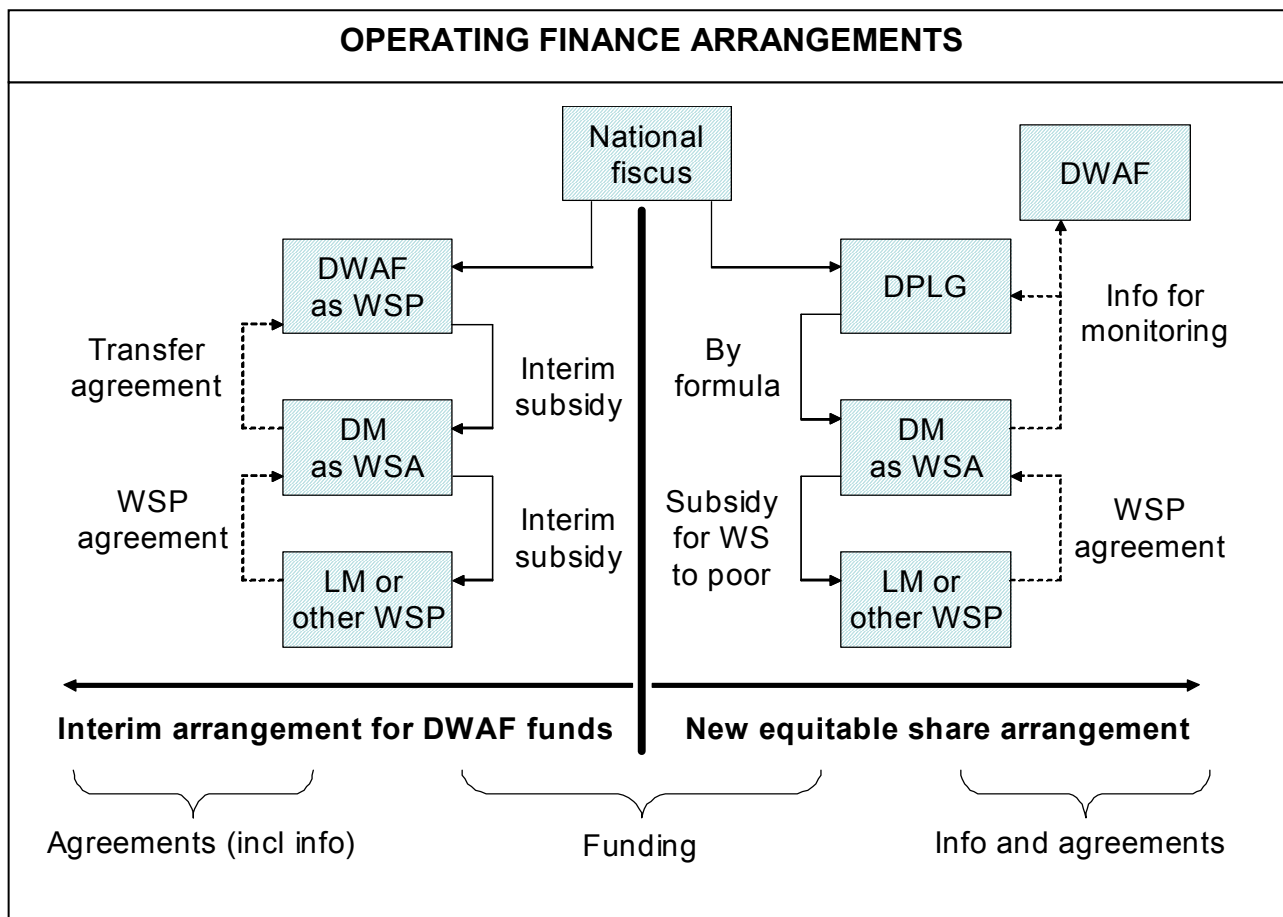


### Current arrangement - KEY FEATURES -

- Funds allocated to DWAF (for CWSS and Masibambane) and DPLG (for various capacity building grants) via national budget process
- DWAF and DPLG require funding motivation from the WSA for WSA and WSP capacity building projects in the form of BP
- Upon approval of the BP the funds are paid out to the WSA for the capacity building project
- WSA addresses its WSA capacity building requirements and channels capacity building funds to WSPs that qualify for capacity building financial support
- DWAF and DPLG keep separate monitoring databases for their programmes

### Future arrangement - KEY FEATURES -

- Funds allocated to DPLG (for CBG) via national budget process
- DPLG makes annual funding allocations to DMs (and where appropriate, authorised LMs) for both WSA and WSP capacity support
- The DM plays a role in coordinating and channeling water services capacity building grants
- Where external WSPs are appointed the DM will channel capacity building funds to the WSPs against capacity building plans; capacity building funding support from CBG is limited to WSPs that are LMs, municipal entities and CBOs.
- DPLG, acting together with DWAF will monitor performance
- Where capacity building targets are not achieved, more stringent monitoring and reporting will be required



**Interim arrangement for DWAF funding**

**- KEY FEATURES -**

- Funds allocated to DWAF for operating its schemes via national budget process
- DWAF enters into transfer agreement with WSA to take transfer of schemes
- DWAF then pays funds to WSA for a three year period to cover part of operating cost of transferred schemes
- Where the WSA has appointed a WSP to act on its behalf to operate the scheme, the WSA transfers funds to the WSP for operating the scheme

**Arrangement for ES funds**

**- KEY FEATURES -**

- The ES is currently paid out to municipalities based on a formula that is linked to poverty
- The ES now has three windows: (1) for all services; (2) for free basic services and; (3) for free basic electricity
- A portion of the ES for windows (1) and (2) is allocated for free basic water and sanitation
- This portion is assigned to the WSA; therefore municipalities which are not WSAs do not get ES finance for water and sanitation
- If a DM as a WSA appoints an LM (or any other external body) as a WSP, they must receive subsidies (part of the ES) from the DM for free basic water and sanitation to the poor