

Box 1: dplg's CAPACITY OBJECTIVES AND AREAS FOR SUPPORT**Municipal capacity objectives**

Within this framework, a municipality has individual, institutional and environmental capacity if it has the following:

- *Strategic leadership*
- *Clear organisational purpose*
- *Flexible and robust structures*
- *Efficient and effective systems*
- *Sufficient resources*
- *Skills, knowledge, attitude*
- *Can positively engage with its environment by forming and mobilising effective partnerships*

Focus areas prioritised for capacity support

- *Establishment issues*
- *IDPs*
- *Systems development*
- *Free basic services*
- *Implementation of powers and functions*
- *Refinement of DORA to stimulate capacity*
- *Careful attention to the establishment of MIG to integrate support*
- *Increase technical capacity of staff*
- *Fund new posts for the development of capacity at municipal level*
- *Leadership development*
- *Strengthen ward committees*
- *Ensure municipal capacity for disaster management*
- *Provide support to develop work place skills plans*
- *Create data and information systems*
- *Strengthen knowledge sharing*
- *Engage with tertiary institutions to ensure much needed graduates*
- *Ensure performance management of municipal functions*
- *Build financial and infrastructure capacity to perform functions*

It is evident that the focus of capacity development in the local government sector is aimed at building functional institutions (leadership capacity, strategic vision, etc.) for the achievement of key developmental goals, such as delivery of services and creating the environment for participatory governance.

Capacity is evidently an encompassing concept that stretches beyond mere compliance to legislation. Therefore, while capacity has been defined in various ways in the water services sector, dplg has provided a comprehensive definition of capacity at local government level (see Box 2).

BOX 2: dplg's DEFINITION OF CAPACITY**Defining Capacity**

Operational capacity is two interrelated components of capacity found within the individual and his/her capacity (ability to function) in relation to institutional capacity.

Individual capacity – is the potential and competency, or lack thereof, that is found within a person, which is normally reflected through their specific technical and general skills, knowledge, attitudes and behaviour accumulated through forms of education, training, experience, networks, values etc.

For effective and efficient service delivery, the onus is on a municipality to appoint the correct person within a suitable post.

Institutional capacity – is the potential and competency, or lack thereof, found within organisations. It includes human resources, strategic leadership, organisational purpose, orientation, institutional memory, internal confidence, partnerships, inter-governmental relationships, powers and functions, resources and support systems, infrastructure and financial abilities, structures, processes, culture and by-laws.

All these aspects obviously refer to a municipality's current state of readiness. However, another form of capacity that is often referred to besides the above two elements of operational capacity, is a municipality's intrinsic 'situation', or 'the environment', in which it must operate as well as have a developmental impact upon. This calls for a third form of capacity, namely:

Environmental capacity – is the potential and competency, or lack thereof, found outside of the municipalities formal structures. They are elements, that as a municipality, one has little to no influence or direct impact upon, but may be needed or able to harness or act upon. It includes the socio-economic, demographic composition, political, legal, social capital within communities, ecological, geographical, non-municipal infrastructure, natural, mineral and environmental aspects and non-municipal resources.

Page 10, National Capacity Building Framework (dplg), 2003

Water sector representatives where part of the discussions held by dplg in designing the above definitions and will employ the same definition for capacity in this SSS.

In another context, the Joint Transfer Policy refers to the need to assess the WSA and WSP capacity in order to ensure effective transfer of assets and the sustainable transfer of responsibility for water services to the local level. While capacity is not defined in the Policy, it is inferred in policy statements that capacity refers to the institutional ability of WSA's to exert their authority in the water services environment accompanied with individual competence to manage the delivery of sustainable services. With regard to WSPs, capacity is defined in terms of the technical skills and operational requirements necessary to ensure a sustainable service to consumers.

While the SSS recognises the different nuances in capacity, its strategic interventions will focus on institutional capacity and to a lesser extent on individual capacity. This SSS, however, understands the importance of environmental capacity as the ability of institutions to manage their environment, especially in light of the sustainability objectives which are at least in part determined by environmental factors (e.g. cost recovery).

3.4. CAPACITY ASSESSMENTS

Various support organisations regularly assess local government capacity in different ways. The criteria and methodology of these assessments vary between departments:

- Questionnaires relating to the resource availability and progress with municipal establishment (MDB, annually with reports being published in January of each year);
- Questionnaire on local government financial viability (dplg, quarterly)
- Size of municipal budgets (NT); and
- Progress reporting around the achievement of legislative requirements per sector e.g. the "WSA Checklist" and S78 Monitoring Framework;
- Questionnaires relating to governance and overall municipal performance (SALGA, 2003 as part of the MSIU project);
- For providers, benchmarking of operational efficiencies (DWAF, NER etc.).

In the local government sector, capacity assessments focus on matters of governance. As a result of poor coordination of assessment efforts leading to duplication, the response rates from local government institutions have dropped to well below 30%. An evaluation of the nature and extent of local government assessments indicated that over 3 000 data fields have been created across the various assessment instruments. This begs the question whether the amount of data that has been generated has assisted the water services sector in addressing the identified sector challenges.

Capacity assessment results have generally remained internal to those organisations conducting the studies. The exception is the assessment published by NT which ranked municipalities in order of their capacity to comply with the MFMA as means to determine the extent to which municipalities should be granted temporary exemption from compliance to the Act, for a maximum of three years.

In contrast to formalised local government capacity assessments, sector partners usually engage in self-assessments which do not focus on the effectiveness of their support from the perspective of the recipient.

Transformation of the water services sector has meant that the role of staff has changed from implementing capital projects or operating and maintaining water schemes to a focus on **organisational development** in order to assist and prepare local government to perform their functions. This role is more about relationship management, requires knowledge of governance matters, organisational capacity assessments, advocacy, mentoring, synthesis of information and promotion of knowledge management in municipalities.

3.5. PERFORMANCE MEASUREMENT

The local government sector has set a performance management requirement related to the IDP process. The focus of this appraisal is whether delivery targets (set in the IDP) have been met. Some of these targets relate to water services as one of various sector development plans. An extensive list of KPIs (see Box 3) as well as process and procedural requirements in measuring annual performance have been published by **dplg**. Legal compliance with the various parts of local government legislation is not measured during this process.

In respect of the water services sector, key WSA and WSP responsibilities have been outlined in the Water Services Act in relation to tariffs, bylaws, access to basic services and the sector planning approach (WSDP). In order to ensure compliance, DWAF has developed a set of regulations that give effect to the legislated requirements. These regulated items are not included in the IDP-linked performance management process of local government.

In contrast to **dplg**'s Performance Management System, DWAF has not developed a formal performance appraisal process for water services institutions. However, in assuming its new regulatory role, it has set specific key performance indicators for the sector, contained in the SFWS (see Box 3). Performance Indicators differ from legislative compliance in that they relate more to the achievement of service delivery targets. Moreover, according to legislation, KPIs set for the municipality must inform KPIs set for all its administrative units and employees, including units responsible for water services. This provides a critical link between WSA institutional performance, internal WSP performance and employee performance. **dplg** regulations state that a municipality's PMS provide for reporting to the municipal council at least twice a year. With the local government financial year commencing on 01 July, this would invariably mean that appraisals are conducted during **December** and **June**. Appraisal of water sector related performance objectives should, ideally, coincide with the local government performance appraisal calendar.

The **dplg** and DWAF formulated KPIs for the water services sector have a number of common elements, especially around service delivery targets, while **dplg** has included several indicators around capital expenditure, employment creation and financial efficiencies. It is the assumption in this document that the local government (water services) performance management process will provide insight into the capacity of water services institutions to meet their targets and, therefore, expresses the degree to which they have evolved in efficient and effective organisations.

Box 3: dplg's GENERAL KPIs FOR WATER SERVICES CORRELATED WITH THE SFWS KPIs

General KPI applied to water services as a development priority	KPI in the SFWS
a1) the <i>percentage</i> of households with access to basic level of water	1. Access to water – (rate of reduction in the <i>number</i> of households without a basic water supply
a2) the <i>percentage</i> of households with access to basic level of sanitation	2. Access to sanitation – (rate of reduction in the <i>number</i> of households without a basic sanitation service
b1) the <i>percentage</i> of households earning less than R1100 provided with a free basic water service.	5. Free basic water – <i>number</i> of domestic consumers (households), and <i>percentage</i> of total, who must pay for basic services even though they have access to just a basic water supply and use just a basic amount.
b2) the <i>percentage</i> of households earning less than R1100 provided with a free basic sanitation service.	6. Free basic sanitation – <i>number</i> of domestic consumers (households), and <i>percentage</i> of total, who must pay for basic services even though they have access to/use just a basic sanitation service.
c1) the <i>percentage</i> of the municipality's water capital budget actually spent on capital water projects identified in the IDP.	No equivalent indicator in the SFWS.
c2) the <i>percentage</i> of the municipality's sanitation capital budget actually spent on capital sanitation projects identified in the IDP.	No equivalent indicator in the SFWS.
d1) the number of jobs created through the water capital projects	No equivalent indicator in the SFWS.
d2) the number of jobs created through the sanitation capital projects	No equivalent indicator in the SFWS.
e1) the number of people from employment equity groups employed in the third highest level of Manager: Water Services. (The Municipal manager would be the first level and the Manager: Technical Services would be the second level).	No equivalent indicator in the SFWS.
f1) the <i>percentage</i> of a municipality's budget actually spent on implementing its workplace skills plan in the Water Services Department.	No equivalent indicator in the SFWS.
g) financial viability expressed in terms of:	7. Affordability – Outstanding debt for water and sanitation services for all consumers expressed as debtor days
(i) debt coverage	
ii) outstanding service debtors to revenue	
(iii) cost coverage	

It can be seen in the table above that there are dplg general KPIs, as they relate to services, that are not included in the SFWS key performance indicators. This shows a lack of consistency between the KPIs of the two sectors (LG and water), which would

perhaps have to be reviewed. Furthermore KPIs in the SFWS, which can not be directly linked to the dplg indicators are:

- Water quality
- Continuity of supply
- Affordability
- Metering efficiency and
- Quality of water discharged

4. CURRENT SUPPORT MECHANISMS

Current support at the local level has been driven by programmes emanating from individual departmental mandates. The absence of a single framework for support has hampered the ability to integrate support initiatives in the water services sector around a singular understanding of need. Support initiatives have contributed to changes at the local level, for instance through the implementation of systems, but not necessarily achieved the overall improvement of capacity. Hence the general acceptance that support is largely 'uncoordinated'.

The National Capacity Building Framework for Local Government Sept. 2003, concludes that the key underlying reason for weaknesses related to current capacity building strategies is that *"the demand for capacity building support, and national and provincial government supply of the required support, do not match in general and is not sufficient. The 'supply of capacity building' tends to depend on what funders and support providers believe municipalities need and consequently does not adequately address many of the real demands of municipalities."*

DFID have recently commissioned a study 'Assessing the impact of Water Services Support to Local Government since 1999'. This study will hopefully confirm or dispute some of the general statements and/or observations made in this document also by various players in the water services sector regarding water services support to local government. The study is scheduled for completion by end of September 2005.

Support has been delivered in a number of ways. The most prominent mechanism through which support has been provided is the numerous government grants disbursed to local government, either directly or indirectly through provincial and district channels. Donor funding has also contributed towards capacity development initiatives and technical assistance contracts have often been funded from either or both these sources. In addition, a range of guidelines and tools have been developed by sector partners to assist local government in the performance of their roles. Advisory services through government departments and agencies are more selectively provided at the local level while skills development of individual functionaries and knowledge sharing initiatives at the institutional level are less common approaches to building capacity in the sector. Each of these mechanisms will be briefly discussed in the following sections.

4.1. CAPACITY BUILDING GRANTS

Capacity building grants are the primary mechanism for the development of local government capacity. In addition, a number of government grants are disbursed to local government with an undefined portion for the development of capacity. The former are identified in national legislation (DORA) with clearly stated objectives, key performance indicators and monetary values. The latter initiatives are specifically linked to the purpose of the grant without specifying the extent of funding earmarked for capacity building.

National Treasury's support is specifically aimed at improving financial management systems; dplg support focuses on developing municipal capacity to perform a number of legislated functions, such as the development and review of IDPs. Support from DWAF is primarily through 'grants in kind' towards certain expenditure items. The limited success that has been achieved to date in relation to local government capacity building cannot be attributed to insufficient resource allocations since the contribution to capacity building for the present and past financial years has been substantial.

The main focus of capacity building grants have been to ensure sustainable improvement in the ability of municipalities to perform their prescribed functions, especially in light of the transformation experienced at local government level. Support has, therefore, focused on administrative improvements, financial systems, legal issues, procurement policies, infrastructure development and maintenance and service delivery. Human resources (skills development, training new staff, and management systems) and the development of facilities and infrastructure (buildings, computers furniture etc) have been integrated into these support initiatives. The present focus of local government support is the consolidation of the transformation processes with the emphasis on sustainability and is driven by Project Consolidate under the auspices of dplg.

The following are some of the issues inhibiting the success of capacity building initiatives at the local level:

- Receiving municipalities are institutionally not ready to receive support, i.e. there is a lack of vision about what is required and a shortage of "absorptive capacity" within municipalities to absorb support;
- Receiving municipalities are unable to afford the organisational structure required to perform their functions;
- Receiving municipalities have limited capacity to procure services or appoint suitably qualified staff to manage and implement programmes in support of their constitutional mandate.

4.2. DONOR FUNDING

Capacity building has become an increasingly significant feature of donor funding in South Africa. Between 1998 and 2003, eleven funding organisations have contributed millions of Rands to capacity building programmes either directly or indirectly. In contrast to mainstream government funding, donor support provides flexibility and off-budget room to manoeuvre. It also provides access to specialised skills and knowledge as well as much needed funds.

Donor funds have been directed at supporting the following initiatives related to capacity building:

- Institutional capacity building (systems development);
- Capacity building for councillors;
- Building effective community structures (i.e. ward committees) to interact with local government;
- Capacity building for municipal staff.

Whilst there is a clear commitment amongst donors to provide capacity building support to government current evaluation reports from various projects and programmes, including the **dplg** Hologram Research Report on Sectoral Capacity Building, conclude that this commitment has not had the desired impact due to the following:

- The support priorities for local government were vague before the 2000 elections which led to:
- Capacity building interventions identified are often not aligned to WSIs priorities.
- The timing of donor funding has not always been aligned with the institutional readiness of WSIs to accept capacity building initiatives
- Objectives and conditions of the donor funds has not always been aligned to support needs and priorities of WSIs
- Limited institutional capacity and expertise within WSIs to engage with donors in identifying their needs, priorities and negotiating some of the conditions set by donors

4.3. LOANS

A number of commercial banks e.g. DBSA, ABSA etc. have provided financial support to a number of WSIs for the purpose of infrastructure development. Since the enactment of the Municipal Finance Management Act (MFMA) borrowing by Municipalities is subject to the MFMA. For public entities like the water boards, borrowing from commercial banks is subject to Public Finance Management Act. Water Services Providers set up as Pty Ltd entities either by municipalities are not subjected to restrictions stipulated in the MFMA or PFMA.

4.4. STRATEGIC TECHNICAL ASSISTANCE

Technical assistance is defined as external support procured for a limited contract period based on a clear brief. Water sector support through consultants is extensively used by DWAF and contracts have predominantly been of a technical nature. However, such support contracts have also been secured through donor funding and from funds provided by other funding institutions (e.g. DBSA).

Technical assistance contracts are by and large supply driven through national departments, associated with legislated planning processes, and appear to be focusing on compliance with legislation rather than the utility that is gained from the support. Moreover, terms of reference and scope of works are often determined by the funding institution with limited input from local municipalities. As a result, support through technical assistance is often perceived to inhibit capacity development due to the limited involvement of local staff and resources.

The following are some of the issues that are generally believed to be inhibiting the success of Technical Assistance initiatives at the local level:

- Objectives of the technical assistance contracts are often set by organisations providing the support, with limited involvement of the recipient organisations as a result, those objectives and the Terms of Reference of Technical Assistant Team are often not in line with Municipal priorities and support needs.
- Limited expertise within WSIs to define their priorities and support needs adequately
- Limited institutional capacity and expertise within WSIs to understudy and be counterparts to the technical assistance team for adequate skills transfer to take place.
- Limited institutional capacity and expertise within WSIs to manage the work of the Technical team to ensure quality work and expected deliverables.
- Limited understanding of Local Government environment by the appointed Technical Assistance team and limited expertise to adequately provide strategic support to recipient WSIs within the context of broader municipal functions.

4.5. GUIDELINES AND TOOLS

All sector partners have developed implementation guidelines and tools for use at local government level. The general purpose of these guidelines is to provide direction to the implementation of particular programmes and initiatives, primarily (though not exclusively) to ensure compliance. Most guidelines have been made available on departmental internet websites after they were launched.

Despite the multitude of guidelines, only a small selection seems to be used extensively. The three most used guidelines are the IDP guideline published by dplg, a comprehensive pack of booklets detailing the entire IDP process; the guideline on the development of a WSDP and the FBW guideline, both developed by DWAF. The IDP

and WSDP are annual processes and the guidelines have set the scope and format for the resulting planning documents.

While guidelines and tools are useful for the establishment of procedural clarity and uniform implementation approaches in a transforming environment, ensuring that guidelines relate to and address local circumstance is a far more complex process. Generic guidelines tend to become too generalised and lose their application at the local level. Furthermore, the electronic availability of support documentation assumes ready access to the Internet – an assumption that does in many instances not hold.

Some limitations of the impact of the guidelines and tools can be attributed to but not limited to the following:

- Guidelines tend to be too generic and WSIs often do not have the capacity or expertise to adopt them to their local situation
- Some recipient WSIs do not necessarily have the relevant equipment and technical expertise to enable them to access the relevant guidelines and tools, process and analyse the information in such way that it can be applicable to their own situation.
- there seems to be a lack of understanding amongst supporting organizations on the overall Municipal functions and the interdependency of those functions and management systems put in place to give effect to guidelines and tools provided

4.6. ADVISORY SERVICES

The purpose of advisory services is to make expert knowledge and expertise available to sector role-players in response to demand. Typically, this support is provided through government departments or appointed agencies, such as the MIIU, and on request only. The application of this support mechanism is, therefore, dependent on the acknowledgement at the local level that support is required, and more likely to respond to local needs. This form of capacity building support is complimentary to the previously mentioned mechanisms and not widely used in the water services sector. Its restriction lies in the limited scope for active engagement in local processes by advisors – implementation remains the responsibility of the recipients of advice.

4.7. KNOWLEDGE NETWORKS

The purpose of knowledge networking is to ensure that the wealth of information and knowledge is accessible, disseminated and applied within the sector. Knowledge management initiatives are relatively new in the sector and are still being developed. Some knowledge management networks are the Water Information Network (WIN), which is dedicated to knowledge sharing in the water services sector, the Knowledge Sharing Programme (KSP) for local government which aims to develop learning networks for district and local municipalities respectively and DBSA's LGNET which is a internet portal which is accessible by municipalities and contains LG-related information.

These initiatives, apart from the conferences and seminars that are envisaged, require Internet access and an institutional ability to strategically absorb information and turn this into knowledge that can be applied. This capacity however, is not always available at municipal level.

4.8. SKILLS DEVELOPMENT

Skills development is a nationally driven programme to address skills shortages through training of staff and offering training to selected participants for future employment. The training is provided through accredited training bodies that are registered to sectoral SETAs. The Energy and Water Sector Education and Training Authority (EWSETA) is responsible for training in the water services sector and has commenced registration of training courses.

The transfer of responsibility for water services to local government has created substantial skills shortages. Apart from formal training and re-skilling, mentorship programmes are key in developing the required skills in the sector. The development of WSA and WSP capacity in conjunction with the national Transfer Programme are central to the development of a sustainable water services.

While municipalities have to develop workplace skills plans in line with the Skills Development Act (1998), limited progress has been made in developing the appropriate skills profile at municipal level. Time and human resource constraints have limited the effectiveness of the skills development approach to capacity building. Some of the limitation of capacity building initiatives can be attributed but not limited to the following:

- Limited understanding of the difference between education and training and the application thereof by both supporting organisations and WSIs
- Limited number of experienced and qualified training service providers within the sector.
- Limited interaction between education & training institutions and the WSIs and support organisation in highlighting the needs of the sector and/or communicating ground breaking work done by the education/ training institutions.

4.9. RESEARCH

Research has played an important role in supporting both support organisations and water services institutions. However the work done by various research institutions e.g. Water Research Commission, CSIR & Universities has not been well disseminated throughout the sector. In addition research work done by these institutions tend to be accessible to limited sector players. These could be linked to problems identified under section 4.4. and 4.5 above and a lack of awareness of such work by majority of WSIs