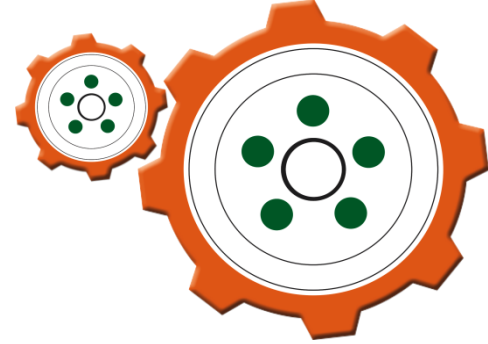




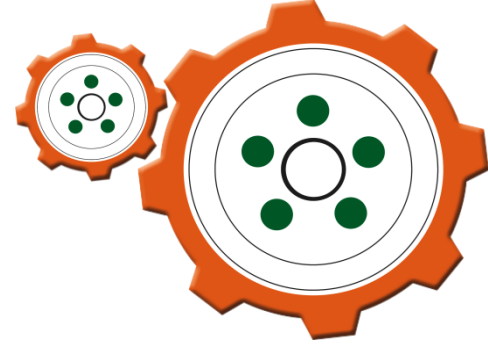
# cooperative governance & traditional affairs

Department:  
Cooperative Governance and Traditional Affairs  
REPUBLIC OF SOUTH AFRICA



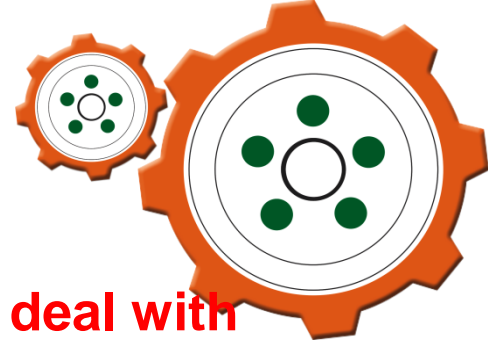
## MIG POLICY PROPOSAL





## Background

- It has been considered necessary for the policy review process, from which these recommendations emanate, to make a broad assessment of the municipal infrastructure delivery and operations environment.
- MIG funding can only be effective if the infrastructure management system in the country is effective.
- Emphasis is placed on a MIG programme policy rather than a more narrowly defined MIG funding policy.
- As such it includes the institutional aspects and the broader issues associated with infrastructure finance.



## Proposal 1: Extension of the existing differentiation to deal with specific characteristics of municipalities to unblock service

- **Proposed Groups:**
  - **Group 1:** High capacity municipalities typified by cities.
  - **Group 2:** Moderate capacity municipalities, typified by municipalities which are mostly urban and have towns as their economic core.
  - **Group 3:** Low capacity municipalities which are typically mostly rural in character.
- **Proposed criteria**
  - Audit opinion of the Auditor General for the last municipal financial year
  - Percentage of the capital budget spent by the end of the Municipal Financial Year
  - Adherence to MFMA reporting requirements
  - Percentage of capital raised from sources other than grants
  - Amount of operating revenue raised per high income household
  - Number of qualified engineering staff per 100,000 people

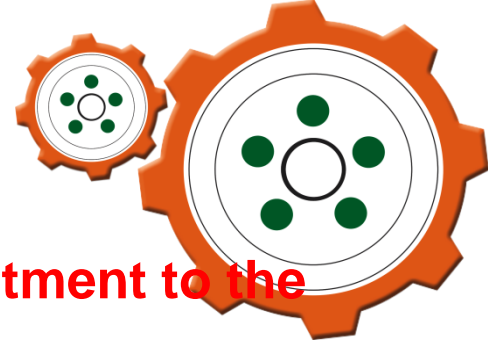
} focus on  
capacity and  
access to  
capital finance



## **Proposal 2: Establishment of implementing agency arrangements for improved capital planning and implementation in group 3 municipalities**

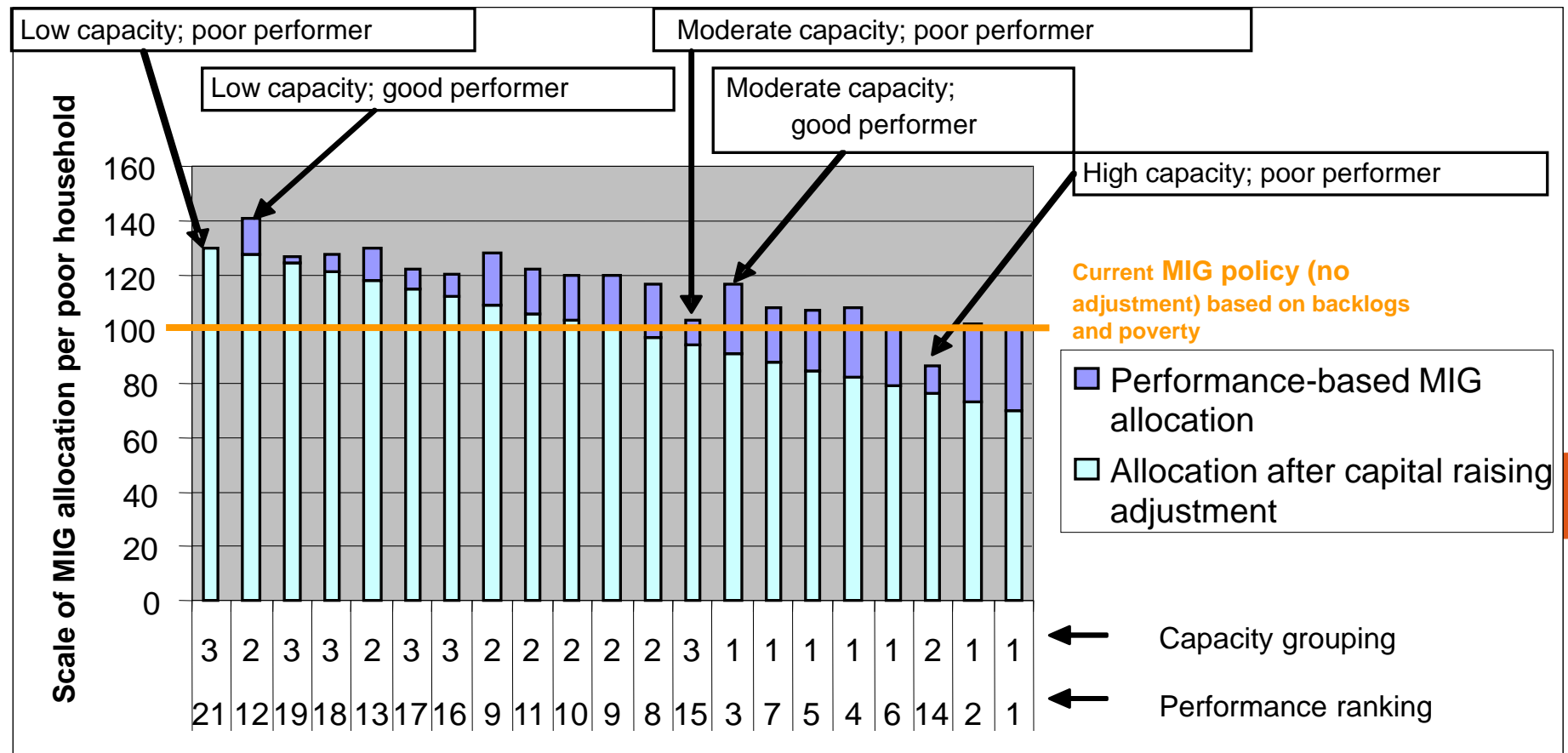
### **Institutional interventions proposed :**

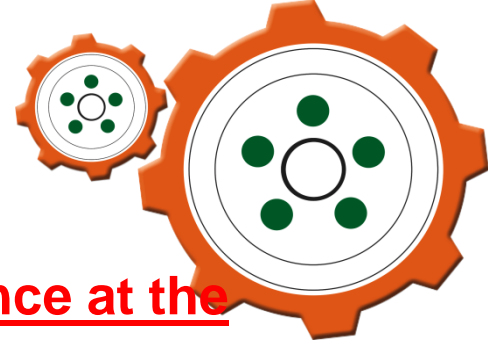
- **Group 1 with a performance framework aimed at improving efficiency of capital.**
- **Group 2 with a incentive driven arrangement to share resources and improve access to non-grant capital finance.**
- **Group 3 with a mandatory institutional restructuring initiative.**
  - **Regional implementing agents which take responsibility for planning, project prioritisation, project preparation and packaging and project management**
  - **Includes management contracts which are seen to be the best option for rapidly improving infrastructure operations capacity**
  - **Delivery takes place and is not jeopardized whilst municipal capacity is built.**
  - **This scaling and the style of the contracts should be set up by a national Contracts Management Unit managed by COGTA in consultation with the provinces.**
  - **Critical to put appropriate Inter-Governmental Relations processes nationally and at each province to oversee the roll-out of this initiative.**



# Proposal 3: Introduction of the capital raising adjustment to the MIG formula

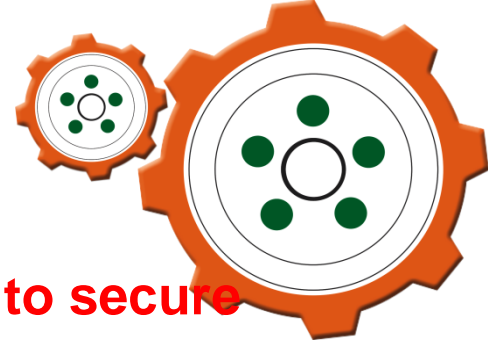
# Proposal 4: Performance by municipalities should be rewarded





## **Proposal 5: Capability of the MIG to ensure grant finance at the right time must be strengthened**

- **Amount of funding allocated to smaller municipalities on a year-to-year basis is often too small for them to use the funds for larger bulk infrastructure projects.**
- **Municipalities are not receiving the appropriate amount as informed through a formula which could result in poor selection of projects and ultimately poor outcomes.**
- **The lumpiness of capital investment in small municipalities is thus a concern.**
- **Allowing MIG funding to be pledged up to 20108 by municipalities to acquire loan finance.**



## **Proposal 7: Pledging of MIG funding by municipalities to secure lower risk loans**

- **The term ‘pledging’ is used for a situation where the MIG funding which is received by a municipality can be committed to a financing institution in order to reduce the risk to this institution of making a loan, or some other form of debt finance, available to the municipality.**
- **Lower risk loans - the national Government has to ensure the availability of MIG funding for the next ten years as guarantees.**
- **Development finance institutions such as the Development Bank of Southern Africa to play a significant role in this process.**
- **Repayments by municipalities could even be guaranteed by ceding the MIG allocations or portions thereof from national Government directly to financiers.**



## Summary



### **Group 1: High capacitated**

### **Group 2: moderate capacitated**

### **Group 3: Poorly capacitated**

**Problem statement**

**Adequate capacity.  
Insufficient borrowing.**

**But demonstrated  
ability to borrow.**

**Capacity variable but  
mostly not dire.**

**Insufficient borrowing.**

**But structural  
constraints to  
borrowing.**

**Inadequate capacity;  
poor O&M.**

**Borrowing typically not  
appropriate but still  
needs to be enhanced**

**Main intervention**

**Promote autonomous  
borrowing.**

**Free up constraints  
with regard to using  
grants.**

**Strengthen existing  
capacity improvement  
programmes.**

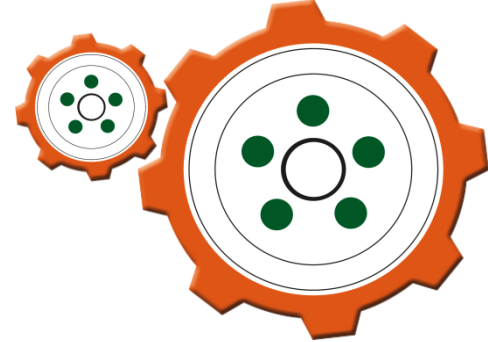
**Structure ways of  
improving ability to  
borrow.**

**Create performance  
incentives**

**Apply a nationally  
driven institutional  
support programme.**

**Focus on improving  
infrastructure  
operations.**

**Improve targeting of  
MIG**



## Recommendations

- **Proposal 1: Extension of the existing differentiation to deal with specific characteristics of municipalities to unblock service delivery.**
- **Proposal 2: Establishment of implementing agency arrangements for improved capital planning and implementation in group 3 municipalities.**
- **Proposal 3: Introduction of the capital raising adjustment to the MIG formula.**
- **Proposal 4: Performance by municipalities should be rewarded.**
- **Proposal 5: The capability of the MIG to ensure grant finance at the right time must be strengthened.**
- **Proposal 6: Alignment arrangements with other grants to maximise planning and implementation must be phased-in.**
- **Proposal 7: Pledging of MIG funding by municipalities to secure lower risk loans.**

**Above recommendations to Cabinet that would effect provisions made within the Division of Revenue Bill (2010).**