



SYSTEM OF CAPACITY BUILDING FOR LOCAL GOVERNMENT

DIAGNOSTIC REVIEW
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SYSTEM OF CAPACITY BUILDING FOR LOCAL GOVERNMENT

Diagnostic Review

Contact:
Letsepa Pakkies
Intergovernmental Relations: National Treasury
letsepa.pakkies@treasury.gov.za

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PREFACE

Never have the eyes of South Africa focused so closely on the role of local governments to deliver services promptly and properly to South Africans. And never has it seemed so unlikely that local government is capable of doing so. The municipal sphere of government—as the local face of the state—plays a central role in our collective strategy to build a developmental state. Effective and efficient municipalities are central to our long-term goals of delivering quality basic services to all South Africans, and creating economic opportunities across the country. Mindful of the challenges presented by the new form of local government established post-1994, Section 154 of the Constitution requires that the national and provincial spheres of government work with and support local government to achieve its constitutional mandate. Over the past five years, more than R40 billion has been spent on programmes dedicated to building local government capacity.

Despite these efforts, the current state of local government in many places is of grave concern: a significant percentage of municipalities are in financial distress, and service delivery levels are declining in many places. As South Africa enters a new local government administrative cycle after the 2021 local elections, this Diagnostic Review is the first step in the National Treasury’s design of a broader multi-year programme intending to improve the outcomes of the current capacity building system. This Review also contributes to improving the value for money aspects of capacity building investments across all of government.

The findings of this Review show us that a radical change to the current capacity building system is required by all its participants. Merely continuing to do what we have done in the past, with a few efficiency and cost-effectiveness improvements, will most likely never generate the required impact. Notably, the Review urges we adopt a new guiding framework that focuses on capability development (rather than capacity development). This document represents our commitment to change and our first bold step to develop the capability of all spheres of the state to support local level governance.



Dondo Mogajane
Director-General: National Treasury

FOREWORD

National and provincial departments are obliged by the Constitution to support local government, specifically in respect of programmes that increase the ability of local government to meet its constitutional mandate. National Treasury's Inter-Governmental Relations division has grappled with how best to support the municipal capacity for years, with disappointing outcomes.

This Review analyses the reasons why these efforts have not, to date, delivered the desired outcomes.

Critically, the Review recommends we embrace a new approach towards these efforts; that we adopt a new Capability Development Problem-led approach. The four guiding principles for the proposed new framework are the following:

- (i) A clear focus on capability development;
- (ii) A problem-led approach;
- (iii) Co-production and inclusion at all points in the system; and
- (iv) A whole-municipality (fully integrated) approach.

Adopting this approach will result in significant improvements in the outcomes of our efforts to support local government, and to build sustainable, efficient and effective local municipalities.

We undertook this Review with the support of the Government Technical Advisory Centre who commissioned the Public Affairs Research Institute to carry out the research. We thank the various departments of the National Treasury; the Provincial Treasuries; national departments—especially Cooperative Governance; Water and Sanitation; Mineral Resources and Energy; Planning, Monitoring and Evaluation and The Presidency; the Provincial COGTAs; as well as the Financial and Fiscal Commission; the South African Local Government Association and the Development Bank of South Africa; the Municipal Infrastructure Support Agent; municipalities; and others. Your inputs into the research through interviews, the provision of documents and participation in numerous discussions on this Review throughout the first half of 2021 were invaluable.

Although this Review was initially intended to satisfy the National Treasury's need for an up-to-date picture of the system, it clearly has far-reaching implications for all of government.



Malijeng Ngqaleni

Deputy-Director General: Intergovernmental Relations

EXECUTIVE SUMMARY

This Diagnostic Review is the first step in the design of a broader multi-year programme intending to improve the outcomes of the current capacity building system as South Africa enters a new five-year administrative cycle arising from the October 2021 local government elections. The Review also aims to contribute to improving the value for money aspects of capacity building investments across all of government.

The Review asks the question why, after 25 years of building local government's capacity, improvements to performance appear minimal. Indeed, around two-thirds of municipalities appear to be in financial distress or dysfunctional in differing degrees; requiring interventions, sometimes repeatedly.

The compilation of this Review relies on desktop data collection to provide the now comprehensive picture of the system at programme level over a 5-year expenditure window. Over 65 qualitative interviews were held across 29 organisations with key funding and supplier roles of parts of the capacity building system, plus a selection of the beneficiary municipalities.

Although this Review was initially intended to satisfy the National Treasury's need for an up-to-date picture of the system, it clearly has far reaching implications for all of government.

Capacity Building vs. Capability Development

Early in the research, stakeholders agreed—in response to emerging findings of the literature review—that the concept of 'Capacity Building' is insufficient for what the state actually wants to achieve and that a more appropriate and relevant concept is 'Capability Development'. In short, 'capacity' refers to potential under ideal circumstances, while 'capability' refers to what is possible under actual (almost always not ideal) circumstances. 'Capability' incorporates a wide range of factors: individual skills, financial resources, business processes and systems, political stability, staff morale, staff turnover, effective use of technology, community participation and other contextual issues. A capacity building programme might succeed in significantly increasing person's capacity through skills development, but make only marginal improvement to their organisation's capability (which is the critical factor that actually impacts that municipality's outcomes) because of constraints imposed by that person's working environment and overarching context within which that municipality operates

Background

The current state of local government appears to have reached a crisis point. In general, many capacity building initiatives appear to not have materially impacted local government's capability to deliver services and fulfil its mandate to residents. An increasing and rising number of municipalities are in financial distress and financial governance outcomes remain poor in many places. Around three-quarters of households say that their municipalities do not meet

service delivery needs and access to basic services has reportedly declined. The service delivery infrastructure itself is also in decline, with some not fit for purpose. A significant ‘capability gap’ thus exists across large parts of local government –between actual capability (the ability to get things done) and the functional and delivery obligations of municipalities (what needs to be done). This capability gap is widening as service delivery demands increase.

Legislative and regulatory context and literature review findings

The relevant legislation is clear that local government ‘capacity’ is to be built for a specific purpose; it is a means to delivering a municipality’s constitutional obligations and not an end in itself. ‘Capacity building’ is also to be provided in a cooperative intergovernmental environment, which arises from all parties working together to support local government in realising its mandate.

The literature review findings show that:

- A significant numbers of programmes fail, in large part because of poor problem diagnosis
- It is much easier to introduce new legislation or create new institutions or send people to workshops, much harder to fundamentally change the way in which things are done
- Programmes tend to present activities (such as training) as impact, losing sight of long-term impact goals
- The likelihood of success is increased by developing solutions that are based on local realities and buy-in
- Long-term and sustainable improvements take time: focusing on ‘quick fixes’ and short-term performance is counter-productive
- Many of the implementing organisations themselves lack the requisite capabilities, but there is little focus on building appropriately capable delivery organisations

Scale and scope of the current system

The capacity building system has grown organically since the 1990s and currently consists of hundreds of entities and programmes. The combined expenditure of the 40 most significant ones researched was R9.07 billion in the 2019/20 financial year—a substantial amount equivalent to about 13% of the aggregate capital expenditure of local government in the same year. This expenditure estimate is conservative: it excludes very small initiatives, costs of administration of conditional grants and much of the programmes implemented by non-state actors.

The main system participants (roughly by value) are the provincial COGTAs (a third of all expenditure), national departments (another third), local government (a quarter), and other organisations (the balance).

Although no common sectoral categorisation is available, an assessment shows that a third of expenditure is directed towards a mix of local governance, planning, public participation and other capacity building initiatives, a third on financial management and governance improvements and the balance on unspecified items. Some duplication and fragmentation is evident.

Factors impacting system outcomes

What are the main factors contributing to the disappointing outcomes of the current system? What are the main factors that appear to be generating better outcomes? The review identified the following:

1. A strong focus on individual capacity building rather than organisational capability development.
2. A focus on short-term fixes of symptoms rather than long-term change.
3. Limited impact (outcome) reporting by any of the programmes.
4. Programme design and expenditure priorities often reflect pressure to comply with regulatory requirements or shifting political priorities.
5. Fragmented programmes, with multiple entities competing for municipal attention.
6. Generally poor problem diagnosis, despite extensive municipal monitoring and reporting.
7. Difficulty of effecting significant and sustainable change in the way in which people do their work.
8. Some municipalities may never achieve the required capability to deliver every aspect of their mandate.
9. Limited mutual cooperation across the system; this dilutes efforts.
10. Long-term programmes focusing on entrenching the basics appear to have better results but are limited by resource constraints.
11. More collaborative approaches and incorporating change management have shown better results.
12. Programmes with clear outcome targets are more likely to achieve them.
13. Municipalities do not believe that they have been sufficiently included in the design of capacity building programmes.
14. Municipalities believe that programmes are too generic; and should be customised to local requirements.

Implications of findings

The findings indicate that a radical change to the current capacity building system is required. Merely continuing to do what is currently being done, with a few efficiency and cost-effectiveness improvements will most likely never generate the required impact. Clearly, the current system of capacity building is no longer fit for purpose. Of course, it is much easier to talk of the need for radical change than to actually achieve it. Most parts of the current system are well entrenched in their way of doing things and have developed their own momentum that is difficult to change. System participants are 'stuck' in a particular way of doing things.

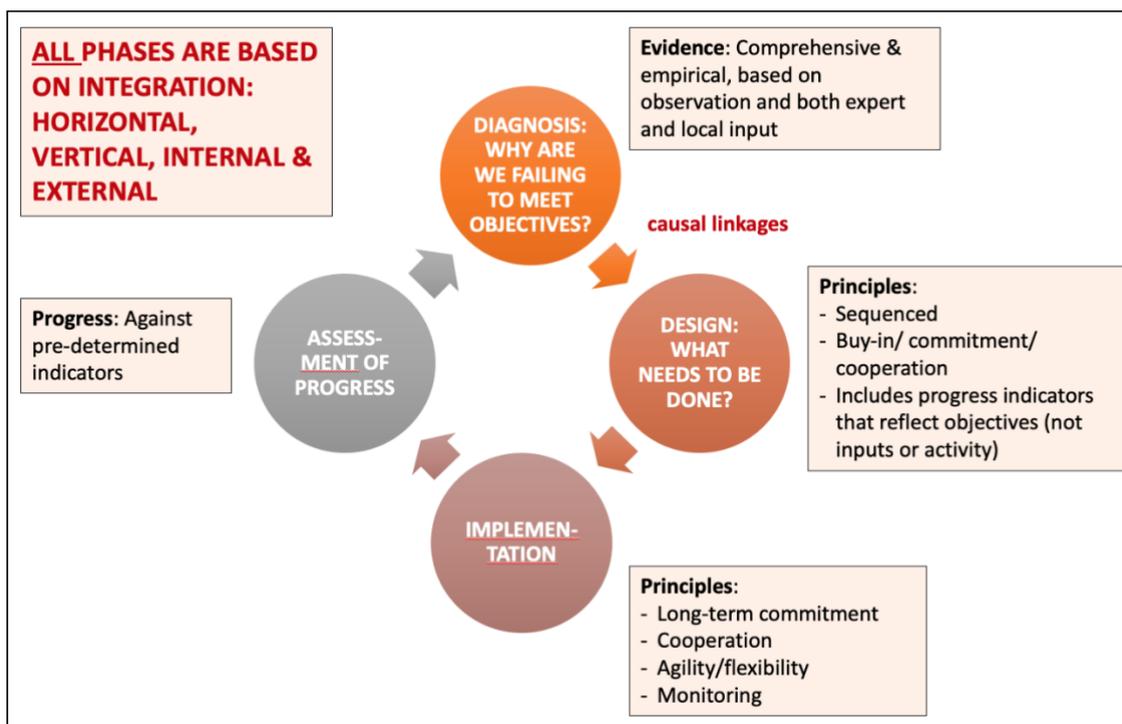
New Capability Development Problem-Led (CDPL) framework

Stakeholders support the proposed fundamental reformation of the current system of capacity building. However, realistically radical change cannot be achieved in the short-term, nor should the participants try as it will cause significant disruption.

The proposed new CDPL framework represents a shift to a sustainable capability development system. The CDPL framework rests on four guiding principles. These principles are a package deal: all inter-linked with each component needing to be fully present for the framework to succeed in driving meaningful change. The principles are:

1. A clear focus on organisational capability development (rather than individual capacity building).
2. A problem-led approach that starts with the problem that requires solving at the organisational level, rather than immediately supplying the solution, such as building the capacity of the individual.
3. Co-production and inclusion at all points in the system.
4. A whole-municipality (fully integrated) approach.

The review expands on the cycle of four necessary phases—from diagnosis to design to implementation to assessment of progress (as per the figure below)—each matched with principles. Institutionally, the CDPL framework relies on intra- and inter-organisational horizontal and vertical integration within the capability development system that focuses on problem-solving rather than mandate delivery and accommodates decentralised decision-making and differentiated responses. This framework will thus effect meaningful and sustainable change in the capability of local government to realise its constitutional mandate at the impact level. There is no best practice blueprint somewhere that can simply be adopted by the capability development participants. Instead this CDPL framework allows for local solutions—to address particular problems in particular environments—to be specifically and intentionally designed and built from the ground up. Here, if the solution is not home-grown, it will not work.



Two-pronged strategy for system reform

The Review recommends a two-pronged strategy, to be implemented simultaneously. Firstly, steady but incremental improvements to the current system are to be made. These improvements include improving expenditure reporting across the system; providing ‘destination reporting’; collecting more targeted data from municipalities; streamlining existing conditional grants’ capacity building components; and increasing learning opportunities. Secondly; a small number of pilot sites for innovation and experimentation are to be identified. Here the aim is to experiment with CDPL processes, to obtain broader buy-in of the new approach, and to try out different kinds of institutional arrangements. The Review recommends that these pilot sites are structured as public sector innovation laboratories.

Action areas for National Treasury

Although the Review has far reaching implications for all of government, the National Treasury plans to commit to the following main action areas, which were supported in principle by stakeholders in June 2021. These include:

1. Advocacy for a reorientation towards the CDPL framework approach by presenting this Review to system stakeholders, making this report widely available to all spheres of the government and the public, and engaging with COGTA in any updates of the *National Capacity Building Framework for Local Government* and capacity building forum.
2. Introduction of more specific capacity building programme expenditure and destination reporting measures, by initially working with the Provincial Treasuries and Municipal Treasury departments.

3. Reviewing and streamlining of current capacity building and capability development data collection received from and about municipalities.
4. Investigate the streamlining of capacity building conditional grants to achieve a more efficient structure.
5. Identification and implementation of learning opportunities with a view to suggesting systemic improvements to the system on a once-off and ongoing basis.
6. Investigation of the implications of the establishment of one or more CDPL Innovation Labs within the DDM initiative to engage with municipalities and relevant stakeholders in the recommended CDPL approach with a view to diagnosing problems, appropriate capability building solutions and identifying lessons that can be incorporated into the system.

The National Treasury plans to further develop these areas into a concrete multi-year programme of work during the second half of 2021 and early 2022.

ON ‘CAPACITY’ AND ‘CAPABILITY’

Most of the relevant legislation and regulation that governs the delivery of support to local government in South Africa uses the term ‘capacity’. The general understanding across programmes appears to be that ‘capacity’ in this context is analogous to the DPLG’s 2008 definition contained in the *National Capacity Building Framework for Local Government* strategy document: “capacity can be regarded as the potential for something to happen” (DPLG 2008, p6). Most of the literature surveyed for this Review implies both that a lack of capacity is the main reason for poor outcomes in the public sector and that activities to ‘build capacity’ – which is almost always interpreted to mean building the capacity of individuals – will result in improved outcomes in respect of organisational performance. The underlying assumption is that increasing the capacity of local government in this way is sufficient to improve outcomes.

South Africa’s National Development Plan (NDP) represents an important shift in terminology through its use of the terms ‘the capable state’ and ‘state capabilities’ to deepen the description of what had previously been labelled as ‘state capacity’. This may appear to be a matter of little importance – whether the word ‘capacity’ or ‘capability’ is used – but actually it is very important in terms of the aims of this Review.

What is the difference? Andrews, Pritchett and Woolcock (2017) make this useful distinction: ‘capacity’ refers to **potential under ideal circumstances**, while ‘capability’ refers to **what is possible under actual (almost always not ideal) circumstances**. This, in turn, reflects Amartya Sen’s conceptualisation of human capabilities as what people are actually able to do in the world in which they live, as opposed to what they could theoretically do in some perfect world.

The use of the term ‘capability’ thus focuses attention on **what is possible in a particular context**, and in so doing forces critical thinking about how that context can limit and constrain what is possible. It requires consideration of the universe of factors that contribute to (or undermine) the performance of an organisation like a municipality, and how these factors interconnect and influence each other. The notion of ‘capability’ thus incorporates a wide range of factors: individual skills, financial resources, business processes and systems, political stability, staff morale, staff turnover, effective use of technology, community participation, and other contextual issues. As just one example, a programme might succeed in significantly increasing a person’s *capacity* through skills development, but make only a marginal improvement to his or her organisation’s *capability* (which is the critical factor that actually impacts that organisation’s outcomes) because of the constraints imposed by that person’s working environment and the over-arching context within which the organisation operates.

The result is that it is entirely possible to invest a considerable amount of time and money in building the capacity of individuals (and succeed in doing so), without actually making much difference to the capability (the actual **ability to get things done**) of the organisation where they work. If individual capacity increases, but organisational capability does not, then an investment into that individual capacity will not yield the expected results.

Focusing on ‘capability’ instead of ‘capacity’ forces us to think more critically about **all** the factors that impact the ability to get things done, even when the municipal officials in question appear to have the appropriate skills (capacity). Such a differentiation also implies that **a certain level of individual capacity may translate into very different levels of organisational capability under different circumstances**: in some places, organisational capability will be significantly lower than the sum of all the individual capacity, because the surrounding environment is so very dysfunctional. But there is also have the possibility of substantially increasing organisational capability with a given amount of individual capacity through an improvement in those other factors – such as processes and systems, staff morale and political stability.

ABBREVIATIONS AND ACRONYMS

AGSA	Auditor General of South Africa
CDPL	Capability Development Problem-Led
CFO	Chief Financial Officer
COGHSTA	Cooperative Governance, Human Settlements and Traditional Affairs (provincial)
COGTA	Cooperative Governance and Traditional Affairs (national)
DBSA	Development Bank of South Africa
GIZ	Gesellschaft für Internationale Zusammenarbeit
GTAC	Government Technical Advisory Centre
IDP	Integrated Development Plan
IGR	Inter-Governmental Relations
LGSETA	Local Government Sector Education and Training Authority
MDB	Municipal Demarcation Board
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MISA	Municipal Infrastructure Support Agency
NDP	National Development Plan
OAG	Office of the Accountant-General
PARI	Public Affairs Research Institute
SALGA	South African Local Government Association
StatsSA	Statistics South Africa
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
WSP	Workplace Skills Plan

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1 INTRODUCTION AND BACKGROUND

1 Introduction: aim of the research

This Diagnostic Review was initiated in response to the fact that, despite the considerable allocation of resources and effort to building the capacity of local government over the past 25 years, the financial and operational performance of municipalities has not shown the expected improvements. Further, some 60 per cent of initiatives to improve capacity in specific municipalities are repeat initiatives, suggesting that these capacity development initiatives are not having a long-term or sustainable systemic impact.

Against this background the National Treasury's Intergovernmental Relations (IGR) division, through the Government Technical Advisory Centre (GTAC), commissioned the Public Affairs Research Institute (PARI) to undertake a Diagnostic Review with the following goals:

- To provide a holistic and comprehensive overview of the capacity building system and its component parts, including key system participants and resources allocated;
- To identify significant performance problems related to the capacity building system for local government in respect of strategy, funding, spending, resources, skills, delivery management, control, and monitoring and evaluation; and
- To identify opportunities to align, and improve value for money aspects of the capacity building measures within the system, including reductions of administrative costs and duplications, in a manner that will ensure meaningful and sustainable improvements to support local municipal development and governance.

The central objective of the Diagnostic Review is thus to promote and provide a common understanding within government of the scope and scale of the current highly complex capacity building system by mapping its various dimensions, and to identify and promote innovations of this complex system.

The scope of work comprising the Review is made up of the following main components:

- A review of the legislative and regulatory framework within which capacity building in local government is situated, a comprehensive literature review (including international experiences of capacity building), and an overview of the history of capacity building in respect of local government;
- A descriptive overview of the entire local government capacity building system, including outlining the various role-players and stakeholders within the system;
- An overview of the nature of the challenges the capacity building system needs to fix;
- An analytical diagnostic of the workings, strengths, and weaknesses of the system; and
- Proposals for improving the system.

The method adopted to delivering the scope of work broadly comprises two components:

- (i) Desktop survey and review of applicable legislation and regulation, relevant literature and detailed programme information; (the regulatory and literature review is attached as Annexure A, the summary of programmes and detailed analysis are set out in Annexure B, the details of the data methods used to calculate programme expenditure as set out in Annexure C, and details of selected programmes for the 2019/20 year are contained in Annexure D); and
- (ii) Interviews with a wide range of stakeholders, including local government; the details of the interview method and a list of organisations interviewed are set out in Annexure D.

IGR established a Steering Committee incorporating a wide range of stakeholders for the Review. To date, the project Inception Report and preliminary findings have been presented to the Steering Committee in two sessions in 2021, and the inputs received have been incorporated into this report.

Not included in this Review

This Review is not intended to present a detailed analysis of every factor that contributes to the current state of local government but rather a helicopter view of the overall system of local government related capacity building. As one example, the Review does not present a detailed analysis of any of the 'political' factors (such as the form of the political-administrative interface) that impact local government performance. Although it is acknowledged that such factors are important to the capacity building system (and were raised by many of the interview participants) they are not the focus of this Review.

This Review also excludes any analysis of the Section 139 intervention framework, and does not include a detailed commentary of individual grants.

2 Current state of local government

The details of the existing capacity building system presented in the next chapter should be contextualised against a background of the current state of local government in South Africa. The question to be asked is: has the level of financial governance and health, and basic service delivery across local government improved? In aggregate the answer is a clear 'no', although there is considerable unevenness in outcomes, both across municipalities and over time (that is, many municipalities show improvements for a limited period of time and then either regress or fail to improve thereafter).

In the 2013/14 financial year, 86 municipalities were considered by National Treasury to be in a state of financial distress. That number rose to 125 in the 2017/18 financial year (representing almost half of all municipalities – National Treasury, 2018). In May 2021, the Minister of Finance

reported to Parliament that 163 municipalities were considered to be in financial distress, 40 were in a financial and service delivery crisis, and 102 had adopted unfunded budgets¹.

The annual MFMA Reports by the Auditor General of South Africa (AGSA) indicate that progress in respect of good financial governance and financial resilience is extremely slow, and that the general state of municipal finances stubbornly remains below what could be considered a minimum threshold (AGSA, 2020, p1):

[There is] an inevitable downward spiral to a financial cul-de-sac that many of the local municipalities and districts have already reached across the whole country, with a few and limited exceptions. Fundamentally, this is what characterises the outcomes of the audit of financial statements of local government across the country. It should be appreciated that there are some exceptions Proper administration and superintendence over the financial affairs of local government were not exercised and were found, through this audit examination, to be seriously lacking with some devastating consequences already evident in certain identified areas.

The tale most often told in local government is of municipalities crippled by debt and being unable to pay for water and electricity; inaccurate and lacklustre revenue collection; expenditure that is unauthorised, irregular, fruitless and wasteful; and a high dependence on grants and assistance from national government. Most concerning are those municipalities that cannot even prepare credible financial statements, even after paying millions to consultants for assistance and receiving sizeable support from national and provincial government.

A 2017 study by Statistics South Africa (StatsSA) indicated that 75 percent of households did not believe that their municipality was addressing their (self-assessed) priority needs in respect of basic services (StatsSA, 2017). The citizen satisfaction rating of local government was lower in 2017 than it had been since the current system became fully operational in 2000 (ibid.). Although StatsSA reports a significant increase over the past two decades in the number of households receiving basic services, the perceptions of the quality of those services are deteriorating. Additionally, significantly fewer households were reported to be receiving free basic services in 2019 than ten years previously (StatsSA 2021) and increasing numbers of households are struggling to pay their monthly municipal services accounts, suggesting an affordability issue.

COGTA reports that, since 2012, the percentage of households with access to basic services has **declined** in some provinces (COGTA, 2020). Although the rapid growth in households can partly explain this situation, the fact remains that universal basic service delivery to minimum standards – a cornerstone of the national socio-economic transformation agenda – has failed to materialise evenly across all municipalities.

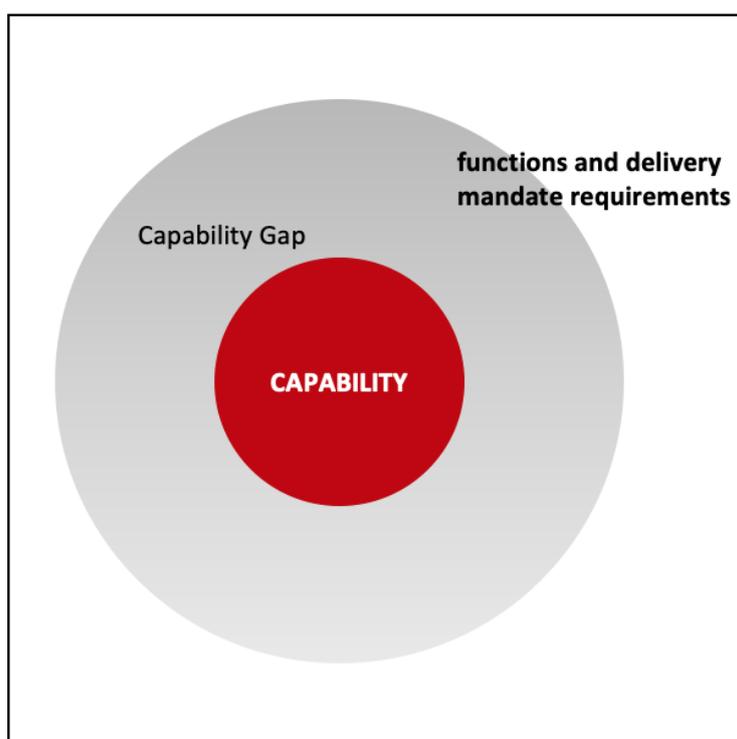
Capability across state institutions and the three spheres of government, varies considerably and—despite some systemic improvements—continues to face significant challenges related to complexities of inter-governmental cooperation and the legacy of apartheid dysfunctions (Palmer, Moodley and Parnell, 2017). In addition to a declining quality of municipal services in many locations, the overall state of local basic infrastructure is also declining (Watermeyer and Philips, 2020), due in part to a lack of maintenance. Sanitation and wastewater management

¹ Available at <https://www.news24.com/fin24/economy/south-africa/mboweni-fiscal-framework-is-sacrosanct-spending-ceiling-wont-be-adjusted-upwards-20210520>, accessed 22 May 2021.

outside of major urban areas has collectively received an 'E' rating from the South African Institute of Civil Engineering, meaning that it is considered unfit for purpose (ibid.). Each year significant amounts of money are invested in new infrastructure in local government, while maintenance of existing infrastructure continues to fall behind.

The current situation in local government, then, is one that can be summarised as the figure below: a significant gap between capability (the ability to get things done) and the functional and delivery obligations of municipalities (what needs to be done).

Figure 1.1: Conceptualising the capability gap



As the functions and delivery requirements of local government increase (such as an increase in regulatory reporting requirements, or additional functional areas being allocated to municipalities, or a significant increase in the demand for services), the capability gap will increase unless capability also expands by a commensurate quantum. That is, **declining capability is not the only possible reason for an expanding capability gap: the capability gap may also increase as a result of increasing demands on local government (i.e. an increase in the number of functions to be delivered, and/or a large increase in the number of households requiring services) that outpace improvements in capability.**

It is clear that there is currently a significant capability gap across local government in aggregate; the ability to get things done is much lower than what is required from it to fully discharge all functions and delivery obligations. This, of course, is an aggregate picture: in some municipalities the actual capability gap will be lower than the average, in others it will be much higher. However, it does appear that, over the past 20 years, this capability gap has probably widened,

or at the very best, not decreased. The persistence of this capability gap lies at the heart of the disappointing performance of local government.

In line with the definitions of 'capacity' and 'capability' presented in this Review, the conceptualisation of poor municipal performance as the result of a capability gap implies that attention should be focused on **all** the factors that contribute to capability (what is possible). This, in turn, implies that factors such as the political-administrative interface, and resource availability and prioritisation, should receive as much attention in addressing performance as do the skills of municipal officials.

Conceptualising the current situation in local government as a capability gap implies that the over-arching questions for this Review to answer are:

- Why are current capacity building programmes not contributing to a reduction of the capability gap?
- What system changes are needed to increase the likelihood that programmes will reduce the capability gap?

3 Structure of Review

Chapter 2 sets out the context for this Review; the over-arching legislative environment within which current capability building programmes are located (and to which they are intended to respond) and a review of relevant local and international literature.

Chapter 3 sets out the key findings from the research; both the findings from the desktop analysis and the interviews. It presents an overview of the details of the current system – system participants, details of programmes, and details of programme expenditure. This chapter presents answers to the first question detailed above: Why are current capacity building programmes not contributing to a reduction of the capacity gap?

Chapter 4 sets out proposals for how meaningful system change could be effected, and thus presents an answer to the second question – what system changes are needed to increase the likelihood that programmes will reduce the capability gap?

Chapter 5 sets out some possible next steps for the National Treasury in respect of moving ahead of the proposals for change.

2 CONTEXTUALISING THE REVIEW

In order to contextualise the findings from this Review it is necessary to have some reference points against which assessments can be made: on what basis are findings to be assessed, and what are the main guidelines to be considered when making proposals to improve the system? Apart from the previous chapter – which indicates very clearly that there is a significant (and persistent) capability gap in local government despite two decades of efforts in respect of capacity building and support – the two main reference points for the assessment of findings are the following:

- (i) The legislative and regulatory context: what was the intended over-arching purpose of capacity building in local government? How well do current efforts reflect these original intentions? Are they well aligned with these parameters, or have actual efforts moved away from them?
- (ii) A review of the relevant literature: what does this indicate about why current efforts are not achieving the desired results, and what approaches could be adopted for improving programme efficacy?

NOTE: This chapter presents a summary of the main issues with respect to context. The complete regulatory and literature review is attached as Annexure A.

1 Legislative and regulatory context

South Africa's 1994 democratic transition was marked by a significant institutional transformation in both the structure and the operational mandate of the state. Many of these changes were implemented at the local government level, and it would not be an overstatement to say that the transformation of the state was the most drastic at this level. Prior to 1994, local municipalities covered only a relatively small area of South Africa, and were responsible for the delivery of a limited number of services to a small part of the population. The then inter-governmental structure reflected the lack of any meaningful decentralisation under the apartheid government (Klug, 2016).

A completely new kind of local government – sometimes called 'developmental local government' (ibid., p9) – was considered central to achieving South Africa's ambitious socio-economic transformation goals. A new wall-to-wall municipal system was introduced, and individual municipalities were allocated significantly more powers and functions. It was generally understood that these new municipal structures would require much greater numbers of skilled persons – to fill new positions and deliver these additional functions. At the same time, there was a general shortage of many of the necessary skills among a large portion of the population, reflecting a long history of segregated and inferior education for Black South Africans. That is, **the primary challenge for the then new local government was understood as increasing the skills of the people who worked in local government, so that they could deliver its developmental mandate.** The 1998 White Paper on Local Government stated that

“(s)ignificant support and investment are required to build administrative capacity for the new local government system.”

The primary source of the obligation to build capacity and support the development of local government is the 1996 Constitution of the Republic of South Africa (RSA 1996), and the notion of ‘capacity’ is directly linked to the ability of local government to exercise its powers and deliver its functions. The idea that local government requires support in order to reach the necessary level of capacity (i.e. that at which municipalities will be able to meet their constitutional objectives) is the rationale for Section 154(1). This section prescribes that “the national government and provincial governments, by legislative and other measures, must support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers and to perform their functions”. This is supplemented by Section 155 (6), which states that “Each provincial government... must ... (a) provide for the monitoring and support of local government in its province; and (b) promote the development of local government capacity to enable municipalities to perform their functions and manage their own affairs”.

A key point is that these efforts have a very clear purpose – to enable local government to meet its developmental objectives and obligations set out in Sections 152 and 153 of the Constitution; to perform their functions and exercise their powers as per the areas of functional competence listed in Schedules 4B and 5B of the Constitution, and to “manage their own affairs”. **That is, capacity building was clearly conceptualised in the Constitution as an activity with a purpose – to enhance the ability of local government to deliver its developmental mandate. The implication of this ‘activity with a purpose’ constitutional definition of capacity building is that efforts should correctly be assessed on the basis of how effectively and efficiently they have contributed to that end, rather than on any attributes of the activities themselves².**

Further details of the conceptualisation of capacity within local government are contained in Section 25(1)(b) of the Municipal Systems Act 32 of 2000 (RSA 2000) which stipulates that Integrated Development Plans (IDPs) must align the resources and capacity of the municipality with the implementation of their IDPs. This is another underlining of the regulatory link between municipal capacity and the implementation of policies and plans that give effect to local government’s developmental mandate: the purpose of the former (resources and capacity) is to facilitate the latter (implementation of the IDP). It also gives a further suggestion that there is some kind of minimum capacity level that all municipalities should have in order to meet their constitutional obligations.

Section 51 of the Municipal Systems Act states that “A municipality must within its financial and administrative capacity establish and organise its administration in a manner that would enable the municipality to (a) be responsive to the needs of the local community; (b) facilitate a culture of public service and accountability among its staff (c) be performance orientated and focussed on the objects of local government in terms of 152 and its developmental duties in terms of 153

² Such as how many people were trained, or how many municipalities were included in a programme.

... (g) perform its functions through operationally effective and appropriate administrative mechanisms”.

Critically, Section 105 of the Municipal Systems Act – which states that each Member of the Executive Committee (MEC) responsible for local government in each province must establish mechanisms to monitor municipalities in the performance of their function, and assess the support needed to better perform those functions - indicates that there is **an obligation on provincial and national departments providing capacity building to apply their collective minds to determining exactly what kind of capacity building is required by municipalities. That is, the legislation contains an obligation both to monitor how well municipalities are doing in meeting their mandates, and to undertake some form of diagnostic assessment prior to the design and implementation of capacity building.** This diagnostic should be focused on what municipalities require to deliver their constitutional mandate (i.e. why they are falling short).

The Municipal Structures Act 117 of 1998 (RSA 1998b) defines “capacity, in relation to a municipality” as including “the administrative and financial management capacity and infrastructure that enables a municipality to collect revenue and to govern on its own initiative the local government affairs of its community”. Section 83 of the same Act determines that district municipalities (also) must seek to achieve developmental goals by building the capacity of local municipalities in their areas to **perform their functions and exercise their powers** where such capacity is lacking. Once again, this underscores the point that capacity building is an activity intended to facilitate a clear set of outcomes, and is not an end in itself.

The Municipal Finance Management Act (MFMA) 56 of 2003 (RSA 2003) emphasises that capacity building is an activity to be undertaken in order to generate a particular set of outcomes. Section 34(1) of the MFMA states that “the national and provincial governments must by agreement assist municipalities in building the capacity of municipalities for efficient, effective and transparent financial management”. This implies capacity building must be undertaken in a cooperative and integrated fashion by all spheres of government.

It should be noted that the reviewed legislation does not prescribe specific forms of capacity building and support. That is, it does not stipulate the details of exactly how that support should be structured, or even what the constituent components of capacity are or should be. Instead, the overall gist of the framing legislation is that support should entail assisting municipalities to identify the problems that are preventing them from meeting their objectives, and then support them in developing a suitable solution. This, in turn, supports the interpretation that **solutions should be designed to address the specific problems of particular municipalities.** It also implies that there is a clear obligation on implementing entities to design appropriate solutions that will actually result in long-term and sustainable improvement in the ability of local government to deliver its mandate.

The National Development Plan (NDP) (NPC 2011) is not in itself a piece of local government capacity building legislation, but it is the national apex planning document and contains a strong focus (in Chapter 13) on the necessity of building “a capable state”, which includes local

government. The NDP lists three over-arching development priorities, and the third is “Building the capability of the state to play a developmental, transformative role”. The important point here is that state capability in the NDP is – in line with the legislation discussed above – conceptualised as a means to an end, rather than as an end in itself. **That is, the aim of building a capable state is not ‘capability’ itself, but rather to ensure that the state is able to implement its developmental and transformative agenda.**

2 Main themes from the literature

The literature review focuses on obtaining insights into the following:

- How ‘capacity’ and ‘capability’ are defined in the literature, and also by the institutions responsible for enhancing these;
- The main factors that appear to be associated with well-performing programmes; and
- The main factors that appear to be associated with poorly-performing programmes.

The critical points are summarised below. In analysing the findings from the review of programmes and the interviews, these points are applied to the analysis. That is, how prevalent are the factors associated with good performance and poor performance in local programmes, and how can this explain programme outcomes?

1 Most of the literature is focused on ‘capacity’ and not ‘capability’, and definitions of ‘capacity’ and ‘capability’ vary greatly

Although the 1998 White Paper on Local Government (RSA 1998a) highlights the importance of strengthening capacity, it does not offer a detailed definition of what the constituent components of that capacity are. However, it could be inferred that this definition was heavily biased towards skills development through statements such as: “Training and capacity-building are an integral part of institutional development. All training and capacity-building initiatives should be linked to the national legislative and policy framework for skills development put forward by the Department of Labour.” In contrast, there is no meaningful discussion of any non-skills components contained in the White Paper. This limited definition has continued through most of the South African literature (and policy) in an unbroken line since the White Paper to the current times.

The analysis indicates that in much of the literature, and almost all of the South African literature, a narrow view of capacity is taken; that it is generally defined as consisting almost entirely of individual skills and expertise, together with the exercise of some ‘leadership’ (Ndou, 2015; Gqamane and Taylor, 2003). Many scholarly articles are completely silent on the role of internal factors, such as basic administration, standardised and documented business processes and control systems, in determining local government outcomes. This is despite the repeated highlighting of these issues as key factors undermining organisational outcomes by entities such as AGSA. The international position is much the same: “while empirical works on the determinants and consequences of state capacity have flourished in particular in the recent

years, questions about what state capacity truly is, how it should be captured, and other several methodological challenges associated with it are much less resolved” (Cingolani 2013, p2).

The result of these limited definitions is that the local government ‘problem’ is most commonly defined as a shortage of skills. **Lack of appropriate skills and expertise has become the shorthand for almost everything that is wrong with local government in South Africa** (Peters and van Nieuwenhuyzen, 2013). As a result, the ‘solution’ is thus either individual skills enhancement or the deployment of skills to a municipality, or a combination of both.

At the other end of the scale is **a relatively new body of work that speaks of ‘capability’ rather than ‘capacity’**, and further label it as “implementation capability” (Andrews, Pritchett and Woolcock, 2017). This term serves as a constant reminder that **the purpose of capability is to support an organisation’s ability to implement its mandate**. Andrews, Pritchett and Woolcock (ibid.) emphasise the point that almost all poorly performing states have reasonably good policies in place, and so the underlying problem is not one of policy development, but one of implementing existing policies. They also define ‘implementation capability’ as everything that supports that ability to implement, encompassing a much wider set of factors than just individual skills.

Barma *et al* (2014) also emphasise the fact that poorly performing states “do not lack best practices or up-to-date templates” (p29) and that the real problem in state reform is not the design of reforms, but their implementation. James (2018), too, emphasises the point that many developing countries have excellent policies and have made a public commitment to implementing those policies but very little actually gets done. The ‘missing link’ between policy goals and actual change is identified as state capability, which is defined as the ability to implement (ibid.).

Palmer, Moodley and Parnell’s (2017) seminal consideration of capacity building challenges in South Africa’s built environment sector, usefully defines the multiple dimensions of state ‘capability’—environmental, institutional, organisational and individual—which are all critically interlinked.

2 ‘Increasing capacity’ is generally presented as the solution to poorly performing state institutions, but the details of the underlying causal linkages (between capacity and outcomes) vary considerably across the literature and are often assumed rather than specified in detail

Almost all of the literature presents a high-level notion of capacity as something that is necessary to create something else, most commonly a more effective and efficient organisation (ESID, 2015). That is, capacity is mostly understood as a facilitator and enabler of outcomes, but the ways in which this causal relationship are envisaged (indeed, if the relationship is articulated in detail at all) vary considerably, and many are very superficial and not at all credible. That is, they operate on the assumption that ‘increasing capacity’ will somehow automatically translate into improved outcomes, without presenting any empirical evidence about how that will materialise.

The flip side of not having a detailed empirical model of the casual linkages between capacity building and organisational outcomes, but rather a set of loose assumptions, is that it is hard to understand why capacity building initiatives are not working well.

3 A significant percentage of capability building initiatives around the world (in developed and developing countries) have failed to meet their objectives of improving public sector outcomes

Many public sector reform initiatives (which include capacity building programmes) in the developing world have failed to meet all of their objectives (Bukonya and Yanguas, 2013). Potter and Brough (2004) state that “sub-optimal” results of capacity building initiatives are “all too common” (p342). The World Bank (2012) has pointed out that many such initiatives in the European Union have also failed to meet their goals. The reasons for these failures proposed in the texts are multiple, and include the following:

- The heavy focus on training to the exclusion of other initiatives necessary to improve outcomes
- The lack of a clear model of exactly what drives organisational outcomes (and so not focusing on the most effective remedies)
- Poor problem diagnosis
- Politics and vested interests
- The failure to build localised and context-specific solutions (uncritical importation of so-called ‘best practice’)

4 More successful programs tend to be comprehensive, focusing on multiple factors that make up overall organisational capability and tailor-made to deal with particular problems in particular contexts

The United Nations Capital Development Fund (UNCDF) points out that, although there is a great deal of activity in the capacity building space, and many theories proposed about how such programmes should be structured, “there is surprisingly little literature providing guidance as to how such principles are to be translated into practice within the institutional realities of specific national decentralization frameworks and local government systems” (UNCDF 2005, p3). However, there are some guidelines in the literature suggesting what kinds of approaches may work better than others. Bierschenk (2010) makes the important point that poorly performing public sector organisations are not the result of one single factor, but rather represent “the result of numerous cumulated micro-differences” (p1). As a result, there is no one ‘silver bullet’ to achieve sustainable and meaningful change.

Peters and van Nieuwenhuyzen (2013) point out that different municipalities have different challenges and operate in different contexts. They therefore require specialised, rather than generic, support in addressing their particular requirements. This once again underpins the importance of accurate problem diagnosis for each individual municipality. Low programme success rates are associated with simply adopting a ‘cut-and-paste’ approach to problem-solving. Evans (2004) also emphasises the importance of developing solutions that are co-

produced and co-developed with the organisation in question, and of involving the people who work there at all stages of problem identification and solution building.

5 Close performance management of programmes, linked to clear organisational outcome indicators, is a key factor contributing to successful initiatives

Peters and van Nieuwenhuyzen (2013) point out that although significant amounts of money have been spent on capacity building in South Africa, “very little research exists on whether such budgets and expenditure have translated into increased performance” (p271). Ajam (2012) highlights that in general the monitoring of programs (in terms of their impact) is poor, and that this greatly reduces the ability to objectively assess their effectiveness. This finding also suggests that programs may not be clearly linked in their design phase to addressing specific organisational outcomes, under a clear theory of change.

Further, there is a tendency (such as exhibited by Meyer and Le Roux, 2006) to assess the ‘success’ of capacity building programmes (such as training) by surveying the participants in such training as to how they rated the training, without any reference at all to any long-term impact on their organisations. This approach is unfortunately relatively common.

6 Meaningful and sustainable capability development is a long and complex process

Barma *et al* (2014) point out that “institution building is a dynamic, nonlinear process that moves in fits and starts and is often reversible” (p27). They also point out that high failure rates are associated with reform processes that are designed in relative isolation by a small group within the state, who then attempt to impose these reforms with little consultation and/or understanding of the complexities of the local contexts facing the organisations required to implement them (further reinforcing the finding above about the importance of context-driven solutions).

The ‘quick fixes’ approach that characterises much of the South African state undermines its efforts at building a capable state (NPC, 2011) and contributes to the sub-optimal use of resources. Successful examples of capability development in South Africa (such as the South African Revenue Services) underscore the importance both of taking a long-term view, and adopting an experimental and iterative approach where change is driven from within that organisation (Pearson, Pillay and Ledger, 2015).

7 The organisations responsible for developing capability must themselves have the requisite capability

Peters and van Nieuwenhuyzen (2013) point out that not all entities that are responsible for developing the capability of local government in South Africa have the requisite capability themselves to deliver on this obligation. Meyer and Venter (2014) came to the troubling conclusion that one of the reasons why so many programs that aim to improve service delivery in local government fail is because the implementing department is often unable to implement these as planned. **It thus appears that the entities responsible for improving the implementation capability of local government themselves lack the basic implementation**

capability to effect these improvements. This is undoubtedly a factor contributing to the low success rate of many programmes.

A central conclusion from the regulatory and literature review is that **where the ‘capability-as-enabler’ role is forgotten, or not made explicit, there is a strong tendency to present programme activities (such as training) as an end in itself.** Most programmes (not just in South Africa, but around the world) focus strongly on training and expert deployment as ‘solutions’. This is the *de facto* result even when other factors are acknowledged as being important in determining organisational outcomes. This limited skills development-centric approach is failing to have the intended impact, certainly in the context of South African local government.

Further, as programme progress is not measured against outcome impact indicators, but rather against activity indicators (such as how many people were trained, how much money was spent on deploying experts), much of this failure is effectively disguised as successful programme delivery, because of misdirected reporting.

The next chapter presents detailed findings, and analyses these against the main points from the regulatory and literature review.

3 KEY FINDINGS

This chapter sets out the key findings in respect of the diagnostic review, drawn from both the desktop survey and the interviews. The first section (3.1) describes the scale and scope of the current system – what is the relative role of the various entities in delivering capacity building; what are the main focus areas; and what is the financial scale of the system? The second section (3.2) presents detailed findings in respect of current challenges within that system: why are outcomes not reflecting the level of effort? What approaches appear to be working better than others?

The final section (3.3) presents the view from local government: how do municipalities view the current capacity building system, where do they experience shortcomings and what actions do they believe will effect improvements?

1 Scale and scope of the current system

The Table below summarises the main system components (by entity responsible for the supply of capacity building programmes) and expenditure for the 2019/20 financial year. A more detailed breakdown of programmes and expenditure for the five-year period from 2015/16 to 2019/20 is contained in the summary of programmes and detailed analysis in Annexure B, and the sources and details of the data method used to calculate these totals are set out in the data methods in Annexure C. Data related to initiatives supporting capability development, even if not expressly defined as such, is also included.

The main source for this data was the financial and non-financial data contained in the annual reports of identified supplier organisations for the five-year period from 2015/16 to 2019/20: national departments, all the provincial Treasuries, all the provincial COGTA/COGHSTA departments, and all the other entities listed in Annexure B.

Table 3.1: Capacity building programmes by organisation and expenditure for 2019/20 (R million)

PROGRAMME DELIVERY ENTITY	AMOUNT (R million)
National Treasury	1,007.4
Provincial Treasuries	513.7
National COGTA	1,109.7
Provincial COGTAs/COGHSTAs	3,036.2
Other National departments/entities	1,238.0
Municipalities	2,108.0
Other	62.3
TOTAL	9,075.3

NOTE: More than 50 per cent of the total expenditure for National COGTA in 2019/20 was attributable to the Project Management Unit (PMU, for infrastructure planning and implementation capacity) component of the Municipal Infrastructure Grant (MIG), which municipalities can claim on submission of the required application documentation.

The next figure (3.1) highlights the complex and significant number of interrelationships between the some 40 main entities and/or programmes providing capacity building measures to municipalities.

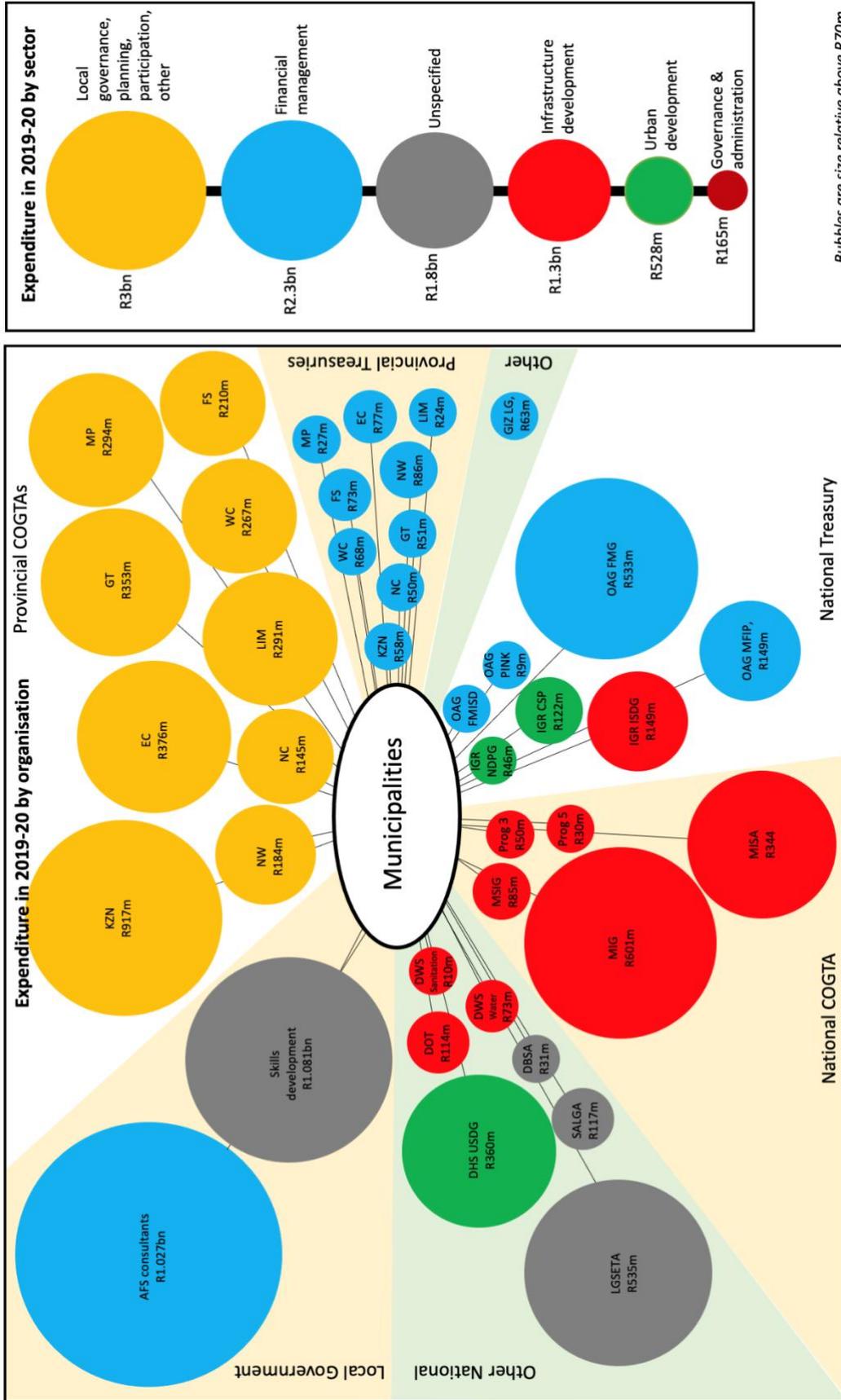
The main points in respect of the scale and scope of capacity building programmes in local government are the following:

1. Total expenditure is significant, and significantly higher than initially thought³. Expenditure in 2019/20 in terms of some 40 separate entities and/or programmes providing capacity building is estimated at just over R9 billion, and the total for the five years from 2015/16 to 2019/20 at R42.7 billion (despite the exclusion of MIG data for the years prior to 2018/19 as data is not available for those years, but the expenditure was incurred) implies that the actual five-year total is higher. Although the 2019/20 total may seem relatively small in comparison to the annual budget for local government of R481 billion (for the 2019/20 year), it equates to almost 13 per cent of the aggregate local government capital expenditure, R69 billion, for the same year.
2. Total expenditure includes all items considered relevant in terms of 'capability development'; with expenditure directed towards endeavours considered as both capacity building and capability development.
3. It is likely that this data reflects an under-estimation of total expenditure, for the following reasons:
 - There are a lot of very small capacity building programmes across a very wide number of departments that are not captured, due to an unavailability of data as these departments do not report on these activities as discrete budget line items (the existence of these programmes was highlighted during the interviews);
 - For many of the programmes (notably the conditional grants), the costs of administering these programmes was not taken into account, since this data was not available;
 - A conservative estimate was made of municipal own expenditure on skills development (this data is not reported separately); and
 - The only non-state actor captured was the German *Gesellschaft für Internationale Zusammenarbeit* (GIZ), due to unavailability of data.

These issues are discussed in more detail in the data methods detailed in Annexure C.

³ The Terms of Reference for this Review estimated annual expenditure at approximately R2.5 billion.

Figure 3.1: Architecture of current capacity building system



Bubbles are size relative above R70m

4. A significant amount of expenditure on capacity building is effectively invisible – that is, it is not clearly and consistently reported in any publicly available documentation (and had to be accessed from the programme administrators for the purposes of this research). This ‘invisible’ expenditure includes the capacity building components of the various conditional infrastructure grants (most notably MIG) and the expenditure incurred by municipalities on skills development.
5. Expenditure in 2019/20 was 16.4 per cents higher than in 2015/16 (excluding the MIG data for this purpose because of the lack of data for the programme for 2015/16), but this overall increase masks significant variations in expenditure by different entities: in general, conditional grants have increased over the period, as has direct expenditure by municipalities, but the picture in the provinces is much more mixed. Aggregate expenditure by provincial COGTA/COGHSTA departments was 16 per cent higher in 2019/20 than in 2015/16, but in two provinces (Free State and North West) it was practically unchanged over the period. In the Eastern Cape, expenditure in 2019/20 was 15 per cent **lower** than in 2015/16.
6. In 2019/20, the following contributions to total expenditure by entities were recorded:
 - Provincial COGTA/COGHSTA departments: 33 per cent of total
 - Municipalities direct spend: 23 per cent of total
 - All national departments combined: 29.4 per cent of total (National Treasury representing 11 per cent of total, National COGTA representing 12 per cent of total)
 - Other national entities (South African Local Government Association (SALGA), Development Bank of South Africa (DBSA) and LGSETA): 7.5 per cent of total
 - All provincial treasuries combined: 5.6 per cent of total
 - Others: 1 per cent of total

Provincial COGTA/COGHSTA departments together with municipalities’ direct spend (on skills development and the use of consultants to compile annual financial statements) account for almost 57 per cent of total system expenditure.

7. It is difficult to accurately differentiate categories of expenditure by intended capacity building purpose (financial management, infrastructure development, etc.) because of the way in which reporting is undertaken (largely by activity and not the end goal of the activity), and because almost all entities in this space are engaged in multiple focus areas, and not just one. However, it is clear that the two biggest categories are i) financial management, and governance and administration, and infrastructure planning and implementation (with most of expenditure on the latter coming from the conditional infrastructure grants, the Municipal Infrastructure Support Agency (MISA) and the provincial COGTA/COGHSTA departments). Hence a rough estimate based on programmatic information in Annexure B would suggest that i) about a third of expenditure is focused on financial management and governance; ii) about a third is focused on local governance, planning, public participation and other activities by the provincial COGTAs; and iii) the remaining third split across

infrastructure support, urban development and other unspecified general support functions. Refer to Figure 3.1.

8. National COGTA and the provincial COGTA/COGHSTAs are among the most significant role-players in capacity building, responsible for 45.7 per cent of the annual expenditure in the system.
9. There is evidence of duplication across conditional grants in respect of capacity building, with multiple grants that are either focused on capacity building, or include a portion for capacity building. This increases administration costs across the system, and encourages a fragmented approach.

2 Research findings: what are the main factors impacting system outcomes?

Despite the fact that so many different entities are engaged in so many capacity building efforts, the capability gap in local government – that is, the difference between what needs to be done and the ability to actually do what needs to be done – persists, as detailed in Chapter 1. What can be concluded about why that is the case?

For this analysis, the findings from the detailed desktop review of the details of capacity building initiatives are combined with input from the interviews held with predominantly public sector actors (see Annexure D). These findings have been considered against the key points identified in the regulatory and literature review. The main points in respect of why current capacity building efforts not achieving the desired outcomes – a more effective and better functioning local government – are the following:

- The focus is largely on building individual capacity and not organisational capability;
- The focus is clearly on short-term fixes of symptoms, rather than long-term change that addresses underlying problems;
- Impact (outcome) reporting by any of the programmes is limited;
- The design and expenditure priorities of programmes often reflects pressure to comply, or shifting political priorities, rather than the long-term goal of sustainable and meaningful organisational development;
- Programmes are fragmented and multiple entities are jostling for municipal attention;
- Extensive municipal monitoring and reporting have not translated into detailed problem diagnosis;
- It is difficult to effect significant and sustainable change in the way in which people do their work, and most programmes do not address this challenge;
- Some municipalities may never have the capability to deliver every aspect of their mandate to an acceptable standard and within cost limits; and
- Mutual cooperation across the system tends to be limited (both horizontally and vertically).

What conclusions can be drawn about the kinds of approaches that increase the likelihood of positive results? The interviews indicated that the following factors may be important:

- The ‘context’ of the initiative determines in large part how successful it is;
- Long-term programmes focusing on entrenching the basics appear to have better results, but are limited by resource constraints;
- More collaborative approaches and incorporating change management have shown better results; and
- Programmes with clear outcome targets are more likely to achieve them.

Each of these is discussed in more detail below, and together they present a detailed picture of not just why so many programmes appear to have failed to meet expectations, but also provide the basis for designing more effective solutions in the future.

Note: This chapter contains extensive quotes from interviews, as indicated in the quotations throughout. These interviews are instrumental in highlighting many of the challenges within the system that are not apparent from the desktop survey alone. Since the interviews were confidential, they are not attributed to particular individuals. It is important to remember that these quotes reflect the points of view of officials within the current capacity building system; their perceptions and lived experiences in their municipalities, provinces and/or national departments and reflect critical concerns about the entire system, rather than an absolute ‘truth’ about the system. Therefore, the interview extracts should be interpreted as the perceptions of those within the capacity building system, reflecting their own experiences about the system

1 Strong focus on individual capacity building rather than organisational capability development

Despite the fact that many programmes and frameworks for capacity building indicate an overarching intention to focus on a wide definition of capacity – individual, institutional and environmental – the reality is that **most programmes focus on capacitating individuals**. This largely takes the form of training, workshops, and related skills development initiatives. There is also a component of expert deployment in some programmes. In some cases, the aim of the deployment is to plug a temporary capacity gap, but often the hope is that the expert in question will succeed in increasing the skills of the persons he or she is working with. Expert deployment is thus often a (albeit optimistic) version of skills development.

As discussed in the front matter of this report, capacity indicates what is possible under ideal circumstances, while capability is what is possible under actual circumstances. If those circumstances significantly constrain what is possible, then it is very likely that a programme may allocate considerable time and resources on building capacity that is unable to contribute much if anything to enhanced organisational capability. The interviews indicate that this is a reality many of the supplier organisations are painfully aware of (even if they do not use this terminology):

Officials have told me on many occasions that “this course is empowering me, but how can I implement it in my (dysfunctional) municipality?”

You can capacitate the CFO and it's only the CFO that is working really hard, but he is in an organisation that doesn't allow him to make a difference.

You might get change at a personal level, but this might not translate into an improvement in the municipality.

A strong path-dependency embeds this long-term unwavering focus on individual capacity building since the 1990s: training and skills development is the way in which most capacity building programmes have been designed and implemented over the past twenty years. As a result, there is a strong concentration of related skills in the relevant departments (experts in skills development and the delivery of such programmes) and a strong sense of 'this is what we do'. The programmes and their contents are heavily entrenched, and thus by nature resistant to change. Even where the people implementing these programmes are aware that things need to be done differently (and the interviews revealed a considerable number of such people), their ability to radically change how they approach these challenges is limited by the locked-in path dependency of these programmes: programme indicators and the targets linked to those indicators are set in multi-year planning and reporting cycles. They cannot simply be abandoned overnight to experiment with something new that might work better. As one interviewee put it:

You can get stuck forever in capacity building these programs have built in their own perpetuity. Surely when you are doing capacity building, surely you have an end point, a point at which capacity has been built and then you stop, but we never get there.

This overwhelming focus on individual capacity effectively prevents a bigger picture view of the over-arching problem of capability gaps: since the 'solution' is already assumed to be only individual skills, there is no room for investigating all the other factors that contribute to capability gaps. Although individual capacity is certainly one important component of capability, it is far from all of it. Therefore, an almost exclusive focus on individual capacity building is only ever going to address one part of the problem, no matter how well it is executed.

Detracting further from the real issue at hand, namely the capability gap, it appears that many aspects of individual capacity building are not in fact being delivered in a manner that actually makes a meaningful contribution towards higher organisational capability: in theory, skills development should focus on the skills that the organisation requires to deliver its mandate. These might not always be the same as the skills that individuals would like to obtain in order to improve their labour market value (or just to spend some time on an interesting-sounding workshop), or must have to satisfy some legislative requirement. But a municipality with poorly designed processes and systems and an inappropriate organisational design is unlikely to accurately determine exactly what skills it needs to develop capability. It might have some idea of what skills the current structure requires, but if that structure is sub-optimal then there is no guarantee that getting those skills will actually make a meaningful impact on getting things done – on capability.

Many of the capacity building entities interviewed highlighted their reliance on municipalities being able to accurately identify their (real) skills development requirements (these supplier entities do not have the resources to do all this work themselves, although they certainly try and

assist municipalities in this process where they can). They state that this information from municipalities is often problematic, and that the lower the functionality of the municipality is, the less accurate that data will probably be. While a detailed skills audit should be the basis of individual capacity development, municipalities often present their Workplace Skills Plan (WSP) as their skills audit. The general sentiment expressed in the interviews is that the former (the WSP) is a very poor substitute for the latter (an audit), since individual skills development plans (which are consolidated into the organisational WSP) are seldom well aligned with long-term organisational goals. **That is, the municipalities most in need of an accurate skills audit are those least likely to be able to produce one:**

The training that we do is not really based on anything – there are no proper skills audits.

The problem is that some municipalities just thumb suck those WSPs LGSETA doesn't actually check whether or not an actual skills audit has been done, instead of just training needs, and so you are not necessarily spending money on the right things.

WSP is actually a very poor substitute for a detailed skills audit plan, but the WSP is mandatory, so people do that.... And then we spend all this money on skills/capacity development linked to WSP.

Training happens because someone likes the name of the programme or the service provider, or it looks catchy or topical.

The interviews also highlighted that there is sometimes strong opposition to a detailed skills audit:

The unions oppose skills audits and changes in way of working.

There are other negative implications of focusing the bulk of resources on individual capacity building: not only is this an inadequate strategy for developing organisational capability, it is **also a relatively high risk and high cost strategy**, because of the significant staff turnover in many parts of local government. Once again, it is the most dysfunctional municipalities – and therefore those that are in greatest need of effective capability development – that are most likely to have high staff turnover:

Staff and councilor turnover is a very big problem: people move around a lot, and we can't stop that. So we keep training people over and over on the same things, but we don't actually change the municipality.

You keep doing the same thing over and over again. There is no institutional memory and ability to build experience.

Just as people start to get the hang of things – voila! It's time to go.... we keep doing this circle of training and training but we never get critical mass.

2 Short-term fixes of symptoms, rather than long-term change

The programme analysis and interviews indicate a clear bias toward short-term fixes, rather than long-term investments in incrementally and sustainably developing organisational capability. The motivation for many of these quick-fix responses originates in events like service delivery protests or the collapse of infrastructure that gets media attention, or a poor audit outcome. In these instances, the motivation for capacity building activities is much more likely 'to be seen to

be doing something' rather than long-term structural change. The entities responsible for the delivery of capacity building feel considerable pressure – particularly when there is a lot of media and political attention on a particular problem – to adopt this short-term fix approach, even if they understand that it is not ultimately the best strategy for addressing the problems of local government.

I have found that a lot of the time the department intervenes because the house is on fire.

You need a minimum of 18 months to 3 years – there is absolutely no way that you can fix a municipality in such a short period of time like 6 months, but that is what people want.

Closely related to this issue is the widespread treatment of 'symptoms' rather than the underlying problem, since it is almost the symptoms that get the attention, and create the pressure 'to do something'.

We always try and treat the symptom. We (a municipality in the province) get a bad audit and send a CFO – but a bad audit is the result of all sorts of things beyond the CFO.

The audit outcome is a bad outcome, but we treat it like an output and we can go and fix that output. But it's an outcome and it's the result of all sorts of other outputs and activities, but we don't do anything about any of those things.

We all try to do financial management, because everybody sees that there is a financial problem, but what is the actual core of the problem?

Part of the problem is that the problems that are 'underneath' are much stronger than what you see on the surface – what are the underlying reasons for things like poor water service delivery?

3 Limited impact (outcome) reporting by any of the programmes

A critical factor for assessing the success (or lack thereof) of any programme is whether or not it impacted the municipality's ability to implement its mandate – to deliver what it is required to deliver. In the absence of such information it is almost impossible to determine whether or not a particular programme can be deemed either successful, or representing value for money. In addition, detailed performance information is needed in order to determine how programme activities have impacted outcomes, in order to make strategic decisions about where to focus additional efforts, or to change programme design.

Unfortunately, in respect of most⁴ programmes, no such impact reporting is undertaken. Although almost all programmes have performance indicators listed (and some have a very large number of such indicators – as samples in Annexure E show) most of these relate either to the activities of the programme (how many people attended a workshop, how many municipalities were 'supported', what percentage of the grant was spent by municipalities, etc.) or to (largely) administrative outputs (how many reports of a particular kinds were produced by municipalities, how many policies were finalised, how many interns were placed, etc.). At no point is a clear

⁴ For some 'add-on' programmes such as the portions of conditional infrastructure grant expenditure that can be allocated to capacity building, there is very little reporting, including the actual amounts allocated for this purpose.

causal connection drawn between these activities and outputs, and the service delivery mandate of a municipality. Although the general state of local government described in Chapter 1 should suggest that the vast majority of these programmes are not in fact having an impact on municipal performance, most programmes do in fact assess themselves as ‘successful’ because they have delivered these indicators as targeted.

There are some important areas (in terms of total expenditure) where there is effectively no reporting at all on what that expenditure has achieved in terms of the impact on local government’s ability to deliver its mandate: this is in respect of the ‘invisible’ programmes referred to in Section 3.1 above. These include the capacity building components of various conditional infrastructure grants and the expenditure on skills development incurred by municipality. In these instances, the reporting reflects the expenditure incurred and the services procured through that expenditure.

The failure to focus on the desired outcome (long-term improvement in the state of local government) but rather on the activities of the various programmes means that a widespread, but false illusion of success has been generated, when in fact no such thing can be claimed. The general use of activity indicators (training, grant expenditure, report writing) rather than impact indicators is probably the most important factor that has permitted the current system of capacity building to remain in place, despite the lack of significant improvements.

It is important to point out that the lack of impact reporting does not represent any clear intention to mislead: instead it is the result of the effective substitution of (individual) capacity building for capability development, and the entrenchment of this approach over any other. If the ‘solution’ to municipal problems is generally agreed to be individual capacity building, or compliance with regulation (more on that below), or the generation of reports, then it makes sense to report on that activity. The assumption of what the solution is – across all government departments, national and provincial – has effectively prevented any deeper investigation of the causal linkages between programme activities and municipal outcomes, and so these causal linkages are taken as given. The entire system is focused on these surface (symptom) activities, rather than critical diagnosis of the reasons for the capability gap. It is thus only to be expected that all the reporting in the system reflects those surface activities.

It is also important to point out that the integrated and complex nature of problems in a municipality makes it hard to measure impact of a programme that is designed and delivered in the siloed (mandate-limited) fashion that is the current structure. If a particular programme is only responsible for one part of a problem, how does it measure then its impact on the entire problem?

Sometimes it’s hard to measure outcomes. You might have a goal to improve audit outcomes, but maybe the problem with the audit is Supply Chain Management, not financial management.

This problem is exacerbated by the lack (once again well illustrated by the contents of Annexure E) of a common standard of reporting indicators across all programmes. This, in turn, reflects the fact that national priorities for capacity building are regularly ‘lost in translation’ between

the national department and the provinces. Although a local response to local problems is desirable, there is no evidence that rigorous local problem diagnosis is actually the reason for these variations:

We will have a national priority, and then the province will say – actually this is our priority – and we have no idea of how they set those up.

We cannot even measure the [overall] impact because everyone will be reporting on something different.

Where any impact reporting is done, it tends to take the form of asking training attendees whether or not they found the training useful. This is a very poor assessment tool: not only are many employees not in a position to be able to determine how (or whether) that training actually contributed to the capability of the municipality, but where training is undertaken by private companies, they have a vested interest in delivering training that attendees will enjoy (and so give a high score to) rather than training that is useful. That is, they are biased towards delivering training that attendees will rate highly so that they have the opportunity to do it again.

4 Programme design and expenditure priorities often reflect pressure to comply or shifting political priorities

The fact that detailed diagnosis of the reasons for the capability gap is not an important factor determining programme design (although it should be) has been discussed above. Therefore, one of the key questions in the research was the following: what does determine the design of programmes and influence expenditure on capacity building? Why are certain activities selected over others?

Over and above the impact of short-termism and quick fixes on programme design, the interviews indicated very clearly that there are two other factors at work. The most important of these (and probably the most important factor determining design and expenditure decisions) is **the pressure to comply**, either with regulation or with political priorities. One of the most notable of these pressures appears to be to obtain a good audit outcome: municipalities alone spend just over R1 billion on consultants each year to compile annual financial statements, and interviews suggest that additional programme expenditure is allocated toward achieving this goal. Political pressure to achieve a good audit means that the CFO is incentivised to hire consultants to do the work, rather than relying on less-skilled staff, even if that would result in the latter slowly contributing to improved capability of the organisation.

The pressure that is put on CFOs to get a clean audit means you want someone (a consultant) to back up your work..... there is huge pressure to get clean audits.

CFOs and other senior officials are actually incentivised for compliance and not long-term change, because your bosses want improvements straight away, and then you need to show improvements so that you can keep your job.

The focus on finance has been driven by the strong focus on audit outcomes, and [addressing the] deteriorating outcomes and public opinion of these issues.

Compliance pressure is also a factor generally perceived to contribute to the high number of capacity building programme indicators that focus on outputs such reports, policy manuals,

procedure manuals, etc. The point here is not that compliance is a bad thing, but rather that in many instances compliance is being elevated as a priority way above long-term improvements in capability, especially if that means that some municipal compliance outputs are less than ideal for a few years. A constrained resource environment means that the response to the (significant) compliance pressure may be to prioritise compliance at the expense of other issues that should be more important. (Note that more than R1 billion is spent each year on consultants to assist with the annual financial statements alone.)

Why are we over-emphasising this (a clean audit) at the expense of the core mandate of the municipality? They spend a lot of money on good finance people, but there are potholes in the streets and no water provision.

Municipalities end up spending a huge amount of money trying to do things like asset registers, etc. and this money could be used for service delivery instead.

The pressure to prioritise compliance activities over long-term operational improvements can result in municipalities turning down offers of support for the latter and asking for assistance with the former:

We want to do 'capacity development' – not just focusing on people but [ensuring] that actual processes and procedures are improved [but] all the CFO wants is the Annual Financial Statement, or someone wants a performance management manual, no one is interested in the big picture.

Additionally, there is no direct, automatic and perfectly predictable causal link between compliance and improved capability. It is perfectly possible (and in fact this happens all the time) for a municipality to comply in respect of producing documents, policies, reports etc. without actually improving its long-term ability to deliver its mandate. That is, the municipality gives the impression of making progress (lots of policies, procedure manuals and reports) while little is actually improving on the ground. As pointed out by Andrews, Pritchett and Woolcock (2017) there is often very little guarantee that having a policy will result in its contents actually being delivered.

In addition, overwhelming pressure to comply reduces the space for innovation, which is exactly what is required to address complex challenges:

We have completely stifled all innovation. We have elevated compliance above everything else.

The focus on compliance is driven not just by the political prioritisation of items such as a clean audit, but also by the high regulatory burden on local municipalities. The Financial and Fiscal Commission in 2014 highlighted the extensive regulatory burden on local government (FFC, 2014), and it has increased since then. There is a position within national government that this over regulation is necessary:

Yes, local government is over-regulated because it is an immature system, so we have to over-regulate things to compensate for that immaturity so we can plug all the potential holes.

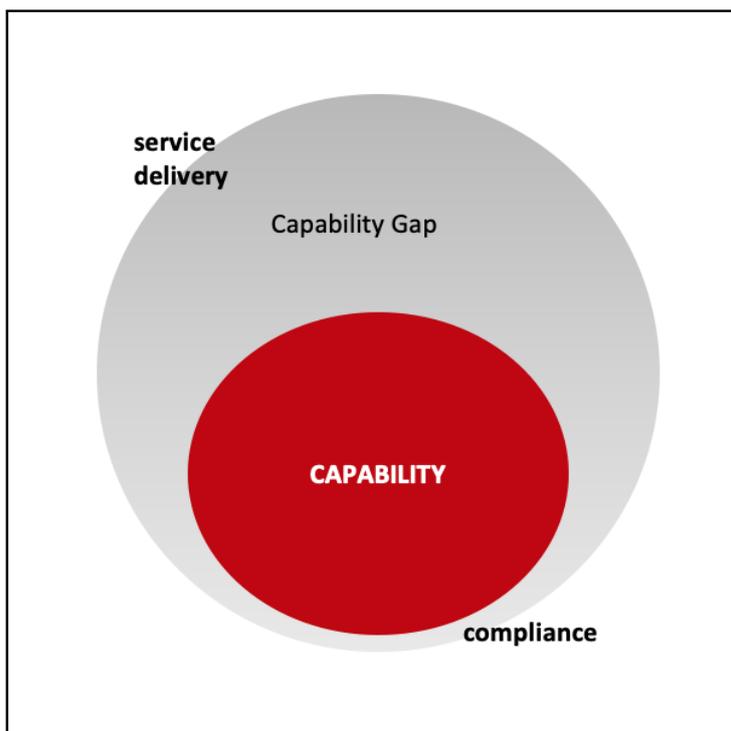
The alternative point of view (Andrews, Pritchett and Woolcock 2017) is that this an entirely counter-productive approach: that over-burdening a relatively immature system leads to 'premature load bearing' – imposing a heaving regulatory and/or delivery burden before there

is sufficient capability in the organisation to deliver those requirements – can effectively break organisations and render them incapable of delivering almost anything at all (ibid., p54):

“While perhaps little is known with certainty about how to build state capability, destroying it seems easy. Requiring organizations and institutions to perform tasks before they are actually capable of doing so can create too much pressure on the organization and its agents and lead to collapse even of what small capability might have been built. When such processes are consistently repeated, premature load bearing reinforces capability traps—by asking too much of too little too soon too often (the “four toos”), the very possibility and legitimacy of reform and capability building is compromised.”

The effect of excessive compliance pressure in an organisation that already has a notable capability gap is illustrated in the Figure 3.2 next, which can be compared with Figure 1.1. What this indicates is that when the demands on a municipality increase in one area (such as compliance) and there is sufficient pressure to force prioritisation of these demands (such as the pressure exerted to improve audit outcomes), scarce capability will shift towards reducing the gap in respect of those demands only. The effective result is that the capability gap may possibly be reduced in respect of compliance (thereby giving the impression that things are improving), but the capability gap is now being ‘stretched’ in other areas, such as basic service delivery.

Figure 3.2: Compliance-induced organisational pressure



The mismatch between the nature of the organisations delivering capacity building and what is actually required means that everyone is trying to address only one part of a problem, with predictably low success rates:

The traditional approach to capacity building is we go to municipality 1 and offer revenue enhancement, MISA goes to municipality 2 and offers township development, (the Department of Water and Sanitation)

goes to municipality 3 and offers water management – so everyone is doing an ad hoc approach based on their own specialities.

We cannot deliver our services in a bubble. The municipality has 32 functions – only 2 are done by this department, so what can we actually impact?

We learned that when you go to municipality and you see potholes, it might not be that they need a technical solution – that is, the problem is not necessarily that they need pothole filling skills. There can be all sorts of other reasons for why infrastructure is in a state of disrepair. Like Supply Chain Management or governance or finance or administration. The answer isn't always a shortage of technical skills

As illustrated by the multiple indicators in Annexure E, most programmes are trying to cover a very wide range of activities in a wide range of functional areas (driven in part by compliance pressure and poor prioritisation). This results in a fragmented approach, where a programme ends up doing very little bits of lots of things in lots of places.

There is also a great deal of duplication of efforts in the same area, such as financial management⁵, and infrastructure facilitation. Despite attempts at improving coordination, there is both opposition and practical difficulties to doing things differently:

People keep talking about coordination, but they keep fighting about the fact that people want to hang onto their own budgets and own areas of competencies. No one wants to hand it over to someone else.

The left hand doesn't know what the right hand is doing..... the same person gets trained over and over again.

Everyone in this space is doing things their own way: no one thinks – what do we actually want to see at the end of the day? We don't work towards that together.

(There are) very different perspectives from a national, provincial and local view of what is actually going on in local government.

In almost all municipalities there are all sorts of other people working on capacity. It's very difficult to align these – they have done a diagnosis, made a plan and allocated budget and appointed service providers. Delivering this plan is now a contractual obligation – they can't get there and see, OK there is duplication, we need to do something different, this is not possible

Coordination is not just an issue among the various departments or across spheres, but also within the same department.

You think there is a challenge between departments? You have no idea of the challenges within departments – trying to get answers or coordination from one organisation. You are sent from pillar to post within an organisation just to try and find out who is responsible for the thing that you need information about.

Not only does duplication and fragmentation dilute efforts and waste resources, it can also actively undermine efforts to develop capability. It is important to note that almost all entities conduct some form of capacity building in all provinces, albeit on a relatively small scale, that

⁵ This duplication may be due to overlapping oversight roles in respect of revenue management contained in the Municipal Systems Act and the Municipal Finance Management Act; National Treasury and COGTA aim to address these overlaps through a joint MOU, but this had not been finalised at the time of the writing of this report.

has not been captured in this review because they are relatively small and because they are not reported on as separate expenditure items by the relevant departments.

The reality is that almost every department has some kind of capacity building – sports, culture, Premier’s Office. Actually everyone is doing whatever is the flavour of the month for training – it is seen as an easy thing to do.

Although these initiatives are small, they all compete for the attention of municipal officials. ‘Capacity building fatigue’ has become a real concern; the proliferation of training and workshop activities means that staff sometimes avoid them because they do not have time to do their work. Or these multiple opportunities offer an excellent excuse *not* to do any work:

There are a lot of different departments in a municipality, all of them fighting for space to find time for training – COGTA, SALGA, Treasury, etc. So they (municipal staff) will not accept any other training because it’s just too much time.

In one province, an annual report of a capacity building supplier entity highlighted that local councilors had spent so much time in workshops on how to improve by-laws that they had failed to attend council meetings, and as a result the municipality had failed to actually pass any by-laws.

High levels of fragmentation and duplication are reasons for why the current system – despite all the dedicated resources – is failing to have the desired impact: there are just too many system participants trying to do too many things in too many places, all at the same time.

6 Extensive municipal monitoring and reporting has not translated into detailed problem diagnosis

A review of programmes – particularly at the provincial level – indicates a strong focus on collecting information from municipalities, the ‘monitoring’ obligation imposed by the Constitution. Although data collection in itself may be a (very) useful tool, there are a number of attributes of the current approach that are – at best – not contributing much to better programmes, and – at worst – are actually undermining efforts.

Interviews highlighted that much of the data collection (which largely reflects an obligation on municipalities to submit reports) is not meeting any strategic goal, but rather reflects compliance with the requirement to ‘monitor’ local government. Issues were raised about the practical difficulties of actually working through an ever-increasing pile of paper, and then actually designing a customised programme for a municipality based on its contents.

It doesn’t help to just keep saying that you are ‘monitoring’ but we don’t actually use any of that information to actually assist the municipality – that is something that is separate. I tell you that I have a headache – and then you come and ask me if I am OK and I say – I told you I had a headache, but you still don’t do anything about my headache..... Everybody wants reports from everyone else, but they still carry on doing whatever it was that they were doing..... So what does it help to write all these reports? Every year we write the same thing in these reports – the same sickness and no cure.

We go there because the minister says we must, and then we do a report, but nothing actually gets done: Are we actually able to assist them? We can do a report, but can we actually fix things?

Endless report writing by municipalities diverts time and resources from other (more important) areas. But probably the most important negative impact of this situation is that **this has been substituted in large part for detailed problem diagnosis. That is, the ever-growing pile of paper is often presented as proof of diagnosis, when it is not.** The literature review makes it clear that there can be no effective and sustainable solution without a detailed problem diagnosis. Accurate diagnosis requires a multi-disciplinary team to spend an extended period of time in a municipality, developing a deep understanding of exactly what is going on (or not going on) and why. The interviews highlighted that many officials are aware that there is a gap in respect of detailed problem diagnosis, but that the current structure of the capacity building system allows little room or time for deep-dive diagnostics in individual municipalities.

There actually isn't an approach that says lets really look at this municipality beyond a desktop analysis, and talk to all the stakeholders and then do a good diagnosis and develop a detailed solution.

We are not diagnosing the root causes of the problems, and maybe we are not doing that because we don't get enough time to do a proper diagnosis.

It's difficult to tailor make training just for one municipality – we can't do that.

7 It is difficult to effect significant and sustainable change in the way in which people do their work

In order for individual capacity building initiatives to actually contribute to improved organisational capability (rather than just a better skilled individual), it is often necessary for people in a municipality to change the way in which they do things; to work according to new processes or systems, or to amend their job descriptions. And achieving this is no easy task. Opposition to change (particularly significant change) appears to be more the rule than the exception.

There is a tendency across national and provincial government to present this opposition as merely a result of 'poor consequence management' or to be motivated by politics or corruption. This simplistic analysis is not helpful, as the reality is much more complex. As just one example, many lower-skilled staff who have been doing things in a certain way for a long period of time are genuinely concerned that they will be unable to cope with these changes, and are afraid of losing their jobs, or being demoted, as a result. Given current levels of unemployment, particularly in rural areas, the fear of unemployment is a significant motivator. As outlined above, unions also tend to oppose anything that looks like a change in working conditions on the basis that this is a ruse for dismissing staff. Managers are wary of antagonising either staff or unions. Under these circumstances, it not simply a matter of issuing some kind of command and simply expecting that people will change the way in which they work overnight (or ever).

Officials have been doing things in a certain way for such a long time, getting them to change is a big issue. It's very difficult to discipline or dismiss staff who won't change the way in which they work: this makes change very difficult – the person just refuses to do what you have recommended.

Effective long-term change management strategies would go a long way towards resolving some of these issues (see 3.2.12 below) but they are very seldom included as part of a programme.

Change management is a huge issue – how to get people to buy in so that recommendations are actually implemented. We need to do things from a practical level – so people can really understand the implications in the big picture for their work.

Changing the behaviour of individuals is the most important thing: people must understand what is needed, and how they as an individual can impact the system

The need for – and lack of – change management skills is also mentioned in interviews as a reason why the deployment of experts (finance experts, engineers) so often does not result in meaningful change in the municipality:

The technocrat is very seldom an expert in getting the municipality to do something different, and actually make a difference. He is an expert at doing the work, not changing the municipality. He gets measured on (a specific) municipal output, not actual systematic change.

Technical experts are experts in technical issues, and not in organisational change, or how to create buy-in or how to encourage different ways of doing things.

8 Some municipalities may never achieve the required capability to deliver every aspect of their mandate

Many of the interviews highlight the issues of structural versus capability problems: that is, there seems to be a perception by many system participants that some municipalities are never going to be in a position to deliver their entire mandate to an acceptable standard. If that is indeed the case, then no amount of capacity building (or indeed capability development) is going to result in a municipality that satisfactorily delivers its Constitutional mandate, within current resource constraints. Of course, if a municipality has access to unlimited resources then even the smallest place with the lowest revenue base can supply any service, but resources have never been more constrained than they are now.

We think that capacity building will fix all our structural problems, and so we never think about fixing the structural issues.

We place these responsibilities on councilors in terms of the MFMA that they can never fulfil – but we don't want to address these structural issues, instead we just keep sending people on training.

Not every municipality that does not currently deliver its mandate is structurally unable to do so, but the possibility that this might be the case should not be dismissed. Many of the persons interviewed felt strongly that the current system is based on the assumption that every municipality can actually deliver basic services to a certain minimum standard, and that in some cases this assumption is both disadvantaging residents and wasting money.

What is the purpose of this municipality? Most of their revenue goes to admin and payroll and nothing else.

The review of powers and functions is critical: you need to be an accredited Water Services Authority (WSA) and if you can't get it right then you don't do it anymore..... These are very difficult services to deliver – it's not a library, or potholes.

Some of these municipalities are just not viable, but no one wants to admit that.

9 Mutual cooperation across the system is limited

In theory, all the three spheres of government are meant to work together in a cooperative manner, with each sphere having both rights and obligations in that respect. In the current system of capacity building, however, there are many examples where such a cooperative environment is not the reality, and this contributes to a number of the problems in the system. In the next section (3.3), the point of view of municipalities on this issue is discussed, particularly the fact that many believe that they are not sufficiently consulted and included in the design and implementation of a system that is intended to benefit them.

In this section, however, the focus is on the issue from the point of view of the implementing entities, those who deliver capacity building. From their perspective, the relationship with municipalities appears sometimes to be fractious (uncooperative), and in particular with those performing poorly. (Relations with better-performing municipalities are usually portrayed as warmer and more cooperative from this perspective, although the municipalities themselves sometimes beg to differ, as discussed below).

There is a general sentiment that the worst performing municipalities – that is, those who should have the greatest interest in improving their capability – are in fact the least likely to live up to their part of the cooperative government relationship. This requires that they exercise their best efforts to deliver their mandate. Not only do they often fail to do so, but there is a view that the current system actually rewards them for their bad behaviour because of the accepted obligation on national and provincial government to assist them.

For how long are we going to keep spending money? Municipalities know that they can do whatever they want, and eventually someone will come and bail them out..... The more you don't improve the more support you can get.

Positions are vacant because of political problems, but we have assisted them with a team to keep running the budget office.... the more chaos there is the more people can benefit. Instability is manufactured.

When you go in and provide support, when you go in you end up doing the work because 'you know better'..... You get a message from a municipality – 'the CFO is gone, can you send someone?' But then the case drags on, and the municipality is happy with the arrangement and so there is no incentive for them to resolve the issue..... They basically use the technocrat to do everything and then they go and do other things.

This situation has resulted in a great deal of frustration for some officials in the system in respect of the (relatively small group) of highly dysfunctional municipalities, who believe they are powerless to change anything:

We can't force the municipality to do anything – they have to do it.

We want to whip those municipalities, but we don't have any power – we can't whip them.

There are some municipalities where we just won't work – because of the toxic politics, it's either dangerous or pointless. But – you are still being expected to improve their outcomes.

At the same time, there are many officials in the system who believe that it is counterproductive, when working with municipalities who are genuinely committed to improvements, not to adopt

a more cooperative and consultative approach. The failure to embrace such an approach can undermine programme outcomes because the municipalities never take ownership of the imposed solution:

We think that we can fix municipalities without having anything to do with them – we can just go in and fix things on their behalf: if we do that, then why do we even bother to have municipalities?

But the reality is that perhaps even though we are unaware we find ourselves bullying municipalities and coming with resources and telling them that they are dysfunctional and we are there to fix them. So the municipalities do not take ownership, so things only last as long as the other party brings resources. Once I leave it all collapses because they have not bought into it – they didn't take ownership.

10 The context of the programme is key to its success

The administrative and political operational context within which a capacity building programme 'lands' appears to be an important factor contributing to the success of that programme. Municipalities that have an existing minimum level of functionality, that have reasonably stable political and senior management structures, and relatively high levels of staff morale are much more likely to reap benefits from programmes than those that do not exhibit these attributes.

The more stable the environment the more benefit there is, just the feel of the municipality is different the more troubled the municipality, the less the impact you are going to have: their minds are somewhere else..... the status and functioning of the municipality influences everybody's attitudes and commitment.

People will say "why do I need to attend training when the municipality is in this state?" Sometimes they attend to get away, and sometimes they don't attend because they don't see the point.

Why would anyone have the interest to contribute to the growth of the [dysfunctional] municipality? Why take time out if no one cares, no one is looking etc., why would one actually use the training to try and improve things?

Niche programmes that have the option of deciding which municipalities they will work with tend to have a clear understanding of where they might be wasting their time, and developing an appropriate response.

You can have as many technical experts as you like, if you don't have a functional institution or a conducive environment then nothing will happen..... One of the things we look at is readiness and willingness to receive support: we don't waste our time begging a municipality to cooperate. If we think they won't then we will pull out and put the resources in another place.

However, most provincial programmes do not have the 'luxury' of this choice – they have to try and work with all the municipalities under their current mandate.

The implication is that, under the current structure and operation of the capacity building system, a **municipality actually needs a certain minimum level of existing capability to benefit from capacity building. That is, the current system has an in-built bias against more dysfunctional municipalities**, who are the ones that require this support the most.

11 Long-term programmes focusing on entrenching the basics appear to have better results, but are limited by resource constraints

Most efforts under the current system are focused on training in some form or another (accredited training, workshops, information sessions and similar efforts). Capacity building does include the deployment of experts to fill capacity gaps, but generally this is envisaged as a skills transfer tool in addition to a direct capacity enhancement tool, although this dual goal doesn't always materialise. The interviews highlight that sometimes (and once again this is likely to be the case with the more dysfunctional municipalities) the expert that is deployed is viewed only as an additional resource, and not as a means of increasing skills. This may reflect the fact that deployed experts are often focusing on specialist (water engineering) or high-level (CFO) functions, where the main priority is in fact to get things done, to fix some problem, rather than increasing skills.

However, there is a general view that a long-term deployment of an expert with a different mandate – a clear skills development mandate, rather than a 'fix-a-problem' mandate – who works closely with people in a municipality over an extended period of time can add real value. Interestingly, the greatest value seems to be added by people who work with lower level staff, focusing on basic activities such as administration, record keeping and basic financial processes. The view is that these lower-level staff are the ones with the lowest turnover, and improvements in their work are thus more likely to be retained by the municipality. In addition, there is a clear belief that this on-the-job training over an extended period of time is much more likely to result in sustained improvements in municipal capacity and capability than training courses or workshops.

We are running a lot of individual capacity programmes: there are a lot of organisations in this space, and there are a lot of duplications, but we are still not doing well, because municipalities actually need more hands-on support.

People need a lot of real practical hands-on support: these are the implications of doing a budget like this, this is what you need to think about, think about what could go wrong, etc. In this way people really learn.

Despite the preference for this kind of support it is not used as often as many would like, largely because of the cost and the management time required to oversee such programmes. It is also important to note that there is a clear preference for deploying government officials in this capacity, rather than consultants: one sentiment expressed is that many consultants have no real interest in improving the municipality because to do so would be to remove their source of income. However, it is very difficult to send provincial staff to a municipality for an extended period of time.

The department doesn't have access to a large pool of people that can be deployed to municipalities. We tend to send people [only] when things are really bad, or there is an intervention.

12 More collaborative approaches and Incorporating change management have shown better results

This chapter highlights the difficulties of getting people to change the way that they do things, as well as the fact that many of the technical experts deployed to municipalities do not have the skills necessary to effect this change. Although it is still a very small component of the overall system, **there are some indications that adopting a collaborative partnership-based approach with a municipality, and giving careful attention to the issues of change management and organisational culture (which are seldom given as much credence as the ‘hard’ technical skills like engineering and financial management in capacity building and support programmes) can have better results than more traditional approaches (which do not incorporate these factors).**

The way in which you engage with the municipality makes an enormous difference to the reception that you get, and the corresponding attitude towards your input. The most successful reforms are those where you bring people along with you – you consult and get people to buy in.

We are introducing change, so we need change management people: we create uncertainty and opposition, so how do we address this People are very sensitive to changing municipal structures, but you can start a different kind of conversation around functions, and why organising certain functions in a certain way makes more sense.

You can't just keep saying 'they are not doing it' and never actually sit down with that person in their place of work and really truly try and understand what is going on..... Not only are you never able to actually fix the problem, you create a lot of opposition.

The findings suggest that incorporating these factors into more programmes may improve their success rate.

13 Programmes with clear outcome targets are more likely to achieve them

As discussed above, most of the capacity building programmes report on activities, and not on the outcomes that they aim (or should aim) to achieve. The result is that efforts are not clearly and constantly focused on achieving outcomes (rather than delivering activities) and this is most likely an important factor contributing to the generally low level of programme impact.

Where a programme **is** more focused on directing efforts towards a clear outcome, it appears that this is positively correlated with better programme outcomes. The example in this instance is the DBSA, which undertakes a limited amount of capacity building efforts in local government, mostly around the planning and delivery of infrastructure. This capacity building is motivated not by capacity building *per se*, but by achieving a clear outcome: the bank has a strong motivation to ensure that loans are actually repaid, and has realised that capacity shortfalls in specific areas within a municipality pose a threat to that goal. They then focus on **capacity building with a clear outcome goal** of improving the municipality's ability to use funding effectively. This gives a very clear focus to their efforts.

Capacity support is not the primary focus of the bank – but it's something that we have to do in order for the investments to work – we need stable institutions, good financial management and ability to manage the investment Because the people we fund have institutional challenges that pose a risk to our investments, we do institutional capacity and development.

We are not interested in training, leadership courses, whatever, whatever, whatever, but in making sure that infrastructure projects actually take place.

This approach focuses capacity building efforts on the desired outcomes; on the ‘productivity’ of capacity building, and the bank reports that they have good results. However, it should be noted that the DBSA only works with higher-functioning municipalities, which would also support better programme performance and outcomes.

3 View from local government

How do local municipalities view the capacity building system that has ostensibly been put together to support them? How do they assess the impact of their own efforts in respect of capacity building (i.e. their own expenditure on skills development)? Interviews with officials in municipalities highlight a number of insights into problems in the current system as well as thoughts around how the system could be improved. (The details of the interview method used and the municipalities that participated are included in Annexure D).

Municipalities reinforced many of the points made by the supplier entities in respect of the generally low level of success of capacity building programmes, the frustrations of continually training staff who then leave, and the very real difficulties of getting municipal officials to work in a different way and/or re-structuring a municipality.

From my perspective, National Treasury and COGTA have spent a lot of money on capacity building. Has it yielded fruits? The answer is no. Why? We remain with the same challenges. Municipalities are regressing.

We are doing a ‘tick box approach’ – just send everyone on a course and then you have done capacity building.

That (staff turnover) is the biggest problem. In the finance department, you must train as many as possible. Because of the rare skills, and people keep leaving..... you train them and then they are gone.

We, [the new management team] found in the finance department people didn’t have the right qualifications, it was especially bad. We can’t get rid of people. We move them to other departments, take them to other directorates where they are more relevant.

It is interesting to note that many respondents indicate that this kind of consultation (i.e. the municipal interviews undertaken as part of the Diagnostic Review) does not happen very often. Municipalities very much want to work in a more collaborative environment, and believe that such an environment would contribute to better outcomes. There is a general sentiment that the current system pays very little attention to their actual requirements, and that this is one of the reasons for its generally poor impacts.

They’re (the province) not listening to the municipality. I have asked – there are certain areas where we need help, but nothing happens.

The problem with the province is that the people who have oversight roles have never worked in a municipality.

National and provincial talk about us – they don’t talk with us..... They draft legislation, regulations policies – whatever impacts us – we are the last to hear about it. How can we have a programme to support local government and we are not included?

Many (capacity building programmes) are neither designed nor implemented in a cooperative manner.

The view is that more collaborative approaches, in the spirit of cooperative government, that focus on understanding what the underlying problem is and working with the municipality in developing solutions will achieve better results. Municipal officials are unhappy that they are so often portrayed in the national narrative as incompetent (or worse) and thus incapable of contributing to more sustainable improvements. Despite all the talk of ‘collaboration’ in official documents, there is a strong sense that capacity building is something that is done to municipalities, and not with them.

What is capacity building? All of this starts with the idea that people don’t know how to do their jobs – this notion is problematic.

Going to a municipality with a whole group of senior politicians isn’t support, it’s intimidation.

The municipalities highlighted what they believe to be excessive regulation (especially reporting, which many believe is a waste of time and resources), and the high cost of compliance, which diverts resources from other areas where they are urgently needed. A strong sentiment was expressed (by better-performing municipalities) that excessive regulation and compliance works to punish them, while making no real impact on the worst performers.

We are making rules for the worst-performing municipalities, who don’t observe them anyway.

They look at the problem, and they don’t think about how they have contributed to the problem, they don’t understand how they generate unintended consequences. The theory of unintended consequences was drafted in Pretoria..... The new personal liability regulations are going to make it even more difficult to get good people: surely that wasn’t the intention of the legislation?

The clean audit at almost all costs – this pressure completely removes the room for innovative responses that we need.

We waste a lot of time on reporting our challenges for nothing we are just reporting and reporting (but) they don’t assist with any of the issues.

It is not just excessive report writing that contributes to the cost of compliance; national directives in respect of required capacity (which aim to increase capacity) also have cost implications for smaller municipalities, which they believe have not been sufficiently taken into account. One point of view is that municipalities with demonstrably good governance (such as a clean audit) should be given more discretion to decide for themselves what kinds of competency are needed. They believe that such flexibility would allow them to develop more cost effective solutions.

The A-G, from a supply chain point of view, insisted we must have directors, that the members of the adjudication committee must be directors The organogram only made provision for the CFO and Technical Services so we only have one director. Corporate Services falls directly under the MM. We don’t have much money, so how can we afford these posts?

How do we afford the skills that (regulation) says we must have? No one thinks about that.

Now we need a waste officer and an environmental officer, etc., etc., so that we have enough ‘capacity’ but how are we supposed to pay for that? In a small town you can’t always find someone that meets the official requirements, but you can still find someone who can do the work.

It is very difficult for a municipality to be able to afford the specialist accredited technical training. So you keep delaying training your staff because it expensive To upgrade technical and engineering skills costs money, and then they might also leave after you have spent all that money.

One capacity building issue that was flagged in more than one interview is the blanket ban on employing persons over the age of 65: retired (usually private sector) engineers offer a potentially excellent source of relatively cheap capacity – in a very scarce skills area – in smaller and more rural municipalities. It also appears that these retired professionals are often effective mentors of more junior staff. However, municipalities are unable to employ them because of the existing rules. This seems to be a significant lost opportunity.

We then appointed someone over retirement age (in an engineering position) and there were problems, we had to cancel his contract.

Some interview respondents highlight the importance of designing and implementing solutions based on the specific requirements of a particular municipality, rather than more generic programmes, which they believe are the norm.

The issue I want to be raised is that it's not one-size fits all. Municipalities are not all the same. The dynamics in Klerksdorp are different from in a rural municipality. When you provide help you are dealing with two different animals, so the approach can't be the same.

Finally, the interviews highlight the importance of differentiating between structural issues that undermine municipal performance and capacity issues, since they require very different responses. Respondents expressed their view that infrastructure grants in some areas are complex and uncoordinated, and that this often makes infrastructure planning and development very complicated. However, poor infrastructure delivery is always equated to 'a lack of capacity' rather than these structural issues. They believe that a more collaborative relationship in respect of problem diagnosis and solution development would surface these issues, and thus contribute to more effective solutions.

There is no coordination among different infrastructure funders –each will only fund their own focused area – and this creates real problems for us.

Infrastructure – especially water and sanitation – is very poorly funded in an extremely complex manner.

4 Implications of findings

Despite significant resources and a wide range of programmes, current capacity building efforts are generally failing to achieve the desired impact. There are numerous reasons for this, as detailed above, but the over-arching theme is that **radical change to the system is required; that merely continuing to do what is currently being done, with a few efficiency and cost-effectiveness improvements will most likely never generate the required impact.**

We need a radical change in the entire system.... we are just wasting our time with what we are doing with skills.

We have big problems, particularly in deep rural areas, it will take much more than what we are currently doing or we will never fix it.

We can't keep doing the same things. Water and sanitation is a basic right – we can't keep delivering it so badly: we need a different model to ensure that these services are actually delivered.

The need for radical change was reinforced by the belief **the current system of capacity building is no longer fit for purpose**: it was created immediately after South Africa's first democratic elections to support the then entirely new structure of local government, when the overwhelming challenge was skills development. The challenges today are very different, but the response toolbox has never been updated. As one respondent put it:

The Constitution never envisaged these kinds of challenges.

Of course, **it is much easier to talk of the need for radical change than to actually achieve it**. This review also highlights that most parts of the currently capacity building system are very well entrenched in their way of doing things, and have developed their own momentum that is difficult to change. Even the many people within the system who acknowledge that current efforts are not working and are clear that something has to change are not clear at all about what that 'something' might be or how to re-orientate their organisations to doing something completely different. In many respects, the system participants are 'stuck' in a particular way of doing things, trapped in the same compliance-driven system (which requires them to adhere to long-term plans, budgets and targets, even if everyone knows this is not really working) as the municipalities that they aim to support.

The next chapter contains proposals for how this considerable challenge could be addressed: radical change of the entire system is enormously difficult, but has to happen.

4 PROPOSALS FOR IMPROVEMENTS

This chapter outlines proposals, or principles, for **fundamental reformation of the current system of capacity building** in order to increase the likelihood of significantly better outcomes. The adoption of these across the South African state is likely to depend on the outcome of COGTA's updating work on the *National Capacity Building Framework for Local Government*, underway at the time of the publication of this review. The first section (4.1) proposes an overarching framework for directing that reform, based on four fundamental guiding principles that are informed by the findings of this Review:

- Capability development (rather than capacity building)
- A differentiated problem-led approach (rather than generic programmes and assuming the solutions)
- A co-production inclusive model (rather than a top-down supply-driven model)
- A whole municipality approach (rather than a fragmented and uncoordinated approach)

The details of this proposed framework and each of the guiding principles is set out in the next section (4.1) below.

Reforming the current system to fully reflect these four guiding principles should be the long-term goal of all system participants. However, realistically this is not something that can be achieved in the short-term. The current system has considerable momentum on its current path, is large and complex and significant overnight change may be neither obtainable nor desirable. Attempting such short-term significant change is likely to end in failure, and to cause significant disruption.

How then to proceed? Section 4.2 proposes a practical approach towards reform: how to set out on the path of creating a fundamentally different (and improved) system in a manner that is most likely to end in success.

1 New framework for sustainable capability development

Based on the analysis of the current capacity building system set out in Chapter 3, and with close reference to the findings from the regulatory and literature review, a framework of four guiding principles for the design and implementation of a new system is proposed. Each of these principles reflects a fundamental change in the orientation of the system, and has been selected to address the following key issues identified in Chapter 3 as contributing to the disappointing outcomes of the current system, which include:

- A focus on individual capacity building at the expense of developing organisational capability
- Generally limited or poor diagnosis of underlying problems that results in the (often incorrect) assumption of what the solution is
- A lack of customised solutions for particular problems in particular municipalities

- Top-down approaches with little inclusion of municipalities (or communities) reducing buy-in, creating opposition to change and missing out on valuable inputs
- Fragmentation reducing impact, and may be making things even worse
- Working in siloes and duplication preventing ‘big-picture’ diagnosis and solution development, and is resource-inefficient
- Poor performance reporting and failure to link activities to outcomes
- The current system has few incentives for municipalities unwilling to change to actually do so

The four guiding principles for the proposed new framework are the following:

- (i) A clear focus on capability development;
- (ii) A problem-led approach;
- (iii) Co-production and inclusion at all points in the system; and
- (iv) A whole-municipality (fully integrated) approach.

It is important to note that these four guiding principles represent a package deal: that is, they are all inter-linked and each component must be fully present in order for a new framework to succeed in driving meaningful change. Cherry-picking some parts of the framework while leaving out others will result in a significantly diluted impetus for change.

Each of these guiding principles, and how they mutually reinforce each other, is discussed in more detail below.

1 A clear focus on capability development

‘Capacity’ refers to organisational potential under ideal circumstances, while ‘capability’ refers to what is possible under actual (almost always not ideal) circumstances. Organisational capability thus refers to what the municipality is actually able to get done. **It is improved organisational capability that is (or should be) the end goal of programmes designed to support and improve the performance of local government.** This capability is impacted by a wide range of factors, including the robustness of inter-governmental coordination, the quality of internal processes and systems, financial resources, employee skills, political stability, staff morale, community relations, and whole host of others.

Almost all programmes under the current system are focused on building capacity, and most of these are even more narrowly focused on building individual capacity. The effective result is that a great deal of time, resources and effort are being focused on only one of the factors that impacts municipal performance. A programme might succeed in significantly increasing a person’s *capacity* through skills development, but make only a marginal improvement to their organisation’s *capability* (which is the critical factor that actually impacts that municipality’s outcomes) because of the constraints imposed by that person’s working environment and the over-arching context within which the municipality operates.

The orientation of all existing programmes should, therefore, over time be shifted away from individual capacity building towards organisational capability development. This is a long-term and complex process, and is not to be achieved simply by renaming existing programmes as ‘capability development’ when nothing has really changed – such an approach will merely result in yet another false illusion of programme success, while nothing has really changed.

A true capability development approach is based on a comprehensive problem-led approach, co-production and inclusion at all points in the value chain and a whole municipality approach. This cannot be achieved overnight. The capabilities required by organisations that aim to deliver effective capability development are themselves fundamentally different from those required to deliver the current system of individual capacity building (Mayne, de Jong and Fernandez-Monge, 2020). It will take time to build these and to re-orient delivery organisations. The next section (4.2) sets out a hybrid approach for how this could be achieved, proposing incremental changes to delivery organisations over time while simultaneously incorporating learning from sites of innovation.

2 A problem-led approach

This Review highlights that many of the current problems in the system can be traced back to inadequate problem diagnosis: for a variety of reasons, there is very limited (and often no) detailed diagnosis at an individual municipality level of what the underlying reasons for a particular output (a poor audit outcome, sub-standard water delivery) actually are. Instead, what is much more often seen is a set of assumptions about these causal linkages (‘the problem is the shortage of skills’) which effectively results in the substitution of one problem (we do not have enough skilled people in local government) for the actual problem (local government is not meeting its constitutional objectives). As a result, all of the energy and resources in the system have become focused on solving the former, under the mistaken impression that we are solving the latter.

The current system is focused on delivering solutions that do not address the underlying problems, in large part because of the erroneous assumption that all municipalities have the same problems, and thus that the same solutions can be applied everywhere. Changes to the system to date have almost always been in terms of increasing the number of available ‘solutions’, without any real consideration of how well these fit actual problems, or whether there will be buy-in for implementation from municipal officials and local communities. The change that is needed is not more off-the shelf solutions, but a better process for designing solutions that actually fit the problem, and that will be accepted by officials and communities.

Starting with the problem that requires solving – rather than the capacity of the individual – is a fundamental component of an effective capability development approach: if programmes are not based on detailed knowledge of all the reasons a municipality is not able to get things done, how can they ever succeed in improving the ability to get things done?

Problem-led governance is increasingly recognised around the world as an approach to public sector reform that has the ability “to address complex public problems” (Mayne, de Jong and

Fernandez-Monge, 2020, p33). Problem-led governance takes the central problem the state wants to solve as the starting point for designing support (a municipality is unable to deliver water services to an acceptable standard) rather than the organisation (the level of skills in the water services department). This is a critical difference: a problem-led approach forces us to think about the (multiple and actual) causes of the problem, and not just the various attributes and characteristic of the organisation experiencing the problem, or one symptom of that problem.

Problem diagnosis is based on a deep-dive investigation in the municipality, and focuses on trying to identify all the factors that are contributing to the problem, rather than simply assuming what these might be. An effective problem diagnosis team is made up of people from multiple disciplines, in recognition of the multiple factors that impact organisational outcomes, not just specialists in one particular area (such as finance, or engineering). Diagnosis includes input from the municipality and from the community. The over-arching goal is to develop empirical evidence-based models that can provide detailed answers to the critical question: ‘why are things not happening as they were envisaged?’ The more detailed the answer to that question, the more likely it is that a successful and sustainable solution can be developed.

A problem-led approach reflects the idea that both problems and solutions are highly context contingent; that they are determined by the specific conditions, and the relationship among these conditions, in a particular place at a particular point in time. Problem-led approaches are thus fundamentally different to the current one-size fits all orientation of many current capacity building programmes. **The solution that is eventually designed and implemented in a particular location is not pre-determined or pre-designed; instead it is a customised solution that represents whatever is likely to work best for a particular problem in a particular place at a particular time.** The ‘best’ solution is thus whatever the problem-led process indicates is the best solution.

A problem-led approach does not comprise a once-off event that happens only at the start of a programme, but is instead a *process* that characterises the entire value chain of capability development. The World Bank (2012) has identified the following 3 principles in respect of effective problem-led approaches to public sector reform:

- (i) Designing solutions based on rigorous diagnostics.
- (ii) Agile implementation, characterised by experimentation and learning: If the solution is not achieving the desired impact, make changes, try something different. This is a fundamentally different approach to the current one, where programmes are firmly locked onto one path – even if it isn’t working - by the straightjacket of long-term planning that makes experimentation and change extremely difficult.
- (iii) Learn as we go: constant learning from new evidence, adapting processes and tools to take account of this new evidence.

A problem-led approach is thus fundamentally different from the way in which municipal support programmes (indeed, almost all public sector programmes) have been conceptualised,

designed, implemented and managed. The current system has all but removed any space for an experimental and agile system based on learning and adjustment as it goes along. Instead, it is based on the delivery of pre-designed 'solutions'. However, buying into a more experimental (and thus uncertain) system is difficult for most states. As Grindle (2013, p 400) puts it:

In the real world, it is indeed difficult to hold the attention of those eager for progress and clear answers with responses that amount to 'Well, I'm not sure, but let's explore this more and perhaps we can generate some ideas for interventions that "fit" your reality', or 'Let's problem-solve together'. It is certainly difficult to tell a politician or a manager requesting assistance that the (capability development organisation) is exploring and experimenting with responses to public sector reform.

How to create space for such experimental approaches within the current reality of an inflexible and rule-based system? This is a key factor that has been considered in the proposed implementation strategy for change set out herein.

3 Co-production and inclusion

The analysis presented in Chapter 3 highlighted, from various perspectives, the difficulties of getting meaningful buy-in from municipalities in order to implement long-term change. Problem-led approaches are defined by fully inclusive methods of defining problems, and the co-production of solutions with a wide range of stakeholders – programme suppliers, municipal officials, and communities. Such an approach has a number of important benefits (McGann, Wells and Blomkamp, 2021, p301):

Bringing together 'actors with different experiences and perspectives' purportedly benefits policymaking by increasing the likelihood that the nature and underlying causes of problems will be understood. Involving affected citizens in public problem-solving can help to reframe problems in more acute and nuanced ways 'than professionals acting alone'.

Additional benefits (ibid.) include joint ownership of solutions, which greatly increases the likelihood that they will actually be implemented. The important point to make here is that the process of co-production can add considerable value to long-term capability development over and above the merits of any particular solution itself.

Co-production and inclusion is a principle that should be included at all stages of the capability development lifecycle, and not just as part of problem diagnosis. That is, 'co-production' does not mean a short consultation in the diagnosis phase only, followed by the programme suppliers making all the decisions going forward on their own. Instead, it means that all parties are closely involved in programme design, decisions about implementation and sequencing, and all parties are involved in the assessment of progress and decision-making around how to address problems that arise. This is a very different approach from the one that is currently followed in most places (notwithstanding the central role of 'community participation' and 'cooperative government' indicated in the Constitution and many other pieces of legislation). It requires a particular set of skills, and a clear understanding that inclusive and co-production processes are lengthy and messy. However, without this solid foundation, the likelihood of long-term and sustainable change is greatly reduced.

4 A whole-municipality approach

Fragmented and siloed (functional mandate limited) approaches characterise the current system of capacity building. This has resulted in numerous organisations doing lots of different things at different times in one particular municipality, with little coordination or big picture thinking. There is also little appreciation of the importance of sequencing; organising programmes in such a way that each builds on the solid foundation of the former. As just one example, there is little point in trying to improve an audit outcome if basic record keeping and appropriate financial processes are not well embedded in the organisation.

The current system essentially views a municipality as made up of discrete, bounded and unconnected blocks of activity (annual financial statement preparation, water provision, spatial planning, supply chain management, etc.) when the reality is that all functions are interconnected with others (usually multiple others) and outputs are produced in complex and connected ways.

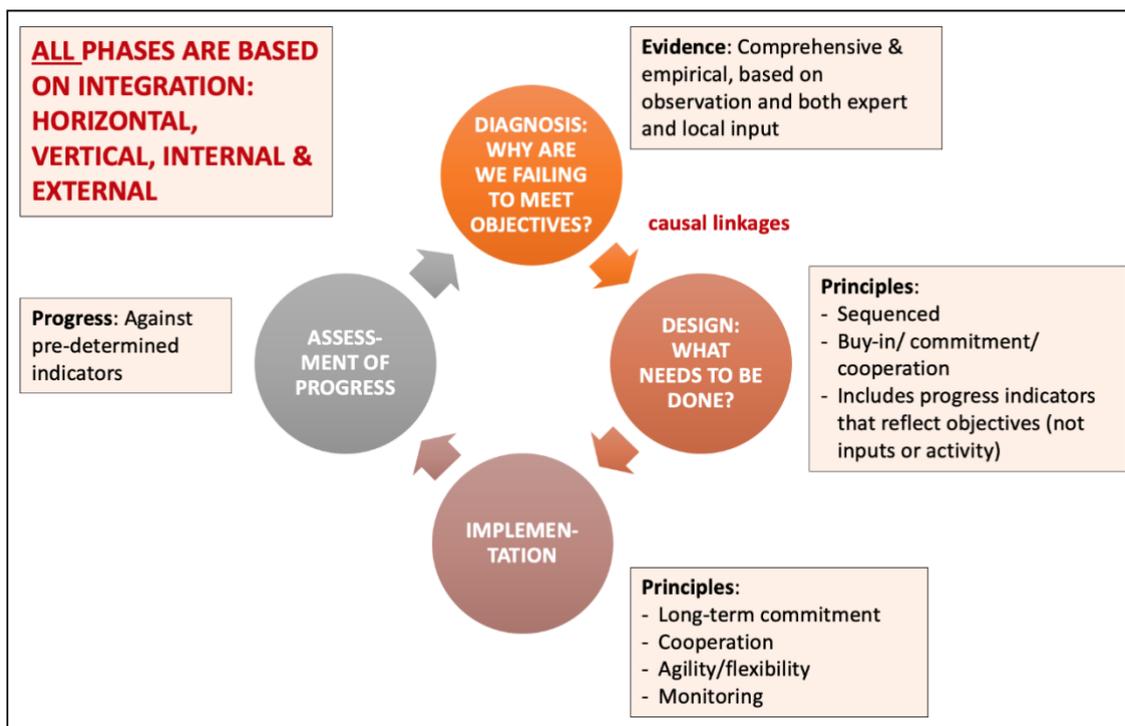
The likelihood of accurate problem diagnosis and the development of solutions that will actually make a difference will be significantly enhanced by a 'whole municipality' approach, that involves one team (or at least separate but strongly linked teams) working to understand and document everything that impacts on a particular problem. Many of these linkages are obscured by a failure to adopt a fully inclusive and co-production approach: often, officials within the municipality or the local community have a very good understanding of how events in one area impact another, but they are seldom included in the diagnosis of problems or the design of solutions.

5 Summary of the proposed new framework

A simplified picture of the proposed new framework – a Capability Development and Problem-Led (CDPL) framework – is set out in the next figure. This presents the lifecycle of a programme within the CDPL framework.

It is important to point out that a CDPL framework is fundamentally about the processes that are used to generate solutions, and not about the solutions themselves. In sharp contrast to the current system, which is focused around a limited number of pre-determined and largely generic solutions, in a CDPL framework the solution to a particular problem in a particular municipality is whatever is the result of the process. That is, the solution could be any one of a huge range of possibilities. The important factor is not the details of the solution itself (the sole occupation in the current system) but the robustness and integrity of the process used to derive the solution.

Figure 4.1: Proposed CDPL framework lifecycle



The next Table summarises the differences between the current approach followed by most of the existing capacity building programmes and the proposed CDPL approach at each stage of the diagnosis – solution development – implementation – oversight lifecycle pictured in the figure above.

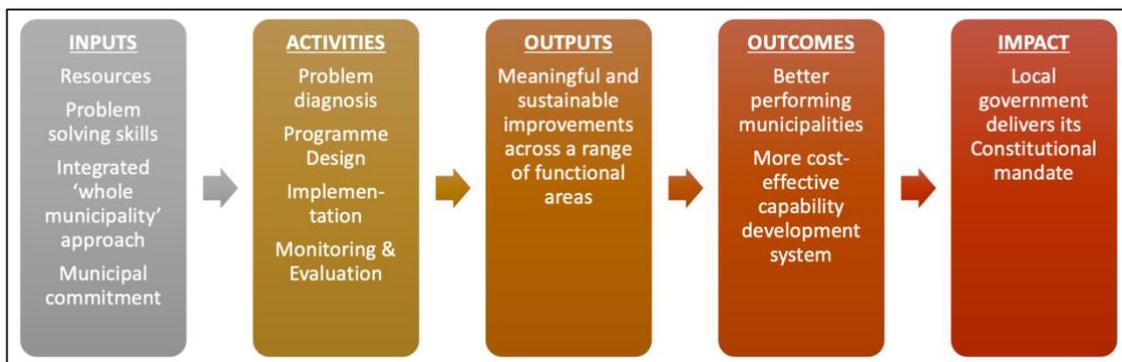
Table 4.1: Key differences between current and CDPL approaches

STAGE	CURRENT APPROACH	CDPL APPROACH
DIAGNOSIS	Limited time spent on diagnosis (assumption of what the problem is); 'symptom' lists rather than underlying cause	Accurate problem-diagnosis is central: considerable time and resources allocated to this phase
	Focus on individual skills: gaps against current job descriptions	Focus is on everything that contributes to organisational outcomes – 'whole municipality approach'
	Standardised approach	Context is critical: resulting in customised approaches
	Considerable variation in prioritisation among programmes	Clear model for prioritising all efforts and resources on critical areas
	Little or no co-production of diagnosis with the municipality and community	Framework for the co-production of diagnosis
	Limited obligation for municipalities to demonstrate that they are making an effort	Genuinely cooperative framework with mutual obligations and responsibilities
	Very little collaboration (vertical or horizontal) in diagnosis across functional areas	Focus on collaboration across all levels in diagnosis
	Self-diagnosis within pre-determined limits	Municipalities are closely involved in diagnosis, but not expected to be able to do it on their own

STAGE	CURRENT APPROACH	CDPL APPROACH
DESIGN	Wide range of organisations responsible for design, often without requisite skills	Specialist teams
	Focus on limited areas of skills development, and expert deployment as only tools	Much wider range of possible tools is considered (including structural changes and functional restructuring)
	'Solutions' are largely given and generic in nature	The best solution in a particular context is whatever is likely to work best, in that context
	Considerable variations in how programmes are structured, with no clear motivation for why this is the case	Design closely reflects diagnosis
	Very little coordination (vertical or horizontal) in design	Significant coordination and buy-in
	Focus is on short-term quick fixes, and constant stream of new programmes	Focus is on long-term structural change, and thus continuity of programmes
	Limited (or no) co-production with municipal officials and communities on design	Framework for the co-production of designs
	Limited attention paid to sequencing (i.e. the order in which solutions are implemented)	Careful attention paid to sequencing in order to create a solid foundation for each solution
IMPLEMENTATION	Very little collaboration and integration (vertical or horizontal) in implementation	Significant collaboration and integration
	Wide range of organisations responsible for implementation, often without requisite skills	Specialist teams
	Limited in-period critical examination of programme	Regular critical review of progress made, and why/how
	Limited/no agility or flexibility in using implementation results to change design	Regular updating and/or changes to programmes made on the basis of critical reviews
OVERSIGHT	Performance indicators are activity based	Performance indicators are outcome/impact based
	Considerable differences in reporting standards	All programmes comply to one standard of reporting
	No critical review of programmes to cut poor performers	Regular review of programmes, subject to long-term view

The CDPL approach is underpinned by a particular theory of change (as depicted in the next figure), of how meaningful and sustainable change in the ability of local government to deliver its mandate (the desired impact) is to be delivered, by a new kind of resource set (including multi-disciplinary approaches and problem-solving skills), via new kinds of activities (inclusion and co-production, detailed problem diagnosis) that have a greater likelihood of producing better municipal outputs and thus outcomes (including a more resource efficient capability development system).

Figure 4.2: Theory of Change under CDPL Framework



How can this goal be achieved?

Designing and implementing a system-wide CDPL framework for South African local government will not be a simple – or quick – task: **the nature of this approach means that there is no best practice blueprint somewhere that can simply be adopted. Instead, a framework has to be built from the ground up, specifically and intentionally designed to address particular problems, and to work in a particular environment. If it isn't a home-grown solution, it will not work.**

The new approach will require that the organisations responsible for delivery themselves fundamentally change the way that they operate. In particular, they need to embrace decentralised decision-making, and co-produced knowledge and solutions (Evans, 2004) as well as supporting genuine learning environments that encourage and reward innovation (Andrews, Pritchett and Woolcock, 2017). They also need to be prepared to take a long-term view: meaningful change is incremental, seldom proceeds in a straight line, and takes time (ibid.). In most instances, this different approach represents an enormous organisational shift, one that not all organisations will be willing to make. However, failure to change means that things will continue indefinitely as before: system participants will convince themselves that they are making a difference when they are doing the exact opposite.

The **institutional arrangements** that over-arch the capability development system are critical for how well it will be able to achieve its goals. The following attributes of these institutional arrangements will increase the likelihood that they facilitate the desired outcomes:

- Facilitates a fully integrated approach, across the three spheres, among different departments and within departments. The guiding principle should be how best to solve complex problems, rather than to deliver specific mandates
- Is able to accommodate decentralised decision-making and differentiated responses: a successful CDPL

Given the considerable change that is required, but the necessity of that change, together with the considerable inertia of the current way of doing things, how could progress be made within these limitations? The next section (4.2) sets out proposals in this regard.

2 Two-pronged strategy: incremental change and innovation and experimentation

The current system cannot be changed overnight (nor should an attempt be made to do so). However, this does not mean that improvements cannot be made, albeit limited improvements in an incremental fashion, so as not to cause severe disruption. But at the same time, more meaningful progress towards a completely different system must be made. In order to take current system constraints into account, while still recognizing the need to make progress, the following two-pronged strategy is recommended, with both components to be implemented simultaneously:

- (i) Steady, but incremental improvement to the current system; and
- (ii) A small number of pilot sites for innovation and experimentation.

Each of these proposals is described in more detail below.

1 Incremental improvements to the current system

Despite the considerable inertia that characterises the current system, and the difficulties of making significant changes, there are some changes that can be made that would yield improvements, in terms of better system information and oversight, and better programmes design and implementation. These include the following:

- (i) Improvements to expenditure reporting across the system: this Review has highlighted the difficulty of accurately calculating system expenditure because reporting is either combined in programmes that also work other areas (such as in many provincial treasuries or SALGA) or is not done at all (such as skills development expenditure by municipalities or some of the conditional grants). Ensuring that all system participants (even the very smallest that currently do not report at all in this respect) report in a manner that enables the clear identification of programmes and associated expenditure would provide much better information in respect of programme structure.
- (ii) 'Destination reporting': Under the current system it is very difficult to determine the impact of programmes. This is due in large part to the lack of standardised impact indicators across all programmes, and the fact that almost all reporting is from the point of view of supplier organisations, who report on their activities and their expenditure. (Annexure E provides multiple examples of programme reporting.) There is almost no reporting on the impact of those activities from the point of view of their 'destination' organisations (municipalities). However, attempting to shift the system to report on impact indicators (rather than the current activity indicators) is not realistic in the short term, given that programmes have not been designed with this kind of reporting in mind. That is, there is no underlying data in programmes in order to accurately and objectively calculate impact. The most likely outcome of trying to force such reporting would be unsubstantiated reporting ('the programme contributed to this outcome')

without any clear causal evidence) that would add nothing to the knowledge of what is working and what isn't working.

There is, however, another way both to begin to assess programme impact and to identify system fragmentation and duplication: destination reporting. This would require that each entity that is engaged in capacity building clearly identify each municipality that is the recipient (destination) of such capacity building, in whatever form that takes. This data can then be used to build a composite picture of what has been going on in a particular municipality in any given period. Since there is a plethora of impact data available at the municipal level (finances, service delivery, political stability, staff turnover, etc.) it is a relatively easy task to then determine what kind of impact capability building is currently making. Feedback from this system (into supplier organisations) would also provide a key learning opportunity – see below.

In addition, the picture from the municipal point of view would be a valuable – highly visible - source of information in respect of programme duplication and fragmentation, as well as assisting in identifying gaps in support. Graphical representation of data against a range of indicators would provide a relatively quick and easy reference point for identifying duplication and gaps.

- (iii) More targeted data collection from municipalities: this Review has highlighted the enormous number of 'monitoring' reports that municipalities submit, largely to provincial departments. The view on both sides of the system is that these are a waste of time and resources, and serve no meaningful purpose, largely because there is just too much information. It would be much more useful for provincial officials and municipalities to jointly develop a significantly streamlined version of all this reporting: one consolidated report highlighting no more than 15 critical indicators across all areas, and reporting on these each quarter with no more than 150 words of explanation for each one. One consolidated report would also assist in highlighting linkages among problem areas that would otherwise remain invisible. This would result in a report that everyone could actually read and digest. (This still means that provincial officials have to read more than 100 pages each quarter, but this is significantly less than the current burden.) Where a problem has been raised in this report, additional information can be requested, removing the need to have every single indicator included in the consolidated report.
- (iv) Streamlining of existing conditional grants: this Review has highlighted that there is duplication and fragmentation in respect of the conditional grants that support capacity building. A process to consolidate these grants will increase efficiencies, reduce administrative costs and improve oversight.
- (v) Increased opportunities for learning: one thing that is (rather ironically) missing from a R9 billion system focused on skills development is the paucity of learning opportunities

for those within the system. There are no structured opportunities for officials in supplier organisations to work through information (such as the destination reports set out above) in a manner that facilitates learning from this information, and applying it in a constructive manner to current programme design and implementation. In large part this is because such reports are most commonly used as ‘evidence’ of performance, rather than as an opportunity to learn. Poor performance is almost always seen as a reason to chastise or punish officials, rather than as an important opportunity to learn and to improve programmes. If the system is going to improve, it has to be open about what has not worked, not try and sweep it under the carpet.

There are other tools available to increase learning across the system, including structured reading and discussion groups that reach across provincial boundaries. There is potentially a role for the National School of Government to participate in a strategy to increase learning.

The proposal is that a multi-year plan for incrementally achieving progress in each of these areas is drawn up, with the intention that it is implemented from the start of the next financial year.

2 Pilot sites for innovation and experimentation

The incremental changes described above will yield some system improvements, but additional action is required in order to generate progress towards a completely new system – one that will deliver genuine capability development in a sustainable manner. This goal requires the development of a detailed Capability Development Problem-Led (CDPL) framework that can be applied across local government. This framework will set out the details of the **process** to be followed at each stage of the capability development life cycle (diagnosis, design, implementation and oversight) in order to maximise the likelihood of programme success. **It is important to emphasise that the framework will detail the process to be followed at each step in the life cycle, and not the solution to be implemented. The solution is always what is generated by the process, and is never assumed in advance.**

But: the very nature of successful problem-led approaches is that they cannot be created through the simple imposition of a ‘best practice’ from somewhere else. That is, a framework cannot simply be imported from another country and expected to have the same results. **Problem-led frameworks only work if they have been designed for the particular problems in particular contexts that they hope to solve.** Certainly, there are opportunities to incorporate insights and learning from many other places, but the local framework must be built from the ground up: what processes are most likely to generate sustainable solutions in a South African local municipality? This is a question to be answered through experimentation – trying out a number of different things and seeing which of these works best. This kind of experimentation is best done through a limited number of experimental sites.

Another reason for a limited number of experimental sites is to **get broader buy-in of what will be a radically different approach**: as Grindle (2013) highlights, it is very difficult to get a

politician or a senior government official to buy into a system that is based on ‘we do not know what the solution is, but we are going to experiment with a number of processes until we see what works’. The only way to get this kind of buy-in (which is essential to any system-wide change) is to demonstrate that it works. And this also is best done in experimentation sites.

Finally, experimentation sites provide space to **try out different kinds of institutional arrangements** supportive of an effective capability building system without imposing significant disruption on participating organisations.

For these reasons, the proposal is that a **Capability Development Problem-Led (CDPL) innovation lab** is established to develop and test experimental approaches to problem-solving processes in a limited number (two or three at most) of innovation sites, including new forms of institutional arrangements. The further proposal is that these innovation sites are attached to selected District Development (DDM) pilot sites: as the DDM pilot sites are an existing innovation, it will be much simpler to add an additional innovation to these sites than to attempt to set up new ones. In addition, given that the DDM represents a clear strategic priority, it makes sense to link this innovation in capability development to the DDM, so that it is fit for purpose from the start.

What are public sector innovation labs?

Public sector innovation labs are an increasingly common phenomenon all around the world, as a key part of the move towards problem-led approaches. Innovations labs can be understood as “new organizational arrangements..... for enabling more experimental and user-focused approaches to public policy and service design” (McGann, Wells and Blomkamp 2021, p297). Within a lab, different approaches to problem-solving are designed and tested, in an experimental way, in order to generate knowledge that can then be applied within a particular system. It is important to point out that **the aim of these innovation labs is to experiment and innovate in respect of problem-solving processes, and not solutions to problems. The solutions in any particular municipality will be what is generated by those processes, and not pre-determined** by the innovation lab (or any other party for that matter). Innovation labs are most commonly organised as part of the public sector (rather than a separate non-governmental entity), but as (small and multi-disciplinary) separate units with a clear mandate that enables them to adopt an experimental and co-production approach to their work. All innovation labs are focused on developing more inclusive and co-production models, and experimenting with what kind of collaborative processes work best in terms of generating sustainable solutions.

As findings emerge from the innovation lab, these can be used to incrementally design a broader CDPL framework that can be used to transform the entire system over time.

The proposal is that there are further discussions in respect of the establishment of such an innovation lab, with a goal of it commencing operations in the next financial year. These discussions will include consideration of the design of an appropriate set of institutional arrangements for the design, implementation and oversight of innovation labs.

3 Future work

As this review provides a first-time helicopter view of the overall system of the local government capacity building, the details of its many aspects were not unpacked at the time of the review. Many questions remain unanswered, which potentially impact on these proposals and future work to be undertaken, including but not limited to:

- How does this review and its findings align or not to COGTA's updating of the *National Capacity Building Framework for Local Government*?
- How do these proposals impact on state actor' current capacity building operations and what changes are required to implement them?
- What detailed sectoral and municipality specific assessments (where these exist) and considerations need to be considered in any improvements to the system?
- What are the financial implications of any improvements to the system?
- What roles could private sector, donor funders and other partners play in any improvement?
- What gaps in the data need to be addressed to support decision-making in the above questions?

As this review is (partly) intended to support the National Treasury, some possible next steps are identified next, which require unpacking, consultation and detailing where appropriate, within the National Treasury, before any implementation.

5 NEXT STEPS FOR NATIONAL TREASURY

This Review identifies significant opportunities for all spheres of government to reorient their capacity building initiatives to a capability development driven approach, focused on the central issue of problem-solving. However, the role of the National Treasury in this reorientation is to focus on its core mandate. Each possible next step over the next few years will require significant engagement and agreement, unpacking, planning, designing and costing of each component with relevant stakeholders to determine the necessary plan of work. Six possible and interlinked next steps for the National Treasury, once this report has been finalised, and in consultation with the relevant stakeholders, may be to:

- (i) Advocate for a reorientation towards CDPL approach: by, say, presentation of this Review to system stakeholders, making this report widely available to all spheres of the state and the public, and engaging with COGTA in any updates of the *National Capacity Building Framework for Local Government* and capacity building forum.
- (ii) Introduce more specific capacity building programme expenditure and destination reporting measures, say, by initially working with the Provincial Treasuries and National Treasury departments.
- (iii) Review and streamline current data collection received from municipalities.
- (iv) Investigate the streamlining of capacity building conditional grants to achieve a more efficient structure.

- (v) Identify and implement learning opportunities with a view to suggesting systemic improvements to the system on a once-off and ongoing basis.
- (vi) Investigate the implications of establishing one or more CDPL Innovation Labs within the DDM initiative to engage with municipalities and relevant stakeholders in the recommended CDPL approach to identify problems, appropriate capability building solutions and identifying lessons that can be incorporated into the system.

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ANNEXURES

ANNEXURE A: REGULATORY AND LITERATURE REVIEW

1 Note on ‘capacity’ and ‘capability’

Most of the relevant legislation and regulation that governs the delivery of support to local government in South Africa uses the term ‘capacity’. The general understanding across programmes appears to be that ‘capacity’ in this context is analogous to the DPLG’s 2008 definition contained in the *National Capacity Building Framework for Local Government* strategy document: “capacity can be regarded as the potential for something to happen” (DPLG 2008, p6). Most of the literature surveyed for this Review implies both that a lack of capacity is the main reason for poor outcomes in the public sector and that activities to ‘build capacity’ – which is almost always interpreted to mean building the capacity of individuals – will result in improved outcomes in respect of organisational performance. The underlying assumption is that increasing the capacity of local government in this way is sufficient to improve outcomes.

South Africa’s National Development Plan (NDP) represents an important shift in terminology through its use of the terms ‘the capable state’ and ‘state capabilities’ to deepen the description of what had previously been labelled as ‘state capacity’. This may appear to be a matter of little importance – whether the word ‘capacity’ or ‘capability’ is used – but actually it is very important in terms of the aims of this Review.

What is the difference? Andrews, Pritchett and Woolcock (2017) make this useful distinction: ‘capacity’ refers to **potential under ideal circumstances**, while ‘capability’ refers to **what is possible under actual (almost always not ideal) circumstances**. This, in turn, reflects Amartya Sen’s conceptualisation of human capabilities as what people are actually able to do in the world in which they live, as opposed to what they could theoretically do in some perfect world.

The use of the term ‘capability’ thus focuses attention on **what is possible in a particular context**, and in so doing forces critical thinking about how that context can limit and constrain what is possible. It requires consideration of the universe of factors that contribute to (or undermine) the performance of an organisation like a municipality, and how these factors interconnect and influence each other. The notion of ‘capability’ thus incorporates a wide range of factors: individual skills, financial resources, business processes and systems, political stability, staff morale, staff turnover, effective use of technology, community participation, and other contextual issues. As just one example, a programme might succeed in significantly increasing a person’s *capacity* through skills development, but make only a marginal improvement to his or her organisation’s *capability* (which is the critical factor that actually impacts that organisation’s outcomes) because of the constraints imposed by that person’s working environment and the over-arching context within which the organisation operates.

The result is that it is entirely possible to invest a considerable amount of time and money in building the capacity of individuals (and succeed in doing so), without actually making much

difference to the capability (the actual **ability to get things done**) of the organisation where they work. If individual capacity increases, but organisational capability does not, then an investment into that individual capacity will not yield the expected results.

Focusing on ‘capability’ instead of ‘capacity’ forces us to think more critically about **all** the factors that impact the ability to get things done, even when the municipal officials in question appear to have the appropriate skills (capacity). Such a differentiation also implies that **a certain level of individual capacity may translate into very different levels of organisational capability under different circumstances**: in some places, organisational capability will be significantly lower than the sum of all the individual capacity, because the surrounding environment is so very dysfunctional. But there is also have the possibility of substantially increasing organisational capability with a given amount of individual capacity through an improvement in those other factors – such as processes and systems, staff morale and political stability.

2 Introduction

This diagnostic review was initiated in response to the fact that, despite the considerable allocation of resources and effort to building the capacity of local government over the past 25 years, the financial and operational performance of municipalities has not shown the expected improvements. Despite a wide range of initiatives and substantial budgets, 125 of the 257 municipalities in South Africa are financially distressed, and/or facing collapse. Further, some 60% of interventions to improve capacity in specific municipalities are repeat interventions, suggesting that these capacity development initiatives are not having long-term or sustainable systemic impact.

Against this background GTAC has commissioned a diagnostic review with the following goals:

- To provide a holistic and comprehensive overview of the capacity building system and its component parts, including key system participants and resources allocated;
- To identify significant performance problems related to the capacity building system for local government in respect of strategy, funding, spending, resources, skills, delivery management, control, and monitoring and evaluation; and
- To identify opportunities to align, and improve value for money aspects of the capacity building measures within the system, including reductions of administrative costs and duplications, in a manner that will ensure meaningful and sustainable improvements to support local municipal development and governance

The central objective of the diagnostic review is thus to promote and provide a common understanding within government of the scope and scale of the current highly complex capacity building system by mapping its various dimensions, and to identify and promote innovations of this complex system.

The scope of work comprising the diagnostic review is made up of the following main components:

- A background review of definitions of capacity building within the state. This will be drawn from a review of the legislative and regulatory framework within which capacity building in local government is situated, a comprehensive literature review (including international experiences of capacity building), an overview of the history of capacity building in respect of local government, and input from stakeholders.
- A descriptive overview of the entire local government capacity building system, including outlining the various role-players and stakeholders within the system, and the context shaping the development of the system. This overview will provide a clear sense of the scope and scale of the system (including financial scale) and how the different parts of the system interrelate (or do not interrelate, as the case may be).
- An overview of the nature of the challenges the capacity building system needs to fix: what are the systemic problems and the institutional failures that the system is required to most urgently address?
- An analytical diagnostic of the workings, strengths, and weaknesses of the system. This will include identifying duplications within the capacity building system (especially those with clear room for reductions in cost), and areas in which coordination is weak.
- Recommendations for improving the system, especially as this relates to the mandate of IGR within the National Treasury.

This literature review report is a deliverable under the first project component – the background review of definitions of capacity building within the state. As per the terms of reference, it provides an overview and critical analysis of the following:

- The history and context of the domestic local government system.
- Current legislation shaping the system of capacity building in local government.
- The local and international literature on capacity development systems as relevant to government in general and the local state in particular.

The findings from this literature review will provide an initial guiding framework for the remainder of the research, and will be supplemented with findings from the detail programme analysis work and the planned interviews.

Section 3 of this report sets out a brief history of the current system of local government, and provides a review of the legislative context within which capacity building is intended to take place.

Section 4 sets out a detailed literature review of state capacity building, with particular reference to local (decentralised) government and South Africa.

Section 5 presents some concluding thoughts based on the findings from both the legislative and literature reviews for the diagnostic review.

3 Context: History and Legislation

In this section the history of local government in South Africa post-1994 is discussed, and in particular the factors that have contributed to the perceived need for significant capacity building and support to be delivered to municipalities. It is the particular history of local government that has created much of the perceived need for capacity building in the present moment. This section is not intended to be a comprehensive history, but rather a high-level overview that will highlight key issues relevant for this diagnostic study. A detailed analysis of how individual capacity building programmes have been designed and delivered over the past 25 years will be included in the detailed programme analysis part of this research.

Following a brief history of local government, attention is turned to the key legislation that describes the purpose behind capacity building, the nature of the inter-governmental capacity building obligation, and how that obligation it is intended to be delivered. One of the most important assessment criteria to be applied to existing capacity building programmes is how well they reflect (and prioritise) these legislative goals and obligations. That is, **do the relevant policies and programmes actually give effect to these legislative goals (the purpose that capacity building is intended to deliver) and obligations in a comprehensive manner?**

Local government post-1994

South Africa's 1994 democratic transition was marked by a significant institutional transformation in both the structure and the operational mandate of the state. A significant number of these changes were implemented at the local government level, and it would not be an overstatement to say that the transformation of the state was the most drastic at this level. Prior to 1994, local municipalities covered only a relatively small area of South Africa, and were responsible for the delivery of a limited number of services to a small part of the population. Under that system, municipalities enjoyed little autonomy or authority in terms of any wider socio-economic development mandate, and had relatively limited budgets. This inter-governmental structure reflected the lack of any meaningful decentralisation under the apartheid government (Klug, 2016).

Post-1994, however, the inter-governmental relations (IGR) institutional framework changed significantly. These changes were in line with - and aimed to give effect to - the new government's objective to become a 'developmental state'. This latter term was broadly understood to mean that the state had a key role to play in addressing the socio-economic injustices of the apartheid past (Tshishonga and de Vries, 2011), and to effect an improvement in the quality of life of all South Africans (RSA, 1998a). A completely new kind of local government – sometimes called, 'developmental local government' (ibid., 9) – was considered central to achieving these ambitious socio-economic transformation goals. Going forward, South Africa would have a wall-to-wall municipal system, and individual municipalities would have significantly expanded mandates, with greatly increased responsibilities for the delivery of public goods and services. The greatly extended reach and power of local government was

intended to entrench democracy: it was hoped that the new spatial proximity of the state would ensure greater responsiveness to local needs (RSA, 1998a).

The result of this new framework is that local government in post-apartheid South Africa has a long list of critical socio-economic responsibilities - including the delivery of all basic services, economic development and land-use regulation. The implication is that any failure by local government to deliver on its mandate undermines the entire national developmental agenda.

Unfortunately, short-comings are widespread, and many municipalities are consistently unable to meet their planned (or mandated) service delivery targets resulting in a high level of citizen dissatisfaction: a 2017 study by Statistics South Africa indicated that 75 percent of households did not believe that their municipality was addressing their (self-assessed) priority needs in respect of basic services (StatsSA, 2017). The citizen satisfaction rating of local government was lower in 2017 than it had been since the current system became fully operational in 2000 (ibid.).

COGTA reports that, since 2012, the percentage of households with access to basic services has **declined** in some provinces (COGTA, 2020). Although the rapid growth in households can partly explain this situation, the fact remains that universal basic service delivery to minimum standards – a cornerstone of the national socio-economic transformation agenda – has failed to materialise evenly across all municipalities.

In addition to a declining quality of municipal services in many locations, the overall state of local basic infrastructure is also declining (Watermeyer and Philips, 2020), due in part to a lack of maintenance by local government. Sanitation and wastewater management outside of major urban areas has collectively received an “E” rating from the South African Institute of Civil Engineering, meaning that it is considered unfit for purpose (ibid.). Accompanying these service delivery failures are failures of governance: a significant percentage of local municipalities consistently fail to meet prescribed governance standards, particularly in respect of financial management and supply-chain management (AGSA, 2019).

In the 2013/14 financial year, 86 municipalities were considered by National Treasury to be in a state of financial distress. That number rose to 125 in the 2017/18 financial year (representing almost half of all municipalities – National Treasury, 2018). For the 2017/18 financial year the AGSA made this observation: *“There are increasing indicators of a collapse in local government finances – we assessed 76% of the municipalities to have a financial health status that was either concerning or requiring urgent intervention. Almost a third of the municipalities were in a particularly vulnerable financial position”* (AGSA 2019, p9). A growing number of municipalities appeared to the AGSA to be unable to operate as financially going concerns, and the inability of many to fund infrastructure maintenance was also flagged as a serious problem. As just one outcome of this lack of maintenance, the AGSA (ibid., p10) noted that *“39% of the municipalities that disclosed their water losses reported losses of more than 30%, resulting in an overall loss of R2,6 billion.”*

In the 2018/2019 financial year, matters deteriorated further: both financial governance and financial outcomes declined in most provinces. Only 20 (of 257 municipalities) received a clean audit. Despite an aggregate expenditure of R1.027bn on consultants to assist with the preparation of financial statements (in that year alone), fewer than half of all municipalities were able to submit statements that did not contain *material* misstatements.

In summary then, although it is acknowledged that local government has contributed to the delivery of basic services to a significantly increased number of households over the past 25 years, in aggregate, local government has failed to meet the ambitious developmental role that was envisaged for it in the 1998 White Paper on Local Government (RSA 1998a). The critical questions arising from this analysis are (i) Why? and (ii) What can be done to fix things? It is the attempt to answer the second question within which local government capacity building initiatives are located. (Unfortunately, and as discussed throughout the remainder of this report, a rigorous and evidence-based answer to the first question continues to elude the state.

Legislative and policy context

Right from the beginning of the implementation of the radical new developmental mandate of local government there was a strong realisation that considerable effort would be required in order to ensure that this mandate could be delivered. The drafters of the 1998 White Paper on Local Government were aware of the fact that different municipalities in different parts of the country had very different capacities relative to the requirements of this mandate. The White Paper concluded that “(s)ignificant support and investment are required to build administrative capacity for the new local government system.”

A review of the applicable legislation⁶ impacting on local government capacity building provides insights into how capacity building for local government was originally conceived. Specifically:

- What was the intended over-arching purpose of these efforts?
- How was capacity building envisaged – how would it be designed, delivered and managed?
- Who would be responsible for doing so?

The detailed answer to these questions (as they are contained in the framing legislation) could be used as the foundation for assessing the current state of capacity building: specifically, how well do current efforts reflect these original intentions? Are they well aligned with these parameters, or have actual efforts moved away from them?

The primary source of the obligation to build capacity and support the development of local government is the 1996 Constitution of the Republic of South Africa (RSA, 1996). The Constitution states that municipalities must strive to achieve the objects of local government

⁶ Notably, the Constitution (1996), the Municipal Structure Act (1998), the Municipal Systems Act (2000), the Municipal Finance Management Act (2003), the National Capacity Building Framework for Local Government (2008), and the National Development Plan (2011).

[listed in Section 152(1) of the Constitution]⁷ within their financial and administrative capacity (Section 152(2)). That is, **the Constitution recognises that the capacity of municipalities directly impacts their ability to meet their constitutional objectives**. Concomitantly, the more extensive and complex the list of those objectives, the greater the required capacity.

The idea that local government requires support in order to reach this desired level of capacity (i.e. the level at which municipalities will be able to meet their constitutional objectives) is the rationale for Section 154(1) of the Constitution. This section prescribes that “the national government and provincial governments, by legislative and other measures, must support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers and to perform their functions”.

This is supplemented by Section 155 (6), which states that “Each provincial government... must ... (a) provide for the monitoring and support of local government in its province; and (b) promote the development of local government capacity to enable municipalities to perform their functions and manage their own affairs”, and to a lesser extent by Section 155(7): “The national government, subject to Section 44, and the provincial governments have the legislative and executive authority to see to the effective performance by municipalities of their functions in respect of matters listed in Schedules 4 and 5, by regulating the exercise by municipalities of their executive authority referred to in Section 156 (1)”.

A key point of this constitutional obligation to strengthen the capacity of local government is that these efforts have a very clear purpose - to enable local government to meet its developmental objectives and obligations set out in Sections 152 and 153 of the Constitution; to perform their functions and exercise their powers as per the areas of functional competence listed in Schedules 4B and 5B of the Constitution, and to “manage their own affairs”. **That is, capacity building was clearly conceptualised in the Constitution as an activity with a purpose – to enhance the ability of local government to deliver its developmental mandate. The implication of this ‘activity with a purpose’ constitutional definition of capacity building is that efforts should correctly be assessed on the basis of how effectively and efficiently they have contributed to that end, rather than on any attributes of the activity itself⁸.**

Section 156 of the Constitution identifies the functions which municipalities are responsible for as those listed in Part B of Schedules 4 and 5. In 2005 the Municipal Demarcation Board (MDB) released a report which ranks each function according to the importance attached to the delivery of the service, as set out in the next Table. Priority 1 functions were regarded as high importance and must be delivered by municipalities. Priority 2 functions were seen as having moderate importance and should be delivered while Priority 3 functions were regarded as low importance only to be delivered if funds were available.

⁷ Being “to provide democratic and accountable government for local communities; to ensure the provision of services to communities in a sustainable manner; to promote social and economic development; to promote a safe and healthy environment; to encourage the involvement of communities and community organisations in the matters of local government”.

⁸ Such as how many people were trained, or how many municipalities were included in a programme.

Although this ranking is not legislated and its categorisations might not reflect entirely local prioritisations in any one municipality, this table might be interpreted to imply that capacity building efforts should be sequenced in line with this priority ranking. That is, municipalities should be supported to be able to deliver Priority 1 functions – particularly those in respect of the delivery of basic services - to a consistent minimum standard in a sustainable manner before efforts and resources are directed towards improving the delivery of Priority 2 or 3 functions. Certainly, it could reasonably be expected that these functional differentiations are taken into consideration by those who design and implement capacity building programmes, when deciding where to focus efforts. **There is also an implication here that municipal capacity in all places must be at a certain absolute minimum level – the level necessary to deliver Priority 1 functions at a consistent minimum standard.**

Table: Local government functions by priority ranking

Priority 1 functions	Priority 2 functions	Priority 3 functions
<ul style="list-style-type: none"> • Water (Potable) • Municipal roads • Sanitation • Refuse removal, refuse dumps and solid waste disposal • Municipal Planning • Storm water • Cemeteries, funeral parlours and crematoria • Electricity reticulation • Municipal Health Services • Fire Fighting • Traffic and parking • 	<ul style="list-style-type: none"> • Cleansing • Building regulations • Street lighting • Licensing and control of undertakings that sell food to the public • Street trading • Trading regulations • Control of public nuisance • Fencing and fences • Noise pollution • Pounds • Air pollution • Beaches and Amusement facilities • Municipal public transport • Pontoons and ferries • 	<ul style="list-style-type: none"> • Local sport facilities • Municipal parks and recreation • Public places • Local tourism • Billboards and the display of advertisements in public places • Local amenities • Licensing of dogs • Municipal airport • Control of undertakings that sell liquor to the public • Child care facilities • Facilities for the accommodation, care and burial of animals • Markets • Municipal abattoirs

Source: Municipal Demarcation Board

The White Paper on Local Government (RSA 1998a) also highlights the importance of strengthening capacity as a means to the end of enabling local municipalities to meet their objectives: “Section 154(1) of the Constitution tasks both national and provincial government with supporting and strengthening the capacity of municipalities to manage their own affairs, exercise their powers and perform their functions.” The White Paper allocates clear responsibility for this - “National government must establish an overall framework for municipal capacity-building and support” – although it does not directly address the issue of exactly how this framework should be organised and managed in order to ensure alignment across all participating departments (it does, however, acknowledge that different line departments will have responsibilities in this respect.)

Further details of the conceptualisation of capacity within local government are contained in Section 25(1)(b) of the Municipal Systems Act 32 of 2000 (RSA 2000) which stipulates that IDPs must align the resources and capacity of the municipality with the implementation of the IDP. This is another underlining of the regulatory link between municipal capacity and the implementation of policies and plans that give effect to local government's developmental mandate: the purpose of the former (resources and capacity) is to facilitate the latter (implementation of the IDP). It also gives a further suggestion that there is some kind of minimum capacity level that all municipalities should have.

Further, Section 51 of the Systems Act states that "A municipality must within its financial and administrative capacity establish and organise its administration in a manner that would enable the municipality to (a) be responsive to the needs of the local community; (b) facilitate a culture of public service and accountability among its staff (c) be performance orientated and focussed on the objects of local government ito 152 and its developmental duties ito 153 ... (g) perform its functions through operationally effective and appropriate administrative mechanisms".

The Municipal Structures Act 117 of 1998 (RSA 1998b) defines "capacity, in relation to a municipality" as including "the administrative and financial management capacity and infrastructure that enables a municipality to collect revenue and to govern on its own initiative the local government affairs of its community". Section 83 of the same Act determines that district municipalities (also) must seek to achieve developmental goals by building the capacity of local municipalities in their areas to **perform their functions and exercise their powers** where such capacity is lacking. Once again, this underscores the point that capacity building is an activity intended to facilitate a clear set of outcomes, and not an end in itself.

The Municipal Finance Management Act (MFMA) 56 of 2003 (RSA 2003) states that "national and provincial governments must by agreement assist municipalities in building the capacity of municipalities for efficient, effective and transparent financial management." Once again, the MFMA emphasises that capacity building is an activity to be undertaken in order to generate a particular set of outcomes. Section 34(1) of the MFMA states that "the national and provincial governments must by agreement assist municipalities in building the capacity of municipalities for efficient, effective and transparent financial management". Subsection (2) adds that "the national and provincial governments must support the efforts of municipalities to identify and resolve their financial problems". Section 34(3) of the MFMA determines "when performing its monitoring functions in terms of section 155(6) of the Constitution a provincial government (a) must share with a municipality the results of its monitoring to the extent that those results may assist the municipality in improving its financial management; (b) must, upon detecting any emerging or impending financial problems in a municipality, alert the municipality to those problems; and (c) may assist the municipality to avert or resolve financial problems"

Critically, Section 105 of the Municipal Systems Act – which states that each Member of the Executive Committee (MEC) must establish mechanisms to monitor municipalities in the performance of their function, and assess the support needed to better perform those functions - indicates that there is **an obligation on provincial and national departments providing**

capacity building to apply their collective minds to determining exactly what kind of capacity building is required by municipalities. That is, the legislation contains an obligation both to monitor how well municipalities are doing in meeting their mandates, and to undertake some form of diagnostic assessment prior to the design and implementation of capacity building.

This diagnostic should be focused on what municipalities require to deliver their constitutional mandate (i.e. why they are falling short). Section 105 of the Municipal Systems Act also states that the MEC for local government in a province must establish mechanisms, processes and procedures in terms of Section 155(6) of the Constitution to:

- a) monitor municipalities in the province in managing their own affairs, exercising their powers and performing their functions;
- b) monitor the development of local government capacity in the province; and
- c) assess the support needed by municipalities to strengthen their capacity to manage their own affairs, exercise their powers and perform their functions.

The only provincial legislation specifically focused on the monitoring and support of local government is the Western Cape Monitoring and Support of Municipalities Act (4 of 2014). Section 6 of this Act provides that if the province is satisfied that a municipality cannot fulfil an obligation as a result of incapacity, it “must determine appropriate steps, in cooperation with the municipality, to develop the capacity of the municipality and to make sure that the municipality implements applicable practice notes and other best practice standards”.

It should be noted that the applicable legislation does not prescribe specific forms of capacity building and support. That is, it does not stipulate the details of exactly how that support should be structured, or even what the constituent components of capacity are or should be. Instead, the overall gist of the framing legislation is that support should entail assisting municipalities to identify problems that are preventing them from meeting their objectives, and then support them in developing a suitable solution. This, in turn, supports the interpretation that **capacity building is something to be designed to address the specific problems of particular municipalities and that ‘capacity’ is whatever measures are required to address the specific problems in particular municipalities.** It also implies that there is a clear obligation on implementing entities to design appropriate solutions that will actually result in long-term and sustainable improvement in the ability of local government to deliver its mandate.

In the recent *Eskom Holdings v Resilient Properties* (judgment of 29 December 2020) the Supreme Court of Appeal, after remarking that the facts (pertaining to longstanding non-payment of Eskom by Emalahleni (ELM) and Thaba Chweu Local Municipalities (TCLM)) “brought to the fore the question whether the ELM and the TCLM had the requisite capacity to effectively manage their affairs” (para 93). The judgement quotes Sections 155(6) and (7) of the Constitution in full before lamenting that neither national nor provincial government seemed to have been monitoring whether the municipalities were able to meet their obligations in terms of their payment arrangement with Eskom - “The two municipalities, hopelessly languishing in financial distress, were still left to their own devices at a time when it must have been obvious

that they lacked the capacity to turn their fortunes around on their own” (para 94 of the judgement).

The court found that the situation “obliges the national and provincial governments to intervene, consonant with the letter and spirit of the constitutional and statutory prescripts to which reference has been made in this judgment” - seemingly referring to Sections 155(6) and (7) of the Constitution rather than Section 139 of the Constitution (which is not mentioned) in terms of what kind of ‘intervention’ is being described. The court thus took the position that national and provincial governments have an obligation both to monitor closely the performance of local government and to take remedial action (in the form of the appropriate support) as soon as it becomes apparent that there is a problem. So it seems the court viewed Section 155(7) of the Constitution as imposing an obligation on National and Provincial governments to ensure municipalities fulfil their functions.

Another document worthy of consideration in this legislative overview is the **National Development Plan (NDP)** (NPC, 2011). Although the NDP is not in itself a piece of local government capacity building legislation, it is the national apex planning document and contains a strong focus (in Chapter 13) on the necessity of building “a capable state”, which includes local government. Its contents are thus important in any assessment of the alignment between the design and implementation of capacity building programmes, and the over-arching regulatory environment: how well do local government capacity building initiatives deliver on the NDP’s goal of a capable state?

The NDP lists three over-arching development priorities, and the third is “Building the capability of the state to play a developmental, transformative role”. The important point here is that state capability in the NDP is – in line with the legislation discussed above - conceptualised as a means to an end, rather than as an end in itself. **That is, the aim of building a capable state is not “capability” itself, but rather to ensure that the state is able to implement its developmental and transformative agenda.** This capability-for-a-purpose stance is further emphasised in the following:

“There is a real risk that South Africa’s developmental agenda could fail because the state is incapable of implementing it” (NPC, 2011, p54).

“The South African state will be capable of implementing programmes and policies effectively and consistently” (ibid., p120).

“(Our) vision requires a capable and developmental state: capable in that it has the capacity to formulate and implement policies that serve the national interest; developmental in that those policies focus on overcoming the root causes of poverty and inequality” (ibid., p409).

This (for-a-purpose) point is particularly important in respect of designing and monitoring related programmes, and thus for this diagnostic study. It suggests that a (the) critical assessment criterion is how well the goal of mandate implementation is incorporated in both the design and management of all support programs.

The NDP does not contain a detailed definition of ‘capability’, but it does indicate that multiple factors (both internal to and external from an organisation) contribute to or undermine such capability. These factors are not exactly the same in every organisation, and thus each situation requires careful diagnosis and specific remedial action.

Finally, the NDP both acknowledges that there have been many failed attempts to build state capability, and offers one explanation for why this is the case: “There have been many individual initiatives, but there is a tendency to jump from one quick fix or policy fad to the next. These frequent changes have created instability in organisational structures and policy approaches that further strain limited capacity. The search for a quick fix has diverted attention from more fundamental priorities” (ibid., p408). It is these “fundamental priorities” that need to be accurately identified and placed at the centre of programs.

The *National Capacity Building Framework for Local Government* issued by the Department of Provincial and Local Government, which now forms part of COGTA (DPLG 2008) gives a broad overview of capacity constraints within local government as follows (according to Ndletyana, Mzondidya and Naidoo, 2008, p17):

- Insufficient staff contingency and the seemingly non-availability of appropriate candidates due to the inability to attract such individuals into the local government arena as well as the lack of such trained or graduated individuals
- Insufficient strategic leadership to drive large-scale change management and developmental processes
- Inadequate requisite technical skills in critical functional areas and lack of requisite internal operational infrastructure and technology
- Lack of competency which leads to the inability to do tasks
- Recruitment and selection of staff not in line with job descriptions
- Inadequate knowledge and information base within municipalities
- Poor understanding of local government legal framework caused by insufficient expertise to interpret and translate legislation and policies into action
- Lack of service orientated attitude and behaviour, partly influenced by an organisational culture that does not uphold the principles of service delivery
- Limited understanding of the developmental organisational purpose and vision.
- Bureaucratic and hierarchical structures and systems that limit functional relations and programme and project based activities as created and demanded for within their IDPs
- Dissipated organisational memory due to continued transformation and lack of knowledge management
- Appropriate consolidation of systems and structures necessary to stabilise finances and begin to ensure service delivery and development

The extent to which the over-arching intentions of capacity building legislation (and the NDP) actually materialise in programmes delivered to municipalities is an important indicator of gaps in programme design and implementation.

4 Literature Review

Aim and approach

The aim of the literature review is to identify research that is relevant to this diagnostic study; research that can inform both a critical analysis of the existing system (what is working, what is not working and why) as well as provide guidance as to the best way to proceed in improving the outcomes of the South African local government capacity building system. These represent initial findings, to be built on and expended with the results of both the detailed programme analysis and the interviews to be conducted in the next phases of this research.

The literature review has therefore focused on generating preliminary answers to the following research questions:

- How is local government capacity and capability defined in the literature? What are the constituent components of those definitions, and how do they interact with and influence each other? The definition and conceptualisation of capacity and capability matter a very great deal since they are the starting point for effective policy and program design. The definition of 'the problem' is key to how solutions are designed. Poor or inadequate definitions (which effectively scope 'the problem' incorrectly) will generally be reflected in poor program design.
- How are causal linkages (between the selected definition and organisational outcomes) conceptualised in the literature? How robust and comprehensive are these causal models?
- What kinds of programmes are working and what kinds are not?
- What are the lessons to be learnt in respect of an approach to designing and implementing programs that are more likely to result in sustainable and long-term improvements in the ability of local government to deliver its mandate?

The literature assessed for this report was made up of peer-reviewed journal articles (the majority of the literature), published books, reports and papers issued by multi-lateral organisations such as the United Nations, and a small number of (South African) program evaluation reports written by independent consultants. The aim of this section is not to present a detailed review of these some 40 documents on capacity building and capability development but rather to extract and present the key points that are relevant to answering the questions set out above.

Not all of the literature reviewed was directly focused on local government. Much of it (particularly the international literature that covered other developing countries) was concerned with the capacity of the nation state, rather than sub-national government. This reflects in large part the fact that decentralisation in many developing countries is still in a relatively early stage, and few developing countries have local municipalities with as wide a range of powers and functions as South Africa does. Therefore, most of the debate around state capacity in developing countries – and particularly the concerns of development agencies in this areas – is focused on the national level. However, most of the lessons to be drawn from the

international nation state-level literature are still relevant to local government in this country. The main exceptions to this are where components of capacity are broken down into constituent parts that are not relevant to the mandate of local government (such as the ability to ensure a country's national integrity, or the national fiscus).

Key Points

Set out below are the key points drawn from the literature review, summarised as the following:

- Most of the literature refers to “capacity” rather than “capability”; capacity is generally presented as a facilitator and an enabler of outcomes, but the details of these causal linkages vary considerably across the literature and are often assumed rather than specified in detail
- There is a general lack of data and research on the impact of capacity building, which is particularly notable in the South African literature
- Definitions of capacity vary: many provide weak foundations for effective initiatives to improve outcomes
- A significant percentage of capacity building initiatives around the developing world have failed to meet their objectives
- Detailed diagnosis is necessary to all successful initiatives, but not helpful if it is directed at diagnosing the wrong things
- Close performance management of capacity building programmes, linked to clear organisational outcome indicators, is a key factor contributing to successful initiatives
- More successful programs tend to be comprehensive, focusing on multiple factors that make up overall organisational capability and tailor-made to deal with particular problems in particular contexts
- Meaningful and sustainable improvement is a long and complex process, best driven from within the organisation and based on the co-development of solutions
- The organisations responsible for delivering capacity building programmes must themselves have the requisite capability to do so

Each of these points is discussed in more detail next.

Most of the literature refers to “capacity” rather than “capability”; capacity is generally presented as a facilitator and an enabler of outcomes, but the details of these causal linkages vary considerably across the literature and are often assumed rather than specified in detail.

Almost all of the literature presents a high-level notion of capacity as something that is necessary to create something else, most commonly a more effective and efficient organisation (ESID, 2015). That is, capacity is mostly understood as a facilitator and enabler of something else. But the ways in which this relationship are envisaged (indeed, if the relationship is articulated in detail at all) vary considerably. Many of the authors state something along the lines of capacity comprising “the ability of local government to effectively plan and implement the Integrated Development Plan” (Asha, 2014, p804) without going into any further details of the causal relationship. Of concern in this body of literature that makes a nod towards capacity as an

enabler, is that it then apparently forgets all about this: authors who focus most of their attention on one activity of building capacity (such as training) and never again refer to the 'something else' it is intended to facilitate.

Marais and Kroukamp (2005) propose that the "availability of the necessary resources, systems, procedures and managerial tools" in a municipality is important in supporting capability and thus outcomes, but provide no details of exactly what the ideal form of these are (i.e. what is the definition of "necessary"), or how they combine to support better outcomes. Instead, the assumption is that if these factors are present, some unnamed alchemy will automatically transform them into improved municipal performance. This "invisible hand" theory also pervades much of the skills development and training literature: that increasing skills will automatically improve outcomes (despite many years without any corroborating evidence that this is the case).

In terms of Section 85 (4) (a) of the Municipal Structures Act, the Municipal Demarcation Board (MDB) must undertake an assessment of the capacity of a district or local municipality to perform the functions and exercise the powers vested in the municipality. The MDB thus undertakes regular 'capacity assessments' of municipalities, the aim of which is purportedly 'to measure their ability to meet their obligations in performing their powers and functions'. How does the MDB define this ability (capacity) and the linkages between capacity and the outputs and outcomes (performance) of local government? According to their own methodology, the MDB collects information around the following (MDB, 2019):

10. Planning capacity, and particularly the role of district municipalities in terms of the legal framework.
11. Financial capacity, meaning the evaluation of factors used and sources of revenue, including challenges.
12. Delivery capacity, meaning the evaluation of the division of powers and delivery of functions relative to backlogs.
13. Administrative capacity, including ICT and human resource profiles.
14. Geographical challenges.

Although this seems to be a comprehensive set of capacity factors, the method for collecting data (largely the submission of standardised data collected by municipalities themselves together with additional information on demographics and the local economy) and the data actually collected do not appear to be clearly focused on the issue of the ability of the municipality to implement its mandate. There is no robust causal model underpinning this: that is, exactly how do each of these factors impact municipal capacity and what is their relative influence? For example, how exactly does planning capacity impact this ability? What are the gaps in administrative capacity undermining implementation? Without this information, how can a useful capacity development programme be developed?

Each of the MDB assessment reports contain a long and comprehensive list of indicators – from demographics, to organisational attributes, vacant posts and the level of skills (MDB, 2019).

However, there is no indication in any of the MDB reports exactly why these factors are important for the ability of municipalities to meet their objectives (i.e. the nature of the causal linkages between these factors and outcomes) or the relative importance of each (i.e. which of these factors are most important in facilitating or undermining the attainment of these objectives). The result is then a subjective assessment of whether or not municipal capacity is “good” or “bad”. This assessment does not provide a very good basis on which to design appropriate interventions (not least because there is no evidence-based underpinning of which kinds of interventions should be prioritised, either in terms of making the greatest impact, or in respect of some kind of logical sequencing of interventions so that each one creates a solid foundation for the next – the importance of which is emphasised by Potter and Brough, 2004).

(Another problem is that a poorly performing municipality is highly unlikely to have the ability to investigate these issues in the detail required to submit comprehensive and accurate information.)

In summary, the range of MDB information provides a (mostly) useful overview of part of the capacity situation within municipalities, has limited utility for designing appropriate capability development interventions.

Greyling (2014) contends that there is actually very little empirical knowledge in South Africa about whether or not any particular municipality actually has the capacity to meet its constitutional objectives. This reflects, in turn, the limited understanding of the detailed causal linkages between capacity and outcomes, which are more often assumed than based on evidence.

The situation is similar in the international context: Barma *et al* (2014) maintain that “relatively little causal thinking has been devoted to assessing what elements of institutional design and operation actually contribute to success (p6)”.

At the other end of the scale is a body of work that firmly orients capability in its enabler role by clearly labelling it as “implementation capability” (Andrews, Pritchett and Woolcock, 2017), a constant reminder that **the purpose of capability is to support an organisation’s ability to implement its mandate**. They emphasise the point that almost all poorly performing states have reasonably good policies in place, and so the underlying problem is not one of policy development, but one of implementing what exists. James (2018), too, emphasises the point that many developing countries have excellent policies and have made a public commitment to implementing those policies (in this instance the issue is environmental sustainability) but very little actually gets done. The ‘missing link’ between policy goals and actual change is identified as state capability, which is defined as the ability to implement (*ibid.*).

Barma *et al* (2014) also emphasise the fact that poorly performing states “do not lack best practices or up-to-date templates” (p29) and that the real problem in state reform is not the design of reforms, but their implementation. Similarly, the United Nations Development

Programme (UNDP) emphasises the implementation role of capability, which they define as “the ‘how’ of making development work better” (UNDP, 2008, p3).

Using the term “implementation capability” better describes the goals of current capacity building programmes in local government, for two reasons. Firstly, it clearly reflects the content of the South African legislation, thereby contributing to the goal of alignment from legislation through to program design and implementation. Secondly, the literature review indicates that **where this ‘enabler’ role is forgotten, or not made explicit, there is a strong tendency to present capacity building efforts (such as the activity of training) as an end in itself.** This is a factor contributing to the dearth of empirical data about the impact of capacity building on organisational outcomes discussed below because it encourages the measurement of capacity building **activity** indicators (such as the number of people trained) rather than any impact of that activity.

Somewhere in between these approaches (i.e. those that mostly ignore the larger purpose of capacity building and those that explicitly incorporate it at all levels) is National Treasury’s own 2009 reflection on the links between capability and municipal outcomes: *A municipality that achieves the above constitutional objects (i.e. those set out in S 156) consistently by performing these functions within its financial and administrative capacity could be described as a functional, well-performing municipality.* Although this does not constitute a clear modelling of the linkages between capacity building and the attainment of objectives, it does highlight that there is a central relationship between capacity and the delivery of outcomes. It also implies that local government capacity should be assessed (as strong or weak) on the basis of whether or not it results in those outcomes (and not on the basis of intermediary indicators such as the level of skills).

In the South African context, Palmer, Moodley and Parnell’s (2017) seminal consideration of capacity building challenges in South Africa’s built environment sector, usefully defines the multiple dimensions of state ‘capability’—environmental, institutional, organisational and individual—which are all critically interlinked. Capability across state institutions and the three spheres of government, varies considerably and—despite some systemic improvements (such as with Supply Chain Management regulations and the Municipal Standard Chart of Accounts)—continues to face significant challenges related to complexities of inter-governmental cooperation and the legacy of apartheid dysfunctions; these **challenges are particularly experienced in core service delivery areas in the engineering and built environment arena**, such as water, sanitation, roads, public transport and housing (Lawless 2016; Palmer, Moodley and Parnell, 2017; Piper 2019). Notwithstanding any capacity deficits due to individual skills in the public sector, the South African Institute of Civil Engineers (2019) found **systemic issues compounded these challenges**, including “an over-politicisation of infrastructure departments, the diminished decision-making roles of technocrats, the lack of systems, processes and structures for efficient administration, lack of training, development and career paths, and unwarranted interference of HR and Finance divisions in the work of infrastructure engineering professionals.”

There is a general lack of data or research on the impact of capacity building, which is particularly notable in the South African literature.

Despite the fact that most of the literature states or implies that the aim of capacity building is to effect some kind of improvement in organisational outcomes, that literature is also generally thin in respect of documenting the impact on those outcomes of capacity building programmes. In the South African context “very little research exists on whether such budgets and expenditure have translated into increased capacity and performance” (Peters and van Nieuwenhuyzen, 2013, p271).

Greyling (2014) reinforced this lack of research on the impact of such programmes by pointing out that (at that date) no detailed study had been undertaken of the 2004, 2008 or 2011 iterations of the *National Capacity Building Framework for Local Government*, in respect of the impact on municipal performance.

Definitions of capacity vary: many provide weak foundations for effective initiatives to improve outcomes.

Effective and appropriate solutions depend in large part on accurate diagnosis of the entire problem (and not just one or two of its constituent parts). In turn, the likelihood of getting that comprehensive diagnosis right depends on our definition of the problem – what is considered by that definition as part of the problem and what is not. When a definition is narrowed to exclude critical parts of the actual problem, successful and comprehensive solutions cannot be expected. As a result, if some important components are excluded from the definition of the problem, those components will be missed in any subsequent diagnosis and resulting solution design.

Although the 1998 White Paper on Local Government (RSA, 1998a) highlights the importance of strengthening capacity as a means to the end of enabling local municipalities to deliver their objectives, it does not offer a detailed definition of what the constituent components of that capacity are (something that could be identified as a notable shortcoming, given the current situation). However, it could be inferred that this definition was in fact heavily biased towards skills development through statements such as: “Training and capacity-building are an integral part of institutional development. All training and capacity-building initiatives should be linked to the national legislative and policy framework for skills development put forward by the Department of Labour.” In contrast, there is no meaningful discussion of any non-skills components of capacity building contained in the White Paper. This limited definition has continued through most of the South African literature (and policy) in an unbroken line since the White Paper.

Peters and van Nieuwenhuyzen (2013) point out that there is no common definition of capacity in South Africa (or across all countries and contexts). Our analysis indicates that in much of the literature, and almost all of the South African literature, the very narrow view of capacity is taken; that it is generally defined as consisting almost entirely of individual skills and expertise,

together with the exercise of some 'leadership' (Ndou, 2015; Gqamane and Taylor, 2003). Where reference is made to the role of 'external' factors such as politics in impacting organisational outcomes, this is usually seen as something that undermines successful capacity building (such as employing poorly skilled people for 'political' reasons or failure to make a 'political' commitment to improving capability). That is, these factors are generally conceptualised as something outside of capacity. In addition, many articles are completely silent on the role of internal factors such as basic administration, standardised and documented business processes and control systems in determining local government outcomes. This is despite the repeated highlighting of these issues as key factors undermining organisational outcomes by entities such as the Auditor General. The international position is much the same: "while empirical works on the determinants and consequences of state capacity have flourished in particular in the recent years, questions about what state capacity truly is, how it should be captured, and other several methodological challenges associated with it are much less resolved" (Cingolani, 2013, p2).

Many of the articles reviewed (see for example Meyer and Le Roux 2006) make a nod towards the importance of "institutional capacity" as something different from individual capacity, but do not tell us anything more about what that institutional capacity looks like, or its relative importance in organisational performance. The study undertaken by Ndletyana, Mzondidya, and Naidoo (2008) indicated that the "starting-point was to determine the nature and range of functions that municipalities are mandated to execute, thereafter established what capacity is required to undertake such functions. We took note of the multi-faceted nature of the term "capacity" to mean financial resources, human capital and social capital." Although this represents an attempt to broaden the definition beyond a skills-only interpretation, their definition (i.e. the addition only of financial resources and social capital) does not appear to constitute a particularly comprehensive or relevant one, given the developmental aims of local government. Nor did the authors (ibid.) attempt to model the different contributions of these various components to municipal outcomes (i.e. which of these was more or less important than the others). Finally, their main focus in terms of assessing interventions was those that "involved capacitating existing officials and elected leaders; drawing expertise immediately into the employ of the municipal sector; cultivating expertise that would be available in the short-term; strengthening interaction between elected leaders and the electorate and public access to public services; and developing a tracking system for municipal performance" (p25).

Ndou (2015) makes the good point that "individual capacity building refers to any process that increases the capability of individuals to be functional or perform a service" (p53), but then proceeds to limit those processes to individual skills and experience. The author fails to consider factors such as organisational design, business processes, the use of technology, the political-administrative interface, financial resources, etc. which all can have an enormous positive impact on the effective capability of individuals.

The result of these limited definitions is that the capacity 'problem' is most commonly defined as a shortage of skills, the capacity 'gap' is calculated as the difference between required skills and existing skills (Vyas-Dorgapersad, 2010), and the 'solution' is thus either individual skills

enhancement or the deployment of skills to a municipality, or a combination of both. One reason for these gaps in the literature may be its lack of detailed or empirical research that presents an incomplete comprehensive investigation of the multiple reasons for long-term poor municipal performance – as evidenced by the inability of municipalities to consistently deliver their priority constitutional obligations - and how this is directly related to particular components of capability. This is particularly noteworthy in the South African literature. That is, very few researchers have actually spent long periods of time in municipalities investigating exactly how and why poor performance outcomes are generated. Instead, they quote proof of poor performance (service delivery, audit outcomes and similar) and then immediately move to the conclusion that “lack of capacity” – as they have narrowly defined it - is the reason.

The prevalence of these limited definitions in the South African literature is particularly noteworthy, since it indicates **a strong general point of view that ‘capacity’ is largely analogous to ‘skills’**. This academic narrative has influenced policy: if most of the researchers in the field of local government believe that capacity is analogous to individual skills and expertise then it is unsurprising that this bias is reflected in policy documents.

This policy bias runs deep: Despite the fact that the *National Capacity Building Framework for Local Government* issued by the Department of Provincial and Local Government - which now forms part of COGTA (DPLG 2008) begins with a multi-faceted definition of capacity, the overwhelming focus of the policy details individual capacity, rather than other factors contributing to overall organisational capacity. Since the development of the Framework, the *de facto* situation has entrenched this bias: the vast bulk of capacity building activity has focused on skills - training and/or expert deployment. However, other organisational capacity building factors – such as bureaucratic and hierarchical structures and systems, or the structural operating environment, or business systems and processes –receive no attention in this key framework guiding government’s capacity building endeavours.

The MDB assessments, too, as referred to earlier, focus strongly on the level of skills and vacancies across departments (which often stands as a proxy for ‘capacity in a particular area), reflecting the general bias in South Africa.

Lack of appropriate skills and expertise has become the shorthand for almost everything that is wrong with local government in South Africa (Peters and van Nieuwenhuyzen, 2013)

Although it cannot be disputed that the skills and expertise of people in an organisation impact the outcomes of that organisation, it is not the only influencing factor, as suggested by many authors. PARI’s research (Ledger and Rampedi, 2019) clearly indicates that when a municipality has all its S56 posts filled with permanently appointed and suitably skilled staff, the municipality is likely to produce above-average governance and performance outcomes, but correlation is not to be equated with causality. Although these appropriately skilled employees are undoubtedly making a positive contribution, it is also clear that the filling of these posts at all is due to other contributing factors. For example, appropriately filled positions can suggest strong political will within the municipality to improve governance and performance (ibid.). This is a

key factor contributing to better outcomes across the municipality, over and above the skills of S56 managers. In addition, effective senior managers are unlikely to take a position in (or remain for very long) in a municipality that is in a state of disarray, or in serious financial trouble, implying that skilled officials are likely to gravitate towards municipalities that are already at a certain minimum level of functionality.

However, if one does not examine closely (and empirically) the impact of such other factors on performance outcomes, then it is very difficult to ascertain accurately what percentage of performance is determined by skills, and what percentage is driven by these other factors (or how those other factors may dilute the impact of skills development by making it harder for people to do their jobs). In this complex environment it is thus difficult to calculate the expected return on a skills development investment. In addition, the impact of improved skills can be greatly diluted by shortcomings in other organisational factors that reduce productivity, but these other factors are seldom considered. In the worst cases, it is 'other' organisational factors (such as politics, excessive bureaucracy, etc.) that create a strong incentive for skilled staff to leave and look for other opportunities (Peters and van Nieuwenhuysen, 2013).

This is not just a South African phenomenon, as Williams (2020) points out: although there is general agreement that state capacity is important for generating improved state outcomes, over time and around the world, the term has “become a default metaphor for discussing the quality of government bureaucracies” (p1). He makes the important point that while it has become a very commonly used and convenient “shorthand term”, it has achieved this convenience “by abstracting away from the (complex) mechanisms” that actually determine the ability of the state to effectively implement policies (ibid.). As a result, many programs ostensibly designed to develop state capacity proceed as if those complex mechanisms do not exist.

Importantly, some of the literature does acknowledge that there are 'other' factors that impact capacity – that “it is more than just providing training” (Asha, 2014, p803). However, the authors seldom go further in their analysis than simply listing what they believe these are⁹. Atkinson (2002) implies that the design of local municipalities is a component of their 'capacity' because this design impacts their ability to deliver their developmental mandate, without detailing what the impeding design components may be or how to adjust them. Edwards (2008) highlights the importance of an effective inter-governmental relations (IGR) framework in facilitating the delivery of local government services, implying that the ability to implement the IGR framework should be seen as a component of a local municipality's capacity. But the modelling of this is not taken any further.

Most of these authors thus fail to present an evidence-based analysis of how they identified these particular factors rather than others as being important to capacity, or the relative contribution of these 'other' factors to the overall level of capacity, or how different factors interact to facilitate or impede organisational outcomes. That is, they by and large do not

⁹ And then generally spend the remainder of the article discussing the details of training and skills development and/or expert deployment

present a clear causal model indicating the linkages between these factors and local government outcomes. There is thus a significant gap in evidence-based literature around capacity in local government in South Africa (and even larger gap in respect of capability).

This situation echoes Honadle's pertinent (1981) observation that "definitions of capacity vary in the extent to which they specify the activities that should be performed versus the results that are sought" (p576). As noted, most definitions around the world (and almost all of those used in South Africa) are focused on the activities to be performed (i.e. are input-based) rather than the results (outputs and outcomes focused) that those activities are intended to produce.

One of the exceptions to this rule is the research presented by Andrews, Pritchett and Woolcock (2017), which is based on a solid foundation of empirical data across developing countries. The foundation of their work is that **capability development** efforts should focus on the ability of organisations to implement policies and plans, since this is the central underlying challenge impeding development. They conclude that "many developing countries and organizations within them are mired in ... a "capability trap": they cannot perform the tasks asked of them, and doing the same thing day after day is not improving the situation; indeed, it is usually only making things worse" (ibid., p10). Their recommended approach is to focus on agreeing the root causes of the problem impacting development as the starting point, with the goal of capability building to gear up the organisation to solving this problem.

This approach may not seem to be a key differentiating factor from other approaches in the literature; after all, are not all initiatives focused on solving the implementation problem? The answer is 'no': firstly many of them are centred on capacity and not on capability (i.e. what is actually possible in a particular set of circumstances). Secondly, most are in fact focused on delivering a set of goods and services (mostly training) on a vague assumption that these will (somehow, someday) solve part of some larger and often unspecified development problem. In contrast, a **problem-oriented approach** means that there is no standardised list of solutions that can be applicable to every organisation – an assumption should not be made in advance that the problems in one particular municipality are the result of exactly the same factors as all other municipalities. Instead, the reasons for the gap between the desired outcomes and the actual outcomes in that municipality is something that should be empirically determined, in close consultation with the people who work within that particular municipality, and the surrounding community. The aim of this consultation would be to develop a detailed "chain of inputs-activities-outputs-outcomes" (ibid., p37) that presents the greatest likelihood of success in that particular municipality if the chain is implemented, taking account of its actual situation and resource limitations. "Capability development" in this approach means co-producing knowledge and workable solutions, in an over-arching environment that encourages and rewards innovation.

A significant percentage of capacity building initiatives around the developing world have failed to meet their objectives

Many public sector reform initiatives (under which capacity building programmes fall) in the developing world have failed to meet all of their objectives (Bukonya and Yanguas, 2013). Potter and Brough (2004) state that “sub-optimal” results of capacity building initiatives are “all too common” (p342).

The failure to build “localised institutions and context-specific solutions”, in favour of the focus on the “uncritical imposition of best practise institutional blueprints” has also been identified as a reason for high levels of failure (Evans, 2004). Andrews, Pritchett and Woolcock (2017) also emphasise the central role that any unquestioning adoption of imported ‘best practice’ blueprints for organisational design and operation (which they dub ‘isomorphic mimicry’) plays in undermining real improvements in implementation capability. That is, these kinds of ‘solutions’ tend to make things worse, not better, because they are a very poor fit for the organisation they are being imposed on.

Another of the identified reasons for this lack of success is that these reforms often challenge existing power relations and/or vested interests (ibid.). Although technical factors (such as accurate diagnosis, the setting of detailed performance indicators, regular progress monitoring, etc.) all contribute to the outcome of capacity building initiatives, existing power relations and vested interests can be very successful in preventing their implementation. As a result “...state capabilities are the product of underlying political relationships and not independent from them” (Whitfield et al, 2015, p20, quoted in Hickey 2019). However, the ways in which this happens are not immediately obvious and require investigation: “politics plays a leading role in shaping the emergence and sustainability of high-performing public sector organisations. However, the field as yet lacks a clear sense of the conditions under which this happens” (Hickey ibid., p1).

Even when there are not clear political interests in the *status quo*, a certain way of doing things (in this case ‘capacity building’) effectively becomes the only way of doing things, as all the system participants are “locked into a closed and agenda-conforming ecosystem” (Andrews, Pritchett and Woolcock, 2017, p32). The participants in this system have a strong vested interest in presenting a picture of success and carefully avoid any admission that in fact things are not actually generating an impact. The authors refer to this as “success at failure” (ibid., p34).

Honadle (1981) proposes that many of the disappointing outcomes are because initiatives focus on factors that are “equated with organizational capacity” (P575) without having a clear model of exactly what drives organisational outcomes. This gap, in turn, can be traced back to poor definitions of what constitutes capacity (ibid.).

One of the reasons for the disappointing outcomes appears to be the heavy focus on training to the exclusion of other initiatives: a significant component of international donor support to developing countries in respect of capacity building is funding for skills development and training. Nelson (2006) focused specifically on the efficacy of training as a capability development tool, using evidence from the World Bank and a range of other international donor organisations. His main conclusion was that “(a)lthough it is clear that some individuals have

benefited personally from training and some organizations in developing countries have reported that training helped them develop new competencies and efficiencies, the dominant finding of most evaluations of training in a development context is that it has proved less effective than expected” (p1).

Detailed diagnosis is necessary to all successful initiatives, but not helpful if it is directed at diagnosing the wrong things

As indicated in the more complex definitions of capability outlined above (such as Andrews, Pritchett and Woolcock, 2017) the aim of implementation capability is to facilitate and support the organisation’s ability to achieve its goals. Given the complex and composite nature of the implementation capability required to deliver the South African local government mandate, and the fact that different municipalities have different starting points, they also have different actual problems that need solving. UNCDF (2005) recommends that “(a)ny capacity building programme needs to be designed around an analysis of the different types of constraints currently affecting the performance of local government” (p202).

Peters and van Nieuwenhuyzen (2013) emphasise the importance of accurate and detailed problem diagnosis in ensuring that suitable programs are designed, and that the various components thereof are correctly sequenced, each initiative building on the foundation of the previous one. “Capacity gaps are defined as the difference between that which exists and that which is needed Theoretically, these capacity gaps should be clearly defined prior to designing any interventions” (ibid., p285).

Detailed diagnosis and program design also form the basis for managing the performance of capacity building programmes: what is the problem to be fixed, how will that be done, how will progress be measured, has the program met its goals?

In theory, Section 155 of the Constitution requires that the other two spheres of government monitor local government, but there is no clearly defined process for monitoring capacity in a comprehensive and relevant fashion. Although the impression seems to have been created that the MDB is fulfilling this role on behalf of provincial governments (MDB, 2019) the discussion earlier suggests that the outputs generated in this process do not meet actual requirements¹⁰.

Hughes (2012) suggests that many of the local government capacity building programmes in South Africa have not been initiated as a result of a detailed diagnostic review, but rather in response to events such as widespread service delivery protests, which require some kind of public action. This conclusion is also supported by Meyer and Venter (2014).

The importance of accurate and detailed diagnosis (assessments of the existing situation) is highlighted by Van Baalen, Schute and Von Leipzig (2015), but the problem remains that unless there is a clear and detailed definition of the constituent components of effective capacity (or

¹⁰ Lack of comprehensive monitoring is also reflected in the poor application of the S139 intervention framework – Ledger and Rampedi (2019).

capability), what exactly is being assessed? In addition, the all too common suggestion (ibid.; WRC 2019) that such assessments are carried out by municipalities themselves (self-assessment) seems extremely optimistic, and very likely to yield poor results in many instances: municipalities that are unable to deliver even basic functions are extremely unlikely to have the ability to undertake a detailed and comprehensive capacity assessments with any degree of accuracy.

Close performance management of capacity building programmes, linked to clear organisational outcome indicators, is a key factor contributing to successful initiatives

As might be expected, Barma et al (2014) identify that “clearly targeted and implementable goals (of capacity building programmes)” are strategies that are common across all organisations able to create meaningful and sustainable improvements in performance (p16). That is, the ability to measure progress (against relevant indicators) is highly correlated with successful outcomes.

The opposite (limited empirical evidence on how capacity building programs impact organisational outcomes) is more often the position: Peters and van Nieuwenhuyzen (2013) point out that although significant amounts of money have been spent in this regard in South Africa, “very little research exists on whether such budgets and expenditure have translated into increased capacity and performance” (p271). The authors point out that this makes it difficult to objectively determine whether or not they have been successful (and thus to decide whether or not they should be continued). Ajam (2012) highlights that in general the monitoring of programs (in terms of their impact) is poor, and that this greatly reduces our ability to objectively assess their effectiveness. This finding also suggests that programs may not be clearly linked in their design phase to addressing specific organisational outcomes, under a clear theory of change.

Ndou (2015) points out the “lack of (a) holistic approach for conceptualising, evaluating and measuring the gains and losses of capacity-building initiatives” (p54) across the state that would allow us to objectively assess what is working and what is not working. Such an approach would be the first critical step in improving programme outcomes.

There is a tendency (such as exhibited by Meyer and Le Roux, 2006) to assess the “success” of capacity building programmes (such as training) by surveying the participants in such training as to how they rated the training, without any reference at all to the long-term impact on their organisations. This approach is unfortunately relatively common. For example, this approach was used in the assessment of expert deployment programmes (Genesis, 2010), albeit in this example as part of a wider set of criteria. This mode of impact assessment reinforces the notion that the capacity building activity (such as training) is the aim of the entire exercise, rather than the ability of the municipality to meet its constitutional objectives.

More successful programs tend to be comprehensive, focusing on multiple factors that make up overall organisational capability and tailor-made to deal with particular problems in particular contexts.

UNCDF (2005) points out that, although there is a great deal of activity in the capacity building space, and many theories proposed about how such programmes should be structured, “there is surprisingly little literature providing guidance as to how such principles are to be translated into practice within the institutional realities of specific national decentralization frameworks and local government systems” (p3). However, there are some guidelines in the literature suggesting what kinds of approaches may work better than others. Bierschenk (2010) makes the important point that poorly performing public sector organisations are not the result of one single factor, but rather represent “the result of numerous cumulated micro-differences” (p1). As a result, there is no one ‘silver bullet’ to achieve sustainable and meaningful change.

Peters and van Nieuwenhuyzen (2013) point out that different municipalities have different challenges and operate in different contexts. They therefore require specialised, rather than generic support in addressing their particular requirements. This once again underpins the importance of accurate problem diagnosis in each individual municipality. Low program success rates are associated with simply adopting a ‘cut-and-paste’ approach to problem-solving. Evans (2004) also emphasises the importance of developing solutions that are co-produced and co-developed with the organisation in question, and of involving the people who work there at all stages of problem identification and solution building. UNCDF (ibid.) highlights the importance of ensuring that interventions to develop capacities are “tailored not only to realistic views of capacities at the local level, but also to the politics of local government”, finding that “it is all too easy to embark on comprehensive capacity-building exercises that are disproportionate to real requirements” (p202).

Similarly, the UNDP (2008) finds that “efforts to strengthen skills, processes and systems do not produce sustainable results if they fail to address the inherently political and complex realities of the situation” (p4).

As Andrews, Pritchett and Woolcock (2017) have pointed out, **capable** states are mostly marked out by enormous differences in their institutional design and operation across countries and regions, even when they are aiming for very similar results. They conclude that it is these very differences that contribute to implementation capability: that these differences reflect the fact that these organisations have developed in response to different cultural, political, social and demographics environments. These organisations are thus ‘fit for purpose’ in a way that an organisation that draws unquestioningly on imported ‘best practise’ never can be.

Meaningful and sustainable improvement is a long and complex process, best driven from within the organisation and based on the co-development of solutions

Barma *et al* (2014) point out that “institution building is a dynamic, nonlinear process that moves in fits and starts and is often reversible” (p27). They also point out that high failure rates are

associated with reform processes that are designed in relative isolation by a small group within the state, who then attempt to impose these reforms with little consultation and/or understanding of the complexities of the local contexts facing the organisations required to implement them (reflecting the finding above about the importance of context-driven solutions).

The “quick fixes” approach that characterises much of the South African public sector undermines its efforts at building a capable state (NPC, 2011) and contributes to the sub-optimal use of resources. Successful examples of state organisation building in South Africa (such as the South African Revenue Services) underscore the importance both of taking a long-term view, and adopting an experimental and iterative approach where change is driven from within that organisation (Pearson, Pillay and Ledger, 2015).

The organisations responsible for delivering capacity building programmes must themselves have the requisite capability to do so

Peters and van Nieuwenhuyzen (2013) point out that not all entities that are responsible for developing the capability of local government in South Africa have the ability (capability) themselves to deliver on this obligation. Meyer and Venter (2014) concur with the troubling conclusion that one of the reasons why so many programs that aim to improve service delivery in local government fail is because the implementing department is unable to implement these as planned. **It appears that the entities responsible for improving the capability of local government themselves lack basic implementation capability to do so.** This is undoubtedly a factor contributing to the low success rate of many programmes.

5 Concluding Thoughts

Local government has a complex and wide-ranging mandate: successfully delivering this mandate requires a high level of implementation capability, and it would be reasonable to assume that the current form of local government started off with a significant capability gap. The preliminary evidence suggests that, to date, significant improvements have not materialised, despite a considerable allocation of resources to this effort.

The aim of this regulatory and literature review is to provide a context within which existing capability development programmes may be evaluated. Specifically, this review provides the foundation for answering the following questions:

1. How well aligned are programmes with the intentions of the legislation that established the current capacity building framework?
2. What can be learned from the literature (both local and international) about what appears to work well, and what works less well, in terms of scope, design, implementation and performance management?
3. How does the scope, design, implementation and performance management of existing South African programmes compare to the main findings from the literature review?

4. What might be learned about how to better design, implement and manage programmes?

In summary, the review provides us with insights into:

- The possible reasons why efforts at capacity building in local government have failed to meet expectations; and
- Places to start to look for alternative (better) approaches.

A central conclusion from the review that where the “enabler” role is forgotten, or not made explicit, there is a strong tendency to present capacity building (such as the activity of training) as an end in itself. Most capacity building programmes (not just in South Africa, but around the world) have a strong focus on training and/or expert deployment as the ‘solution’. This is the *de facto* result even when other factors are acknowledged as being important in determining organisational outcomes: we might be talking the talk that capacity is multi-faceted, but we are walking the walk of training and skills deployment.

This limited skills development-centric approach is failing to have the intended impact. However, as a general rule programme progress is not measured against outcome impact indicators, but rather against unrelated activity indicators (such as how many people were trained, how much money was spent on deploying experts). As a result, much of this failure is very effectively disguised as success.

This overwhelming skills orientation is having limited impact on actually improving the outcomes of states and state entities, particularly when it is considered how much money and resources has been allocated to this purpose. This finding holds true in many countries and over an extended period of time. The evidence suggests that there is a general failure to deliver real **capability** development and support that is appropriate to (i.e. well matched with) the problem. Clearly a different approach is needed in order to make progress.

How to start looking for this ‘different approach’? The first point to make is that there are many reasons to be wary of the unquestioning and wholesale importation and imposition of some kind of “best practise”, either from another country, or indeed across different South African municipalities¹¹. This may be the quickest and easiest way to go about things – and it is certainly an easy activity to brand as “doing something” – but the evidence suggests that this approach not only usually fails to generate sustainable improvements, but can often make things worse (Andrews, Pritchett and Woolcock, 2017; Evans, 2004). Sustainable capability development is not something that can be done overnight, in the ‘quick-fix’ mode that seems to have become the default mode of operation.

As a starting point for this ‘better approach’, it is useful to think about what the end goal of all capability development efforts is: what is it that the foundational legislation envisaged as the **overarching ultimate purpose** of capability development in local government? Clearly it was not

¹¹ This is not to suggest that municipalities cannot learn from one another, but there is a great deal of difference between genuine “learning” and the dictatorial imposition of “this is how they do it”.

to ensure that all local government employees had qualifications that matched their job descriptions. Instead, it was to ensure that local government consistently met its development objectives, within its resource constraints¹².

The literature review has made it clear that even though a great deal of research appears to include a focus on the problem, that problem is seldom interrogated and analysed in detail. As a result, there is little to no rigorous, evidence-based analysis of the factors that are creating that problem and preventing its solution (a detailed causal model). When attention is clearly focused on the problem as the starting point (which, following Andrews, Pritchett and Woolcock, 2017, is defined as the lack of capability to implement the organisation's objectives) all of the factors (determined in a comprehensive diagnostic) that impact the ability of that particular organisation (context-specific) to deliver its objectives must be taken into account.

Accurate problem definition, in turn, requires detailed modelling of causal linkages, based on detailed and empirical evidence (what is actually going on in this particular municipality). Instead, what is seen much more often in South Africa (and in many other countries) is a set of assumptions about these causal linkages ("the problem is the shortage of skills") which effectively results in the substitution of one problem (there aren't enough skilled people in local government) for the actual problem (local government is not meeting its constitutional objectives). As a result, considerable energy and resources have focused on solving the former, under the mistaken impression that this will solve the latter.

This brings us back to the point made right at the beginning of the literature review: the way in which the problem is conceptualised is vital for the design of a solution. Many failures can be attributed to poor problem definition; a poor assumption of what the problem is (lack of skills) rather than a detailed analysis. The over-arching goal is to develop empirical, evidence-based models that can provide detailed answers to the critical question: "why are things not happening as they were envisaged?"

This difference can be illustrated using basic water provision as the functional example:

What are we ultimately aiming to achieve? That everyone in the municipality's water services division has a certain level of skills, or that a basic standard of potable water is delivered with 95% reliability to all households?

In order to achieve the latter (and most would probably agree that this is the real problem to be solved) then what is needed is a strong and evidence-based (not assumption-based) conceptualisation of exactly what is required to deliver it, in a particular municipality, in the most effective and efficient manner.

¹² This is an important point to make: implementation has to take place within the 'reality' of local government, and one of those realities is the resource envelope – financial and other. There is no point in a local municipality that can only deliver its objectives if it has access to resources that do not exist. If it really cannot deliver without those non-existent resources, then its very existence must be questioned since it can never deliver its mandate.

Starting with the actual problem that needs solving would represent a significant change in orientation: **Problem-oriented governance** is an approach to addressing complex issues that takes the central problem that requires solution as the starting point for designing interventions, rather than the organisation that is experiencing the problem (Mayne, De Jong and Fernandez-Monge, 2020). This is a critical difference: problem-oriented governance forces us to think about the (multiple and actual) causes of the problem, and not just the various attributes and characteristic of the organisation experiencing the problem, or one symptom of that problem.

A shift to a problem-oriented governance approach in capability development in South African local government has significant potential to re-orientate efforts in a positive manner. The overarching goal is to develop empirical evidence-based models that can provide detailed answers to the critical question: “why are things not happening as they were envisaged?” The more detailed the answer to that question, the more likely it is that a successful and sustainable solution will be developed in response. A problem-oriented governance approach focuses our attention on the kinds of capabilities that are needed to solve complex problems, in a particular context (Mayne, De Jong and Fernandez-Monge, 2020).

The ‘ideal’ capability in this approach is what is required by a particular organisation (in this case a municipality) to deliver its objectives. The literature indicates a further component of this contextualisation: that ‘what is required’ is not necessarily exactly the same across all organisations (Andrews, Pritchett and Woolcock, 2017). In fact, that is unlikely to be the case. If our focus is the development of capability that delivers in a particular set of circumstances, then “what works” in one place will not necessarily work as well in another. The implication is that the most sustainable capability solutions are those that are built from the ground up in each organisation, and not best practise models imposed in their entirety¹³ (Evans, 2004).

Designing and building these kinds of solutions requires a very different orientation from the state, one that may be difficult to achieve since it requires that the organisations responsible for capability development themselves fundamentally change the way that they operate. In particular, they need to embrace decentralised decision-making, and co-produced knowledge and solutions (Evans, 2004) as well as supporting genuine learning environments that encourage and reward innovation (Andrews, Pritchett and Woolcock, 2017). They also need to be prepared to take a long-term view: meaningful change is incremental, seldom proceeds in a straight line, and takes time (ibid.). In most instances, this different approach represents an enormous organisational shift, one that not all organisations will be willing to make. Failure to change, however, means that the current system will continue indefinitely as before: with everyone in that system convinced that they are making a difference when the exact opposite is true.

¹³ Although, of course, learnings from best practice can always be incorporated into a localised design process.

ANNEXURE B: SUMMARY OF PROGRAMMES AND DETAILED ANALYSIS

SUMMARY OF PROGRAMMES

YEAR	PROGRAMMES	AMOUNT (R million)
2019/20	National Treasury	1,007.4
	Provincial Treasuries	513.7
	National COGTA	1,109.7
	Provincial COGTA/COGHSTA	3,036.2
	Other National departments/entities	1,238.0
	Municipalities	2,108.0
	Other	62.3
	TOTAL	9,075.3
2018/19	National Treasury	1,108.1
	Provincial Treasuries	462.5
	National COGTA	1,081.5
	Provincial COGTA/COGHSTA	2,844.7
	Other National departments/entities	1,138.0
	Municipalities	1,951.0
	Other	62.3
	TOTAL	8,648.1
2017/18	National Treasury	811.4
	Provincial Treasuries	769.6
	National COGTA	1,090.5
	Provincial COGTA/COGHSTA	2,696.0
	Other National departments/entities	1,124.6
	Municipalities	1,836.0
	Other	62.3
	TOTAL	8,390.0
2016/17	National Treasury	727.3
	Provincial Treasuries	983.7
	National COGTA	991.1
	Provincial COGTA/COGHSTA	2,967.1
	Other National departments/entities	1,224.3
	Municipalities	1,783.0
	Other	62.3
	TOTAL	8,738.8
2015/16	National Treasury	715.4
	Provincial Treasuries	537.3
	National COGTA	1,163.6
	Provincial COGTA/COGHSTA	2,622.5
	Other National departments/entities	1,028.5
	Municipalities	1,731.0
	Other	0
	TOTAL	7,798.3
	TOTAL OVER 5 YEARS	42,6505.0

DETAILED PROGRAMME ANALYSIS

National Treasury

NAME	DETAILS	DATES	EXPENDITURE (R million)	IMPACT	NOTES
Municipal Finance Improvement Programme (MFIP)	MFIP places technical advisers (TAs) at all three spheres "to promote sound financial management". MFIP assists provincial treasuries in this regard. Phase 1 started in 2011, Phase 2 in 2014 and Phase 3 in 2020. MFIP 3X runs from 2020 to 2022. MFIP is managed by GTAC, and owned by OAG and IGR.	2019/20	148.6	2019 evaluation of Phase 3 indicated "limited evidence of improvements. TAs fill capacity gaps, instead of building capacity. Report also indicated need for comprehensive M&E framework, and preconditions for impact.	2019 report highlighted challenge of capacity in provinces. Also cited poor coordination with other departments and entities, multiple reporting lines and short-term horizon of the programme.
		2018/19	140.9		
		2017/18	69.1		
		2016/17	73.7		
		2015/16	121.4		
		2014/15	98.8		
PINK (Procurement, Infrastructure and Knowledge Management Capacity Building Programme)	The focus of PINK is to capacitate NT/PT and to equip them with the necessary PFM technical capabilities to allow them to support municipalities and improve the municipalities' ability for effective and efficient public services delivery.	2019/20	9.3	The over-arching goal is to reduce irregular, fruitless and wasteful expenditure in infrastructure procurement and management.	An inception phase ran from May 2018 to November 2018. Project implementation was delayed by COVID. Programme reports on annual basis (not government year-end).
		2018/19	6.5		
		2017/18	N/A		
		2016/17	N/A		
		2015/16	N/A		
		2014/15	N/A		
FMISD (Public Financial Management Capacity Development Programme for Improved Service Delivery)	The programme aims to address financial management capacity constraints across the public sector, including in local government.	2019/20	-	The programme's start-up period ran from November 2018 to February 2019.	Disaggregated data for expenditure on local government not received.
		2018/19	-		
		2017/18	-		
		2016/17	-		
		2015/16	-		
		2014/15	-		
Cities Support Programme (CSP)	CSP was established during 2011 as a programme under IGR. The objective is "to support the spatial transformation of South African cities to create more inclusive, productive and sustainable urban built environments".	2019/20	121.5	A 2016/17 evaluation by the Department of Planning, Monitoring and Evaluation was broadly positive, but highlighted that impact is highest in higher	Same evaluation suggested that CSP impact would be improved by more coherence and better coordination in the broader
		2018/19	258.7		
		2017/18	74.3		
		2016/17	44.6		
		2015/16	N/A		
		2014/15	N/A		

NAME	DETAILS	DATES	EXPENDITURE (R million)	IMPACT	NOTES
	CSP supports the Integrated Urban Development Framework (IUDF).			functioning metros.	support ecosystem.
Local Government Financial Management Grant (FMG)	Direct support to municipalities to develop financial management and technical capacity for the implementation of the MFMA. Municipalities submit FMG support plans with application. Priority is given to municipalities with poor financial outcomes.	2019/20	533	The programme seems to have been successful in training interns, but it is not clear how this has actually impacted municipal financial outcomes.	DORA indicates that all municipalities receive the grant, so targeting is unclear. Financial outcomes in general have not improved, thus the efficacy of the grant must be queried.
		2018/19	505		
		2017/18	502		
		2016/17	465		
		2015/16	452		
		2014/15	449		
Infrastructure Skills Development Grant	To improve infrastructure delivery management capacity by developing a pool of professionals. Recruit unemployed graduates to be trained in municipalities and registered.	2019/20	149	Since inception (2102/13) to 2017/18) 241 graduates reported trained and registered. That represents about R2.5 million per graduate.	Direct linkages between program and addressing LG infrastructure challenges (especially outside of the metros who are the main beneficiaries) is unclear.
		2018/19	149		
		2017/18	141		
		2016/17	130		
		2015/16	124		
		2014/15	104		
Neighbourhood Development Partnership Grant	The grant aims to support efforts to attract and sustain third party capital investment aimed at spatial transformation. A portion is for technical assistance allocations (Schedule B allocations) and these are the amounts indicated.	2019/20	46	There is no separate impact reporting on the impact of the technical assistance allocations.	-
		2018/19	48		
		2017/18	25		
		2016/17	14		
		2015/16	18		
		2014/15	17		
NATIONAL TREASURY TOTALS	-	2019/20	998.1	-	-
		2018/19	1,101.6		
		2017/18	811.4		
		2016/17	727.3		
		2015/16	715.4		

Provincial Treasuries

Each provincial Treasury runs its own set of programmes in respect of capacity building and support. Annexure D presents the details of these programmes by province, for the 2019/20 financial year, including more detailed performance and impact analysis. As a result, only the key highlights are set out below for each province. Annexure C describes the method used to determine the expenditure data set out below, and the implications of that method, inter alia.

NAME	DETAILS	DATES	EXPENDITURE (R million)	IMPACT	NOTES
Eastern Cape Treasury	Programme 5 deals with municipal financial governance, and other programmes appear to have little or no role in local government, and so have not been included. Programme 5 has 3 sub-programmes: Programme Support, Municipal Budget and Institutional Governance, and Municipal Accounting & Reporting.	2019/20	76.7	The programme has 2 strategic objectives: (1) to improve accessibility to social infrastructure and (2) to improve municipal financial performance and governance.	Programme Support (which focuses on improving basic service delivery) is the largest sub-programme. Amounts prior to 2019 include a portion of infrastructure capex, and are thus an over-statement.
		2018/19	112.4		
		2017/18	392.0		
		2016/17	587.6		
		2015/16	210.3		
		2014/15	43.4		
Free State Treasury	Unlike many other provinces which have combined programmes (see Annexure C), this Treasury has a dedicated local government programme: Programme 5 – Municipal Finance Management, the aim of which is “to promote and improve the state of financial governance and management at local government level.”	2019/20	73.3	The six sub-programmes are the 4 districts, Municipal Risk and Internal Audit, and Municipal Support and IGR. Goals listed as improved budget management, improved audit outcomes, strengthen Supply Chain Management and Internal Audit and Risk.	-
		2018/19	67.2		
		2017/18	60.9		
		2016/17	64.5		
		2015/16	55.2		
		2014/15	24.6		
Gauteng Treasury	Programme 5 – Municipal Financial Governance. Programme 3 appears to contain elements of audit support and risk management for municipalities, but these are not reported on separately. This	2019/20	50.7	4 sub-programmes under Programme 5: Programme Support, Local Government Financial Services, Municipal	No disaggregated data for the municipal programme is available for 2014/15.
		2018/19	44.9		
		2017/18	43.5		
		2016/17	37.1		
		2015/16	30.0		
		2014/15			

NAME	DETAILS	DATES	EXPENDITURE (R million)	IMPACT	NOTES
	structure was in place from 2015/16, and no comparable reporting is available.			Accounting & Asset Management, and Municipal Compliance & Financial Management Support.	
KwaZulu Natal Treasury	This Treasury has a dedicated Local government programme (Programme 5) established in 2018/19, but elements of Supply Chain Management, internal audit and risk to municipalities (as well as provincial departments) are also included in Programmes 3 and 4. No breakdown of this data was available.	2019/20	58.4		2018/19 and 2019/20 expenditure reflects Programme 5. Prior to those dates, municipal finance was a sub-programme of Programme 2, and that data has been used.
		2018/19	59.4		
		2017/18	53.2		
		2016/17	53.1		
		2015/16	46.0		
		2014/15	36.4		
Limpopo Treasury	The provincial Treasury has 4 programmes, and only one of them (Programme 2 – Sustainable Resource Management) indicates that municipalities are included in the programme. The relevant sub-programme is Municipal Finance and Governance (previously inter-governmental fiscal relations). This is the expenditure shown.	2019/20	23.9	There are only a small number of municipal activity indicators listed in the annual reports.	Annual reports suggest that Limpopo Treasury has a much smaller focus on local government than other provinces, and that expenditure in this regard has been declining.
		2018/19	25.7		
		2017/18	45.8		
		2016/17	50.0		
		2015/16	19.2		
		2014/15	15.7		
Mpumalanga Treasury	Programme 2 (Sustainable Resource Management) has a Municipal Finance sub-programme. Programme 4 (Financial Governance) indicates work with municipalities, but no	2019/20	27.1	Indicators are focused largely on reporting and compliance.	Amounts are for Programme 2.
		2018/19	18.9		
		2017/18	21.9		
		2016/17	19.5		
		2015/16	24.4		
		2014/15	22.5		

NAME	DETAILS	DATES	EXPENDITURE (R million)	IMPACT	NOTES
	breakdown is available.				
North West Treasury	Programme s (Sustainable Resource Management) has a sub-programme Municipal Finance Management. Some municipal activity is included in the sub-programme Infrastructure Coordination, but no breakdown of data is available, and it has not been included.	2019/20	85.8	The sub-programme has 2 activity indicators, one for reporting and one for capacity building. Financial governance outcomes in the province are generally poor, despite aggregate expenditure of almost R400m over 5 years.	Expenditure by NW on this area increased in 2019/20, in contrast to many other provinces.
		2018/19	50.3		
		2017/18	74.6		
		2016/17	96.9		
		2015/16	87.1		
		2014/15	94.7		
Northern Cape Treasury	Municipal Finance is a sub-programme under Programme 2 – Sustainable Resource Management. Other sub-programmes do include local government activities, mostly related to reporting. No inclusion to expenditure has been made in this respect as detailed data are not available.	2019/20	50.2	Activity indicators are focused largely on reporting on municipal finances, rather than substantive improvements in outcomes. These activities are poorly correlated with the strategic objectives.	No 2019/20 annual report was available: the budget for the programme for 2019/20 was used. The main strategic objective for the programme is for municipalities to table “credible budgets”, a relatively narrow focus.
		2018/19	22.8		
		2017/18	22.6		
		2016/17	25.2		
		2015/16	16.9		
		2014/15	14.4		
Western Cape Treasury	Western Cape Treasury has no dedicated municipal programme: Instead, Programmes 2, 3 and 4 all have a municipal component. No input on the breakdown of expenditure was available.	2019/20	67.6	-	In the absence of detailed information, 25% of combined programme expenditure for programmes 2, 3 and 4 was used as a proxy.
		2018/19	60.9		
		2017/18	55.1		
		2016/17	49.8		
		2015/16	48.2		
		2014/15	47.0		
PROVINCIAL TREASURIES TOTALS		2019/20	513.7	-	The numbers for the years prior to 2019/20 may inflated by the E Cape (see above) but may
		2018/19	462.5		
		2017/18	769.6		
		2016/17	983.7		
		2015/16	537.3		

NAME	DETAILS	DATES	EXPENDITURE (R' million)	IMPACT	NOTES
					also undercount components of other programmes as discussed.

National COGTA

NAME	DETAILS	DATES	EXPENDITURE (R' million)	IMPACT	NOTES
Municipal Systems Improvement Grant (MSIG)	To assist municipalities to perform their functions and to stabilise governance systems. Priority to distressed/dysfunctional municipalities, and those with challenges in processes, procedures and systems. Based on B2B support plan.	2019/20	85	The identified outputs are diverse, and it is not clear how these were selected or prioritised. There is no impact data – that is, how the outputs actually link to improved municipal performance.	There has been significant underspend since 16/17 & limited number of municipalities have been granted funds since then. The allocations seem to have gone to a mix of functional and dysfunctional municipalities.
		2018/19	94		
		2017/18	51		
		2016/17	19		
		2015/16	251		
		2014/15	252		
Municipal Infrastructure Grant (MIG)	Grant terms allows for a portion (on a sliding scale up to a maximum of 5%) to be used for project planning and management.	2019/20	601.1	No impact data is reported by MIG.	Actual data was only available for the 2018/19 and 2019/20 year. For the other years, estimates were made based on the percentage of the grant claimed in those 2 years.
		2018/19	554.0		
		2017/18	596.3		
		2016/17	558.8		
		2015/16	555.0		
		2014/15	N/A		
Institutional Development (Programme 3)	This covers a wide range of activities in support of capacity building in local government. Expenditure calculated after deduction of equitable share, SALGA transfer, grants and traditional affairs transfers.	2019/20	49.8	Significant decline in 2020 on municipal finance programme after big increase previous year. The programme reports on activities.	The structure of Programme 3 has been adjusted over the period, implying that data from 2015/16 and before are not strictly comparable with later data.
		2018/19	66.3		
		2017/18	39.3		
		2016/17	37.2		
		2015/16	39.1		
		2014/15	37.2		
SUB-TOTAL					

NAME	DETAILS	DATES	EXPENDITURE (R' million)	IMPACT	NOTES
Municipal Infrastructure Support Agency (MISA)	Established 2012. Core aim is to support the reduction of backlogs for basic services. Supports municipalities to plan, deliver, operate and maintain infrastructure. Technical support and capacity building. Includes graduates/interns.	2019/20	344	2018/19 annual reports states 81 municipalities supported. No reporting of the impact of this. For the entire programme 5 there is one indicator – the number of municipalities supported on MIG expenditure.	APP:SG 7 - "Ensure significant improvements in service delivery through sound infrastructure management" – no indicators reflecting this. Programme 5 records 100% achievement of indicator.
		2018/19	342		
		2017/18	381		
		2016/17	350		
		2015/16	304		
		2014/15	294		
Local Government Improvement Programme (Programme 5 COGTA)	APP says: "monitors and performs diagnostic assessments to support municipalities with the development and implementation of remedial action plans". There are no further details.	2019/20	29.8	No reporting on how this has impacted either overall performance or the programme 5 objective re infrastructure and basic service delivery.	Changes in department/ programme structure do not allow for comparative amounts for 2014/15.
		2018/19	25.2		
		2017/18	22.9		
		2016/17	26.1		
		2015/16	14.5		
NATIONAL COGTA TOTALS	-	2019/20	1,109.7	-	-
		2018/19	1,081.5		
		2017/18	1,090.5		
		2016/17	991.1		
		2015/16	1,163.6		

Provincial COGTAs

Each provincial COGTA/COGHSTA department responsible for local government runs its own set of programmes in respect of capacity building and support, and some provinces have a large number of programmes. Annexure D sets out the details of these programmes by province for the 2019/20 financial year, including more detailed performance and impact analysis. Only a summary of each programme and associated expenditure is set out below for each provincial department.

NAME	DETAILS	DATES	EXPENDITURE (R' million)	IMPACT	NOTES
Eastern Cape	Two programmes: Local Governance and Development & Planning By far the largest sub-programme is Public Participation (more than 50%).	2019/20	375.9	Many of the indicators do reflect desired outcomes, but the measurement is not directly related to that indicator. See Annexure D for examples from	Detailed sub-programme performance and budget information. Little/no reporting on outcomes – rather on activity indicators.
		2018/19	357.2		
		2017/18	488.4		
		2016/17	393.8		
		2015/16	443.3		
		2014/15	362.6		

NAME	DETAILS	DATES	EXPENDITURE (R' million)	IMPACT	NOTES
				the most recent annual report.	
Free State	Two programmes: Local Governance and Development and Planning. Largest programmes currently are municipal finance and supporting infrastructure development.	2019/20 2018/19 2017/18 2016/17 2015/16 2014/15	210.2 236.9 217.0 266.4 208.1 224.4	More than 50 discrete indicator activities across the two programmes, suggesting considerable fragmentation of activities.	Little/no reporting on outcomes – rather on activity indicators. Detailed sub-programme performance and budget information.
Gauteng	Two programmes: Local Government Support and Development & Planning. Most significant sub-programme is 'Public Participation' (50%) followed by Disaster Management. A number of the activities in the 2019/20 AR were not related at all to Capacity, but rather to other issues such as Gender Based Violence and supporting a girl child in the workplace. However all programme expenditure is shown.	2019/20 2018/19 2017/18 2016/17 2015/16 2014/15	353.0 376.1 297.0 325.5 256.5 194.1	Annexure D provides more information on activities under this programme. Excessive number of programme indicators, and poor alignment with outcomes.	In our assessment, some of these support activities could just as easily have been undertaken by the municipalities themselves (such as collection of customer ID numbers).
KwaZulu Natal	This shows the combined expenditure of Programme 2 – and Programme 3 – in the department. Significant sub-programmes include LED, municipal infrastructure support and public participation. There are a wide range of programmes under each specific sub-programme, and each includes some form	2019/20 2018/19 2017/18 2016/17 2015/16 2014/15	917.0 692.9 629.3 891.2 870.2 919.8	A wide range of interventions are undertaken, across all municipalities. See Annexure D for the most recent financial year's details of programmes. A number of governance outcomes have improved in the province.	This Provincial structure has among the most detailed sub-programme reporting. However, there is still limited outcome reporting.

NAME	DETAILS	DATES	EXPENDITURE (R' million)	IMPACT	NOTES
	of capacity building and/or support.				
Limpopo	Programme 3 covers "Cooperative Governance" and includes development planning support.	2019/20	290.8	23 discrete areas of activity listed under the programme in 2019/20, and each one met its target. 22 in 2018/19 and all targets met. Significant underspend of MIG across multiple years.	-
		2018/19	359.0		
		2017/18	273.3		
		2016/17	275.1		
		2015/16	240.7		
		2014/15	232.3		
Mpumalanga	Programme 2 (Local Governance) and Programme 3 (Development and Planning) deliver support to municipalities. Public Participation makes up more than 50% of total expenditure for 2019/20.	2019/20	293.8	More than 60 discrete areas of activity are listed as indicators across the two programmes.	-
		2018/19	262.1		
		2017/18	230.9		
		2016/17	319.0		
		2015/16	200.2		
		2014/15	252.3		
North West	Two relevant programmes: 2 - Local Governance, and Development & Planning. No annual reports are available after 2017/18: data for 2018 – 2020 has been estimated using previous averages of total department expenditure (see Annexure C for details).	2019/20	183.7	For the 2017/18 year, 25 indicators are set for R38 million expenditure across a large number of municipalities, suggesting considerable fragmentation.	Development and Planning includes CWP, but no breakdown is available to remove this from the aggregates.
		2018/19	178.6		
		2017/18	199.5		
		2016/17	234.0		
		2015/16	181.0		
		2014/15	424.8		
Northern Cape	Programme 3: Cooperative Governance (which includes development and planning support activities for municipalities). There is no detailed breakdown of expenditure by sub-programme available consistently over the period.	2019/20	145.0	24 discrete indicators (activity areas). Performance generally does not meet targets, but there is no apparent strategy to deal with this. Subsequent annual reports	No 2019/20 Annual Report is available. For the 2019/20 data, the amount in the department's 2019/20 budget was used.
		2018/19	146.5		
		2017/18	121.6		
		2016/17	120.6		
		2015/16	102.6		
		2014/15	128.1		

NAME	DETAILS	DATES	EXPENDITURE (R' million)	IMPACT	NOTES
				show substantial data revisions, indicating poor management within the department.	
Western Cape	Programme 2 (Local Governance) and Programme 3 (Development & Planning). Detailed expenditure breakdown is available.	2019/20	266.8	-	Very clear and detailed reporting, but the focus is still on programme activities rather than progress towards achieving long-term outcomes.
		2018/19	235.4		
		2017/18	239.0		
		2016/17	141.5		
		2015/16	119.9		
		2014/15	107.2		
PROVINCIAL COGTA/ COGHSTA TOTALS	-	2019/20	3,036.2	-	-
		2018/19	2,844.7		
		2017/18	2,696.0		
		2016/17	2,967.1		
		2015/16	2,622.5		

Other National Departments and Entities

NAME	DETAILS	DATES	EXPENDITURE (R' million)	IMPACT	NOTES
NATIONAL TRANSPORT					
Rural Roads Asset Management Systems (RAMS) Grant	Assist district municipalities to set up rural RAMS and collect road, bridge and traffic data on municipal road networks	2019/20	114	There is limited evidence that the state of rural roads has improved. This database only has real utility if supported by road management and associated financing.	In the 2020 DORB, performance was reported from 2017/18
		2018/19	108		
		2017/18	107		
		2016/17	102		
		2015/16	97		
		2014/15	52		
NATIONAL WATER AND SANITATION					
Water Services and Local Water Management	Formulation and development of strategies, guidelines and plans for water services and management at local level. Prior to the 2016/17 year, programmes were	2019/20	72.5	Targets are focused on programme outputs (rather than outcomes such as access/water quality. Output indicators such	Interviews indicated that municipal plans are generally of very low quality. Department of Water and Sanitation has
		2018/19	108.7		
		2017/18	63.1		
		2016/17	70.0		
		2015/16	N/A		
		2014/15	N/A		

NAME	DETAILS	DATES	EXPENDITURE (R' million)	IMPACT	NOTES
	organised differently and comparable historical data is not available (see Annexure C for details) of data calculations.			as plans and self-assessments.	limited authority to force municipalities to implement their suggestions. Macro data suggest water services remain poor
Sanitation Planning and Management	Provides a national strategy for the planning of sanitation services and supports municipalities to plan for the provision of sustainable sanitation services. Prior to the 2016/17 year, programmes were organised differently and comparable historical data is not available (see Annexure B for details).	2019/20 2018/19 2017/18 2016/17 2015/16 2014/15	9.6 11.4 15.8 11.6 N/A N/A	Indicators relate to the preparation of plans and does not indicate how this has translated into actual improvements in the delivery of sanitation services.	Department of Water and Sanitation has limited authority to force municipalities to implement programmes. Macro data suggest that sanitation services remain poor.
NATIONAL DEPARTMENT OF HUMAN SETTLEMENTS					
Urban Settlements Development Grant	The grant is made to metros, and is intended to support the development of integrated and sustainable human settlements. 3% of the grant may be allocated to capacity building – the amounts included here. These are estimates of the 3%, based on the total grant amount.	2019/20 2018/19 2017/18 2016/17 2015/16 2014/15	360 339 339 324 318 306	The DHS Annual Report lists a large number of output indicators, but does not list any data in respect of actual outputs in respect of these indicators.	May be overstated, since it assumes that all grantees allocated the 3% to capacity building
SALGA					
Combined activities in capacity building and support across a wide range of areas Annexure for details of programmes	SALGA consistently has a strategic objective of contributing to 'financially and organizationally capacitated municipalities'. Capacity building and training is the main delivery mode. No	2019/20 2018/19 2017/18 2016/17 2015/16 2014/15	116.7 116.7 118.7 127.3 103.3 99.7	SALGA reports each year that it has met 100% of its objectives, suggesting poor linkages between these selected objectives and actual outcomes in	There are no detailed expenditure breakdowns for capacity building and support in SALGA Annual Reports (and none were forthcoming),

NAME	DETAILS	DATES	EXPENDITURE (R' million)	IMPACT	NOTES
	data for 2019/20, so assumed to be the same as the previous year.			local government.	and so expenditure is estimated as detailed in Annexure C.
DBSA					
The DBSA undertakes capacity building as part of improving the risk profile of its loans	The DBSA is a bit different from other capacity building entities in that it has a clear "what for" purpose underpinning its activities: it wants to improve capacity so that the likelihood of receiving payment is increased.	2019/20	30.5	There is a slight bias in DBSA's target recipients, in that it does not lend to poorly performing municipalities, and so does not provide them with capacity support	Going forward, DBSA has committed R100 per annum for 5 years to provincial Project Management Units focused on better coordination of support for infrastructure planning and implementation across different actors (including MISA).
		2018/19	15.1		
		2017/18	9.5		
		2016/17	0		
		2015/16	(1.3)		
		2014/15	5.1		
LGSETA					
LGSETA is the registered SETA for local government. The vast majority of income is from skills levies.	Current Strategic priorities are: - Councilor Development Programme - Traditional Leadership Programme - Management Leadership Programme - Worker Leadership Programme - Research & Other No indication of how these are directly linked to municipal outcomes. Consistent underspending of revenue since 2018.	2019/20	534.7	"LGSETA has made a great impact in the implementation of the NSDS III within our sector". No reference to how this has impacted LG outcomes, (but this is not strictly their mandate). Notes of performance management (next column) raise questions about LGSETA's ability to measure impact.	The entire annual budget is used, given their mandate. For 2018/19 FY, AGSA stated that reported achievements could not be verified, and many had been overstated. This was a repeat. In 2019/20 material misstatements in performance information were identified, and addressed by management.
		2018/19	439.1		
		2017/18	486.5		
		2016/17	595.4		
		2015/16	523.5		
		2014/15	355.0		
OTHER NATIONAL DEPARTMENTS	-	2019/20	1,238.0	-	-
		2018/19	1,138.0		
		2017/18	1,124.6		
		2016/17	1,224.3		

NAME	DETAILS	DATES	EXPENDITURE (R' million)	IMPACT	NOTES
/ ENTITIES TOTALS		2015/16	1,028.5		

Municipalities

NAME	DETAILS	DATES	EXPENDITURE (R' million)	IMPACT	NOTES
Consultants used to assist with preparation of Annual Financial Statement (AFS)	Data taken from the annual MFMA reports issued by the AGSA – consultants employed by municipalities in respect of financial reporting.	2019/20	1,027	This expenditure does not seem to translate into significant improvements: in all years the majority of financial statements where consultants did work contained material misstatements,	The AGSA regularly comments that the use of consultants in this respect is an undesirable situation, distracting from developing long-term sustainable solutions.
		2018/19	847		
		2017/18	907		
		2016/17	760		
		2015/16	838		
		2014/15	823		
SUB-TOTAL					
Own expenditure on skills development	Each municipality is required to allocate funding to the development of employees, over and above the levies paid to the LGSETA.	2019/20	1,081	Municipalities report extensively on skills levels, but do not make linkages with performance. There is little/no reporting on the quality of training received.	This expenditure is not reported separately. See Annexure C for details of the method used to estimate these amounts.
		2018/19	1,104		
		2017/18	929		
		2016/17	1,023		
		2015/16	893		
MUNICIPAL- ITIES TOTALS		2019/20	2,108.0		
		2018/19	1,951.0		
		2017/18	1,836.0		
		2016/17	1,783.0		
		2015/16	1,731.0		

Other

NAME	DETAILS	DATES	EXPENDITURE (R' million)	IMPACT	NOTES
GIZ	Since 2004, GIZ has implemented a number of	2019/20	62.3	Funding of €20.5 million over the 5-year	
		2018/19	62.3		
		2017/18	62.3		

NAME	DETAILS	DATES	EXPENDITURE (R' million)	IMPACT	NOTES
	<p>programmes to address shortcomings in service delivery. These have a strong (but not sole) LG focus. Current programme is GSP II (2017 – 2021).</p>	2016/17	62.3	<p>period (at an average exchange rate of R16.41 for the 2017-2020 period, this translates to R336 million); a simple average is used as a proxy for expenditure.</p>	

ANNEXURE C: DATA METHOD

1 Introduction and overview

The over-arching aims of the Diagnostic Review are:

- a) To compile a detailed list of existing local government capacity building programmes, indicating the details of each programme (i.e. what it does) and expenditure for the past five years.
- b) To assess the impact of these programmes on local government outcomes – operational, financial and governance.

The two methods utilised to answer these questions were (a) desktop analysis of existing data, and (b) interviews with a wide range of stakeholders. This Annexure describes the following:

- The general approach to data identification and selection;
- The sources of data used;
- Any limitations of/gaps in these data sources; and
- The approach adopted to fill those gaps.

This Annexure describes the details of the method used in respect of the interviews.

The first data issue addressed was that of **defining exactly what constitutes a ‘capacity building programme’**. Section 154 of the Constitution imposes an obligation on the other spheres of government to “support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers and to perform their functions”. This obligation covers a very wide range of possible activities, and as a result a broad and inclusive approach has been adopted. That is, the review encompasses all activities that result from an assumption that municipalities need to have some form of capacity supplemented or enhanced in order to better perform their functions and exercise their powers. For example, a programme to assist municipalities to develop and implement land use management plans aims to fill an assumed capacity gap; if there was no capacity gap the municipality would not need this support. Therefore, such programmes are included.

For much the same reasons, programmes that aim to improve the functioning of ward committees and increase community participation in local government are included, even though these may not be immediately classified as “capacity building”, since the aim is to increase the municipality’s ability to deliver its mandate. In addition, these public participation programmes generally include activities such as assisting to improve customer service, and municipal responses to problems such as burst water pipes and other infrastructure failures, which most people would agree are capacity building.

Most of the programmes include an element of monitoring municipalities, which is (or should be) an important input into the over-arching capacity building strategy (i.e. where to focus efforts).

However, the details (in the relevant annual or similar reports) of what activities are actually undertaken under programmes that are labelled as 'capacity building for local government' sometimes indicate the inclusion of activities are not directly related to capacity building (such as Gender Based Violence awareness programmes). The funding for these activities is included in the consolidated expenditure for this Review for the following reasons:

- a) There is no way to strip out this expenditure, since it is not accounted for separately; and
- b) These examples appear to be a very small (relatively insignificant) amount of total expenditure.

However, the fact of their inclusion in these programmes highlights the fragmented approach towards capacity building across many institutions, and the need for agreement in terms of what activities should be funded under such programmes.

The main exclusion in respect of what is included as part of the capacity building system has been in respect of the development of legislation and regulation: programmes that are focused on the regulation of local government, such as the development of an amended Municipal Systems Act, have not been included. The reasoning behind this exclusion is that these regulatory activities correctly form part of the mandate of the entity undertaking them, rather than 'capacity building'.

An initial assessment indicated that a large and diverse group of organisations are involved in some form of capacity building in local government. There is no standardised method for how these organisations report either their activities or the associated expenditure. In some examples (such as the conditional grants) the financial reporting is clear and detailed, and programme expenditure is easily identified, but impact reporting is generally limited and sometimes non-existent. In others, local government capacity building activities are undertaken as part of a broader set of activities (such as in many provincial treasuries) and there is no detailed allocation of expenditure in respect of local government activities specifically. It is very difficult (usually impossible) for the reporting organisation to provide detailed breakdowns of expenditure when accounting and reporting systems are not organised by these different expenditure categories.

The over-arching approach to the compilation of the database of programmes was the following:

- (vii) **Desktop analysis:** the original bid document sets out a list of organisations involved in local government capacity building. The starting point for data collection was the publicly available information supplied by these organisations, most notably their annual reports. Details in respect of conditional grants was obtained from DORA. The goal was to collect information for the five-year period from 2015/16 to 2019/20. However, not all the organisations had 2020 financial reports available at the time of

compiling the database, or some reports were not available for some part of the five-year period. Where data was not available for the 2019/20 year (the most important one in respect of calculating current expenditure) other data sources (such as budgets) were used instead. Where no data was available for earlier years, this data was omitted. However, this approach was only necessary for a small part of the overall system and is not considered material in respect of the consolidated findings. It is clearly indicated on the consolidated table of programmes for which financial year's data was available, and where estimates rather than actual data were used.

Not all the programmes report detailed expenditure in respect of capacity building: in particular, where a capacity building programme is part of a larger programme around local government (such as the Municipal Infrastructure Grant – MIG) expenditure on the capacity building portion is seldom reported separately. Similarly, many of the provincial treasuries consolidate activities such as budget development and oversight capacity building for both provincial departments and municipalities under one programme. Attempts were made during the interview process and through subsequent follow ups to fill the expenditure data gaps, but this approach had limited success. Where there is no history of budgeting or reporting for discrete capacity building activities, that information is almost impossible to extract from historical reports.

Where detailed expenditure data was not available, expenditure has been estimated. Different approaches were adopted in respect of estimating expenditure for different kinds of programmes, and these assumptions are detailed in part 2 below. The resulting data generally errs on the side of under-estimating expenditure.

A differentiated approach for estimating the capacity building component of larger infrastructure grants (such as MIG) was also adopted, as is discussed in more detail below.

There is no standardised method of reporting on the performance of programmes, or standardised indicators across all programmes. Notably, there is little or no reporting on the **impact** of programmes. Instead, the vast majority of programmes report on activity and expenditure. Although many organisations acknowledge the importance of impact reporting, most are unable to do such reporting.

- (viii) **Interviews:** an important part of the research process was interviews undertaken with both capacity building 'suppliers' (the organisations undertaking capacity building in local government) and municipalities who are the target of such programmes. The method used to conduct the interviews, together with the list of organisations interviewed, and the process of stakeholder engagement during the research assignment is set out in Annexure D.

The supplier interviews (and follow-up emails) provided an opportunity to try and fill some of the gaps identified in the desktop analysis, most notably detailed expenditure data, but there was limited success in this respect, due to the lack of data that interviewees themselves were able to access.

Within this over-arching approach, different methods were applied to different sources and categories of data. This includes the underlying assumptions that were applied in order to fill empirical data gaps. The details of the method applied to each particular data source are set out in the next section.

2 Detailed data compilation methods

Overview

There are a large number of organisations active in, and programmes around, capacity building in local government. Different programmes and different organisations have different reporting standards, particularly in respect of expenditure. As a result, a pragmatic and flexible approach to compiling the database was adopted; method and the assumptions used to derive expenditure estimates for the different kinds of organisations and programmes were adjusted to match what was available. In some cases, data was easily available and clear and thus no estimates had to be made. In others, a portion of the data included in the **Summary of Programmes** table has been estimated.

The details of the various adopted method are set out below, organised by the following categorisations of programmes:

- Conditional grants
- National departments
- Provinces
- Municipalities
- Other public sector entities
- Other entities

These details are intended to be read in conjunction with the summary table of programmes (Annexure B), which indicates where estimates of expenditure were made.

Conditional Grants

Conditional grants are listed in the summary table of programmes (Annexure B) under each national department that is the designated owner of that grant. The conditional grants included in this table include both grants where the primary aim of the grant is denoted as 'capacity building' (such as the Financial Management Improvement Grant) and conditional grants that include a small component of capacity building expenditure within a much larger grant that is designated for other purposes (such as the small percentage capacity building allowances within infrastructure grants such as MIG and the Urban Settlements Development Grant).

For the grants where capacity building is the primary aim, the full amount of the disbursed grant as reported in the annual Division of Revenue Act (DORA) was captured as the expenditure totals. For the other grants, a mixed approach was used: in some cases, the capacity building component (in Rand terms) was clearly reported in DORA, and in those cases that amount was used as expenditure. However, in terms of MIG there was no publicly available data, and actual disbursement data was only provided by the department for 2018/19 and 2019/20. In those years, the capacity building component was 3.5% and 4.0% respectively of the total grant amount. Discussions with officials indicated that it would be a reasonable assumption to apply an average (i.e. 3.75%) to the total grant amount for the prior years in order to obtain estimates of expenditure. This is the approach that was adopted.

It is important to note that none of the conditional grant expenditure shown in the summary of programmes includes any of the administration or staff costs associated with the implementation of the grant, since these are not available.

National Departments

A number of national departments (notably COGTA and National Treasury) have specific programmes designed to support capacity building in local government. Many of these programmes are clearly delineated (i.e. have dedicated budgets and separate reporting indicators). These programmes have been reported on as they are presented in the relevant annual reports of the implementing department. Expenditure on the development of legislation applicable to local government has been excluded, where this distinction is made explicit and associated with expenditure data.

In other National Departments (such as Water and Sanitation) that have capacity building programmes that include local government, the share of local government in those programmes has been estimated based on input from department officials.

Provinces

Provincial departments – and in particular provincial departments responsible for cooperative government – are key parts of the local government capacity building system, both in terms of the number of programmes and the volume of expenditure. The following approach has been adopted in respect of documenting the details of provincial programmes and expenditure:

- (i) Capacity building efforts are undertaken mostly by provincial departments responsible for cooperative government and the provincial treasury. Identifying expenditure is more straightforward in the former than in the latter: in the provincial treasuries activities are in general organised by functional area (budget development and implementation, resource management, etc.) which are focused on both the province and local government. This approach makes good sense in terms of obtaining efficiencies, but, as a result, there is often no separate expenditure reporting on capacity building activities specifically for municipalities, versus activities for other provincial departments. The interviews indicated that there is no straightforward way of separating out this

expenditure. A conservative approach has been adopted: 1/3 of the total relevant capacity building/support programme spend has been taken as an estimate of expenditure on local government in the case of such combined programmes.

- (ii) Many provincial COGTA/COGHSTAs have extremely complex local government support programmes, with a great number of separate programmes and indicators (some have more than 50 different indicators listed, each indicator associated with a particular set of activities). In addition, although there are general themes across these programmes, there is no one standard set of programmes. In some provinces the biggest programme is public participation, in others it is municipal finance, and in others, support for infrastructure development. The list of programmes for each provincial department of treasury and cooperative governance for the most recent available year has been reproduced (Annexure E), to give an idea of the wide range (and fragmented nature) of programmes across provinces, and variances in reporting.
- (iii) Not all provinces have organised their support for local government under identical programmes: most have a 'local governance' or 'cooperative governance' programme that includes these activities, but many have additional programmes that focus on capacity building and support in respect of development and planning in municipalities.
- (iv) It should be noted that both provincial treasuries and provincial departments responsible for cooperative government deliver programmes that aim to improve financial management and outcomes. The interviews indicated that there are attempts to try and prevent duplication of efforts, but there is little empirical evidence to indicate how effective these attempts are.

In terms of reporting expenditure, some provinces report expenditure on sub-programmes below an over-arching 'cooperative government' or 'supporting local government' programme and some do not. The main data table (Annexure B) contains aggregated expenditures across all sub-programmes, in order to present financial data on a comparable basis.

A note re North West COGHSTA:

The most recent annual report available for North West COGHSTA is 2017/18. Data for the 2018/19 and 2019/20 years are estimates, calculated on the following basis:

- (i) The average of the share of the two relevant programmes (local governance and development & planning) combined in the budgeted total expenditure of the department for the 2016/17 and 2017/18 financial years was calculated: 8.7% and 7.7% respectively
- (ii) That average was then applied to the department budget for 2018/19 and 2019/20, to derive estimated budgeted expenditure on the two programmes of R203.1 million in 2018/19 and R208.8 million in 2019/20.
- (iii) This data was further adjusted by the average of actual expenditure compared to the appropriation over those two years (88%) to derive estimated expenditure of R178.6 million in 2018/19 and R183.7 million in 2019/20.

There is certainly a margin of error in this estimate, but in comparison to the consolidated expenditure data across all programmes, the error is not significant.

Municipalities

Municipalities are not just the recipients of capacity building efforts, but also incur their own expenditure in this respect. The two categories of this municipal capacity building expenditure included in the summary of programmes are (i) the annual spend on consultants to prepare annual financial statements, and (ii) internal skills development programmes. These are unlikely to be the only two categories of municipal spend on capacity building: it is likely that most municipalities also direct expenditure towards other consulting services in respect of capacity building, but there is no credible way of estimating what this expenditure might be.

In respect of the expenditure on the preparation of annual financial statements, the consolidated amounts reported by the AGSA in the latest MFMA (2019/20) Audit Report have been used. In this document, the amount previously reported for 2018/19 was revised significantly downwards.

Municipalities also incur significant own expenditure in respect of skills development, linked to their Workplace Skills Development Plans. At present, skills development expenditure is not disclosed as a separate line item in municipal financial statements, and this expenditure has thus been estimated, on the following basis. Firstly, a percentage of personnel expenditure that is allocated to skills development has been estimated. This reflects the common practice among municipalities; that is, they commonly set a target for skills development expenditure that is a percentage of personnel expenditure, rather than a Rand amount. There does not appear to be a standard percentage target across all municipalities, nor do all municipalities meet their targets. As a general rule, larger municipalities (such as metros) tend to set a lower percentage target than smaller municipalities.

The following approach to calculating municipal expenditure on capacity building was adopted:

- a) It was assumed that metros spend 0.5% of their personnel budget on skills development, and that all other municipalities spend 2%. This is most likely an under-estimate, since many smaller municipalities spend up to 3% and some metros up to 1%. However, this conservative estimate should address the issue of some municipalities not meeting their expenditure targets, and the possibility of double counting described in (b) below.
- b) Total personnel expenditure for metros and all other municipalities was extracted using the provincial MBBR tables available on Treasury's MFMA website. This is an aggregate amount, and so should include expenditure on skills development. There is thus a small component of double counting, but this is not likely to be significant.

Other public sector entities

The other public sector entities for which expenditure data is shown are the following:

- LGSETA
- SALGA
- DBSA

The following approach was adopted in respect of each of these entities:

LGSETA

Given that all of LGSETA's work is focused on capacity building in local government (as evidenced by its mandate and the contents of its annual reports) the entire expenditure of the organisation was used in the summary of programmes.

SALGA

A significant part of SALGA's mandate is capacity building for municipalities (including councilors) and a range of support functions that intend to enhance municipal capacity. However, there is no discrete financial reporting in respect of these programmes, and SALGA was unable to provide a detailed expenditure breakdown. In the absence of this information, the following approach was adopted in respect of estimating this expenditure:

- SALGA breaks down expenditure in its annual report into various categories, one of which is 'Programme Costs' (separate from employee-related costs and administration overheads). It thus refers to direct programme expenditure.
- 1/3 of this programme expenditure was used as a proxy for SALGA's annual expenditure on capacity building.
- For the 2019/20 financial year, no breakdown into 'programme costs' for total expenditure was available (the reporting format was changed from previous years); this cost was conservatively estimated to have remained unchanged from the previous year.
- These estimates of SALGA's expenditure on capacity building most likely under-estimate actual expenditure, due to the exclusion of associated employee and administration costs.

DBSA

The DBSA incurs capacity building expenditure in respect of supporting municipalities that have borrowed money from the bank. They do not report separately on these costs, but provided data in response to queries. This data has been used as provided by DBSA, without any further adjustments.

Other entities

The only non-state entity included in the review was the German *Gesellschaft für Internationale Zusammenarbeit* (GIZ). GIZ has a long history of activities related to governance and capacity building in South African local government. The most recent programme is Phase 2 of the Governance Support Programme (GSP II) which runs from 2017 to 2021. In the absence of detailed per annum expenditure data, it was estimated that equal amounts would be dispensed

in each of the five years. Although donors and other organisations, such as academic institutions, play significant roles in the building of the South African state's capacity and capability, the review identifies those state actors directly responsible for the implementation of these initiatives, with some receiving donor funding or reliant on partnerships with external organisations to do so.

3 Method used to calculate underlying data for System Architecture

An analysis of summarised programme data for 2019-2020 was undertaken to inform the visual description of the architecture of the capacity building system. Each programme and/or entity was categorised into five broad sectors according to the nature of the capacity building initiatives provided, namely:

- (i) financial management
- (ii) urban development
- (iii) infrastructure development
- (iv) governance and administration
- (v) local governance, planning and development, public participation, other

Note: it was not always possible to be definitive about which sectors to allocate programmes to because of either limited reporting in respect of detailed expenditure per activity and/or programmes that combine multiple activities. It is thus possible that some financial management initiatives are recorded under governance and administration, or infrastructure development categorised as urban development, and vice versa. Some programmes contain minimal information around the details of activities and/or expenditure and thus had to be labelled as 'unspecified'.

After the allocations set out above had been made, simple MS Excel summaries were prepared and consolidated into a diagrammatic representation in MS PowerPoint of the architecture of the system. An effort was made to graphically depict the size of programmes in financial terms with size relative 'bubbles' but this was not possible with programmes smaller than R70m. Bubbles are also colour-coded according to their categories. Should a similar analysis be required in the future and/or addressing detailed aspects of the system, it is recommended that dashboard-friendly software, like Tableau, be utilised.

ANNEXURE D: INTERVIEW AND STAKEHOLDER CONSULTATION METHOD

A key component of the method utilised for the Diagnostic Review is a series of interviews with existing capacity building system components. The aim of these interviews is to obtain additional insights into the factors that impact the current system, challenges experienced in different parts of the system, and ideas about approaches that seem to have worked better than others. In addition to supplier entities (i.e. those that provide capacity building programmes to local government), we also included interviews with municipalities in order to better understand the point of view from the recipients of these programmes.

In terms of the supplier interviews, organisations were identified based on the initial Terms of Reference, as well as emerging findings that indicated which entities were important in the system. Letters were sent to relevant senior officials requesting interviews. Not all departments responded, due to internal time constraints, but sufficient positive responses were obtained to constitute a meaningful sample.

In terms of the municipal interviews, the initial plan was to interview at least 2 municipalities in each province. Guidance was taken from the provincial interviews as to suitable candidate municipalities. The response rate to requests for interviews from municipalities was low, due in part to the fact that these requests coincided with the municipal year-end activities.

Interviews were conducted from December 2020 until June 2021. The interviews started with the IGR Division in National Treasury, and then progressed across the National Treasury and other supplier organisations, before focusing on municipalities.

A total of 65 people were interviewed, across the following 29 organisations:

- National Treasury (IGR, OAG, MFMA Unit)
- National COGTA
- MISA
- Cities Support Programme
- GTAC
- Department of Water and Sanitation
- Department of Planning, Monitoring and Evaluation
- The Presidency
- Department of Mineral Resources and Energy
- The Financial and Fiscal Commission
- National School of Government
- DBSA
- SALGA
- Free State Provincial Treasury
- KwaZulu Natal Provincial Treasury

- North West Provincial Treasury
- Western Cape Provincial Treasury
- Gauteng COGTA
- KwaZulu Natal COGTA
- Limpopo COGHSTA
- Mpumalanga COGTA
- Western Cape DLG
- GIZ
- 2 independent consultants

and

- Kannaland Local Municipality
- Swellendam Local Municipality
- City of Matlosana Local Municipality
- Mogale City Local Municipality
- Mangaung Metro Municipality

Further, a comprehensive process of regular consultation with both internal (National Treasury departments from IGR, OAG and Public Finance) and external stakeholders was undertaken during the research assignment, providing inputs into the research process. The composition of the Steering Committee was as follows:

- COGTA
- DMRE
- Department of Planning, Monitoring and Evaluation (DPME)
- Department of Water and Sanitation
- Financial and Fiscal Commission
- GTAC
- MISA
- National Treasury (IGR, OAG and Public Finance)
- PARI
- Provincial COGTAs
- Provincial Treasuries
- SALGA
- DBSA
- The Presidency

Six meetings of the above two groups were held on the following dates:

National Treasury	Steering Committee
23 November 2020	20 January 2021
24 April 2021	13 May 2021
24 June 2021	28 June 2021

Strong support for both the findings of the research and the proposed actions to improve the current system was obtained from both the National Treasury and the Steering Committee.

ANNEXURE E: PROGRAMME INDICATORS

Available only in digital format, on request.

**SYSTEM OF CAPACITY
BUILDING FOR LOCAL
GOVERNMENT**

DIAGNOSTIC REVIEW
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NATIONAL TREASURY

Private Bag X115 | Pretoria, 0001, South Africa

Tel: +27 12 315 5944 | Fax: +27 12 406 9055

www.treasury.gov.za



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National Treasury
REPUBLIC OF SOUTH AFRICA